

# Annual Review 2016/17

Read the Welsh language version [</sra/how-we-work/reports/annual-review/cymraeg/adroddiad-blynyddol-2016-2017/>]

Our Annual Review 2016/17 discusses our performance against the objectives set out in our Corporate Strategy and key regulatory activities from the reported year.

Download (PDF 45 pages, 10MB) [</globalassets/documents/sra/research/annual-review-2016-17.pdf?version=4a1ac2>]

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## *About us*

The Solicitors Regulation Authority regulates 186,000 solicitors and 10,400 law firms in England and Wales. We work in the public interest, protecting consumers, setting and enforcing high professional standards, and supporting access to affordable legal services, the rule of law and the administration of justice.

### *Setting high professional standards*

We make sure that those entering the profession are fit to practise and meet the high professional standards the public expects. We do this by overseeing professional education and training, setting the entry standards, and checking that applicants are of a suitable character before allowing them to become a solicitor.

Similarly, we assess law firms and other types of legal businesses to make sure they are fit to offer legal services before allowing them to do so. And, once those individuals and firms are in practice, we provide guidance and rules, such as requiring continuing professional development, to make sure that those standards are maintained.

Information and guidance We provide information about solicitors, their work and the standards the public is entitled to expect. We are working towards increasing the availability of relevant and timely information, to help people make good choices when purchasing a legal service.

### *Safeguarding the users of legal services*

We make sure the public is protected by taking action when things go wrong. We set and monitor indemnity insurance requirements and we operate a compensation scheme. The discretionary fund will, in some circumstances, replace money lost by people because of the dishonesty or incompetence of an individual or law firm that we regulate.

### *Disciplinary action*

We monitor and supervise the conduct of solicitors and firms against the standards we have set. If solicitors or firms do not meet these standards, we investigate their practice and compliance with our rules, where necessary taking regulatory action, such as issuing a fine or reprimanding the solicitor. We prosecute when we have serious concerns about a solicitor or a firm's conduct at the Solicitors Disciplinary Tribunal. When necessary, we take possession of a firm's files and money to protect clients and the wider public, and return papers and money to their owners.

### *Affordable and accessible legal services*

Most people and small businesses do not use legal services when they have a legal problem. We know that legal services are seen as expensive and hard to access, so we are working to create an open, modern and competitive legal market, providing more affordable and accessible services. To do this, we are reviewing our regulatory requirements to make sure they are proportionate. We are also reducing unnecessary bureaucracy, so solicitors and firms can do business more easily and offer new services, while maintaining consumer protection.

Open all [#]

## *Foreword*

I wish you a warm welcome to our Annual Review 2016/17, which builds on the success of last year's publication.

As ever, our focus remains on making sure the people who use legal services are protected, receive a good service from their solicitor or law firm, and that our regulation supports a flexible and innovative legal sector.

In the past 12 months, we have approved plans to introduce the Solicitors Qualifying Examination. This will see all aspiring solicitors take the same exam to enter the profession, regardless of their training route. This consistent approach will make sure that everyone knows that all solicitors meet the high professional standards the public expects.

We also consulted on proposals for a new Handbook and Codes of Conduct for solicitors and law firms, to make sure our rules are accessible, clear and focused on the standards that matter. These changes will allow law firms and solicitors to concentrate on providing good quality, affordable services, instead of spending time and money on navigating complex and prescriptive rules.

Supporting and encouraging a diverse profession that reflects the society it serves has, again, been a priority. We have embedded a commitment to diversity into all our work and are grateful to the firms who participated in our 2017 diversity data collection exercise. Shining a light on the diversity of the profession helps everyone to monitor progress and encourage an inclusive workplace.

Some of our work this year has benefitted from the major Competition and Markets Authority (CMA) report into the legal sector, published in December 2016. Some seven out of 10 people do not use legal services when they need to. I am clear this has to change.

The public and small businesses need more information about what providers are offering so they can make good choices. The CMA's findings underpinned our Better Information consultation, where we proposed publishing more information about law firms and solicitors, as well as asking them to be more transparent on price and the detail of their legal services.

Of course, there are risks in the sector, and we have a role to respond. In the past year, we have issued two warning notices about the growing threat of solicitor involvement in dubious investment schemes, which have cost the public more than £100m. The very few firms involved risk harming the confidence people place in the profession, so we take robust action when we find such schemes operating. As our Review shows, we also take a very serious view of any activity that opens the door to money laundering, which funds terrorism and crimes, such as people trafficking and the drugs trade.

The year ahead will bring with it new challenges and opportunities, notably the UK's departure from the European Union. This is why we have made a commitment in our Corporate Strategy 2017 to 2020 to making sure our regulatory arrangements work as effectively as possible in the context of any new relationship with the EU.

As we continue to develop modern, forward looking regulation, fit for the future, I encourage you to let us know what you think. I welcome all your thoughts and feedback.

I hope you enjoy reading our Annual Review 2016/17.

## **Enid Rowlands**

### **Chair of the SRA Board**

#### *How we are funded*

#### *Who funds our work*

Every year, we collect practising fees from solicitors and law firms in England and Wales, and from solicitors and law firms practising English and Welsh law overseas.

We seek to recover some of, or all, the money we spend on intervening into law firms and taking disciplinary action against those we regulate. In 2016/17, we recovered £2.7m, compared with £2.4m in 2015/16.

To cover our administrative costs, we also charge for some of our services. For example, authorising alternative business structures to offer legal services under our regulation and issuing certificates of good standing.

We operate a discretionary Compensation Fund. It can compensate members of the public and small businesses who suffer a financial loss as a result of a law firm's or solicitor's dishonesty or failure to return client money.

Law firms and solicitors pay an annual levy towards the fund, and we consider claims and make payments. We set the levy by considering what claims may be made to the fund. During this year, we decided to increase contributions for 2017/18 because of an increase in claims arising from a number of dubious investment schemes with solicitor or law firm involvement where the public might lose money.

#### *How much solicitors and firms pay*

The practising fee we collect fully, or partly, funds five organisations, including us. In 2016/17, we collected £99.9m in total. Each solicitor paid £290 to practise in 2016/17, £30 less than the previous year. We collected £59.9m from firms, compared with £62.7m in 2015/16. The amount that each firm pays varies, depending on its size and turnover.

#### *Providing value for money*

Our regulation should be cost-effective, affordable and proportionate, and we monitor how much solicitors and firms pay towards regulation each year.

Our fees policy is guided by principles, including being fair to fee payers and maintaining stability in how much the solicitors and firms we regulate are charged year to year. We keep this policy under review and we will not be making changes to the fee levels in 2016/17.

In 2016/17, we reduced the cost of our funding by £0.6m, a 1.1% reduction, while at the same time absorbing increased costs due to inflation. We have already managed to further reduce our funding for the 2017/18 year.

#### *Our regulation costs*

2014/15	2015/16	2016/17	2017/18
£52.9m	£54.1m	£53.5m	£52.6m

## Compensation Fund levy figures

Although the levy is increasing, it is still significantly lower than it was five or six years ago. Read more about the Compensation Fund [\[#n1\]](#).

2012/13		2013/14		2014/15		2015/16		2016/17		2017/18	
Ind.	Firm	Ind.	Firm	Ind.	Firm	Ind.	Firm	Ind.	Firm	Ind.	Firm
£92	£1,340	£56	£836	£32	£548	£32	£548	£32	£548	£40	£778

## How the fee is split

The practising fee is shared between:

- The Law Society (TLS), the representative body for solicitors (we are part of the Law Society Group)
- the Legal Ombudsman (LeO), the organisation which deals with service-related complaints about lawyers
- the Legal Services Board (LSB), the independent body responsible for overseeing the regulation of lawyers (including, for example, solicitors, barristers and licensed conveyancers) in England and Wales
- the Solicitors Disciplinary Tribunal (SDT), an independent statutory tribunal where we bring prosecutions against solicitors
- the Solicitors Regulation Authority (SRA), the regulator of solicitors and law firms in England and Wales.

The Legal Ombudsman and the Legal Services Board also receive funding from other parts of the legal profession.

## Fee split in 2016/17

SRA	53%
TLS	31%
LeO and the LSB	13%
SDT	3%

## How we spent our money in 2016/17

Staff costs	41%
Services we share with the Law Society, for example HR and Finance	14%
Projects, such as our ongoing programme to modernise our IT	11%
Disciplinary legal fees	10%
Interventions	10%
Other costs, such as research programmes and events	8%

## *Meet the Board*

### *Our Board 2016/17*

The SRA Board oversees our management and performance. It sets our strategy and supports, challenges and holds the executive management team to account on our direction and operations.

The Board has up to 15 members. It must always have a lay majority and chair.

#### *Enid Rowlands, Chair*

Enid became the Board's first lay member chair on 1 January 2015. Enid was a board member for the regulator of doctors, the General Medical Council, for eight years, and has held roles with the Information Commissioner's Office and the North Wales Police Authority. She has also been a trustee for The Prince's Trust and was UK Chair of Victim Support.

#### *Professor Julia Black*

Julia is pro-director for research and professor of law at the London School of Economics and Political Science. Her primary research interest is regulation. Julia has advised policy makers, consumer bodies and regulators on issues of institutional design and regulatory policy in the UK and overseas.

#### *Sharon Darcy*

Sharon is the director of think tank Sustainability First and a member of the UK Regulators Network Expert Advisory Panel. She was one of the first lay members to be appointed to the House of Commons Committee on Standards. Sharon is a council member of Which?

#### *Jane Furniss CBE*

Jane is the senior independent director on the Board. In 2014, Jane was appointed as a non-executive director to the board of the National Crime Agency. Jane spent over five years as a senior civil servant in the Home Office and Office for Criminal Justice Reform, and was chief executive and accounting officer of the Independent Police Complaints Commission (IPCC) from 2006 until 2013.

#### *David Heath*

David was member of parliament for Somerton and Frome from 1997 to 2015 and held the role of minister of state during the coalition government. During his period in parliament, David acted as shadow lord chancellor for the Liberal Democrats and was a member of the Justice Select Committee.

#### *Paul Marsh*

Paul is a former president of the Law Society of England and Wales and was senior partner of Carter Bells LLP solicitors in Kingston upon Thames. He is currently a consultant with Downs Solicitors in Surrey.

#### *Barry Matthews*

Barry works in-house as the director of legal affairs and third party sales at ITV. He was a non-executive board member of Clearcast Limited and the Broadcasting Committee of Advertising Practice from 2013 to 2016. In 2018, he founded the Social Mobility Business Partnership, which helps students from low income backgrounds pursue a career in the

professions.

### *Geoff Nicholas*

Geoff has been a partner in the dispute resolution group of Freshfields Bruckhaus Deringer for more than 20 years. He is co-head of the firm's global investigations group and is the global markets partner. Geoff advises international clients on regulatory risk and handles both internal and external investigations.

### *Dame Denise Platt DBE*

Denise is a member of the General Medical Council and former chair of the Commission for Social Care Inspection. Past positions include trustee of the NSPCC, trustee of the Lloyds Bank Foundation for England and Wales, and governor of the University of Bedfordshire (where she is an honorary fellow).

### *Chris Randall*

Chris is a partner in Mayo Wynne Baxter and has been its chief executive since 2007. His main specialism is personal injury litigation, though his current role is in full-time management. Before embarking on a career in the law, Chris was a probation officer in London.

### *Deep Sagar*

Deep worked as senior manager in international businesses, such as Coca-Cola. His present roles include being chair of governors at South Eastern Regional College. He has previously been involved in regulating other professions and solicitors in Scotland, and has worked closely with lawyers, for example, as chair of the Leasehold Advisory Service.

### *Professor Shamit Sagar CBE*

Shamit is associate pro-vice-chancellor for research and professor of public policy at the University of Essex. He was previously chairman of the Legal Complaints Service of the Law Society of England and Wales. Between 2001 and 2003, he was senior policy adviser within the prime minister's strategy unit in the Cabinet Office.

### *Tony Williams*

Tony Williams is the principal of Jomati Consultants LLP, an international legal management consultancy. Jomati's services are designed to support law firms, barristers' chambers and in-house legal departments on a range of strategic and management issues. Tony is a qualified solicitor and a former worldwide managing partner at Clifford Chance.

### *Elaine Williams*

Elaine is legal director and company secretary at Eddie Stobart plc. She was previously general counsel and company secretary for British Land and former partner at Freshfields Bruckhaus Deringer in London and Asia. Before that, she held a role at HSBC as deputy group company secretary, a role in which she gained significant experience of corporate governance and company secretarial best practice.

### *David Willis*

David is a former joint chief executive of Herbert Smith Freehills. He currently holds several different roles with charities and educational institutions. One such role is vice chair of United Response, a charity that works with adults and young people with learning and physical disabilities and mental health needs.

## *Organisational structure*

## *Board*

Enid Rowland, Chair

Consists of 15 members who oversee all SRA work.

Seven are solicitors and eight are lay people, including the chair

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## *CEO*

Paul Philip

Leads the strategic direction of the SRA.

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## *External Affairs*

Executive Director, Jane Malcolm

Manages internal and external engagement. This includes:

- **Governance**

Supports corporate governance.

- **Corporate Complaints**

Handles complaints from the public and profession about our service

- **Digital Communications**

Manages our online presence and our contribution towards [legalchoices.org.uk](http://www.legalchoices.org.uk) [<http://www.legalchoices.org.uk>] and [iclr.net](http://www.iclr.net) [<http://www.iclr.net>]

- **Equality, Diversity and Inclusion (EDI)**

Promotes equality in the sector and embeds and supports EDI in our own work.

- **External Communications**

Engages with external stakeholders through media and events.

- **Internal Communications**

Keeps staff up to date and involved in our work.

- **Public Affairs**

Works with parliamentarians and others.

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## *General Counsel*

General Counsel, Juliet Oliver

Identifies and remedies legal issues and oversees legal best practice and effective decision making.

- **Legal Policy**

Supports reforms to deliver modern regulation through rule drafting and provision of legal advice.

- **Governance and Compliance**

Advises the CEO and the Board to make sure we use our powers in a way that is lawful and robust to challenge.

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### *Legal Case Direction*

Executive Director, David Middleton

Gives guidance on various matters and cases.

- **Case Direction**

Advises other units across the organisation.

- **Adjudication**

Makes formal regulatory decisions relating to disputed, high profile or complex cases.

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### *Operations and Quality*

Executive Director, Robert Loughlin

Manages operations and monitors their effectiveness.

- **Authorisation**

Authorises individuals and firms to enter the profession and monitors their suitability.

- **Business Improvement and Quality Assurance**

Implements quality assurance, manages information and supports training needs.

- **Client Protection**

Administers the Compensation Fund and intervenes into law firms.

- **Contact Centre**

Handles incoming queries from the public and profession.

- **Investigation and Supervision**

Risk assesses, analyses and investigates reports made about solicitors

- **Legal and Enforcement**

Prepares cases to take to the Solicitors Disciplinary Tribunal.

- **Regulatory Management**

Proactively engages with firms on a range of issues and carries out thematic research into the legal sector.

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## *Policy*

Executive Director, Crispin Passmore

Advances changes to policy and regulation within the legal sector.

- **Education and Training**

Develops policy on the education and training of solicitors.

- **Ethics Guidance**

Provides guidance on our Code and Handbook to those we regulate.

- **Regulatory Policy**

Delivers reforms to implement modern regulation and ensures high professional standards.

- **Research and Analysis**

Provides research and data to support evidence-based policy making.

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## *Strategy and Resources*

Executive Director, Richard Collins

Develops and executes our strategy.

- **Business Change**

Drives and delivers collaborative change and improvements.

- **IT and Infrastructure**

Develops and manages our IT needs.

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## *Finance, Resources and Support Functions*

Manages our finances, handles employee relations and resources, runs risk and continuity programmes.

### *How we work*

We employ more than 600 staff who work in a variety of roles, the majority of which are based in our Birmingham city centre office, The Cube. We also have staff based in our London office and offsite.

We are committed to having a talented and diverse workforce in place to support our work as a public interest regulator.

Our people are our greatest asset. Our success depends on having the right culture and leadership and adopting the best possible approach to recruiting, training, developing and rewarding our staff. It is only with their dedication that we can serve the public well and meet our strategic objectives.

### *A diverse organisation*

We value, respect and celebrate differences and enjoy the benefits that diversity brings to our culture and performance.

We recognise the importance of making sure our staff reflect the wider community whose interests we serve. To make sure we are diverse and inclusive, we recruit in an accessible way and create a supportive and inclusive working environment.

We have Disability Confident accreditation and are part of the Midlands Accessibility network. We are also a Stonewall Diversity Champion and submit information to the Stonewall Employer Index. This year, we appeared 171st on the list, moving up 70 places.

### *Our values*

All our activities are underpinned by our five core values, which were developed by our staff in 2014. We promote our values through thank you and reward schemes, and through opportunities to discuss and learn together. We also introduced a series of values weeks in 2017. Each week promotes one of our values through activities and events. Staff are encouraged to think about how they can implement or show our values in their everyday work.

**Independent:** We act impartially, making objective and justifiable decisions based on evidence.

**Professional:** We have the knowledge and skills to deliver high standards; striving for excellence.

**Fair:** We treat people equally; without favouritism or discrimination.

**Inclusive:** We work together, valuing difference, to deliver common goals.

**Progressive:** We listen, respond and proactively develop and improve the way we work.

### *Our charity work*

Our staff vote for our charity every two years. Our current charity is West Midlands based St

Basils. It works with young people aged 16 to 25 who are homeless or at risk of homelessness, helping more than 5,000 young people every year. The aim is to help them successfully break the cycle of homelessness, so that they can go on to experience a bright, fulfilling future and never return to a state where they are at risk of homelessness again.

We are halfway to achieving our target of raising £10,000 for St Basils by the end of 2018. In the last year, our staff raised money by taking part in the St Basils Big Brum Sleepout, running a half-marathon, arranging raffles, and having dress down days and cake sales. Staff also donated items to St Basils starter packs that help young people get off to a good start when they move into homes of their own.

St Basils' Head of Fundraising and Communications, Barrie Hodge, said:

"We are absolutely delighted that you have chosen us as your charity. This is a real commitment to investing in a positive future for young people across the West Midlands who may not have access to opportunities. On behalf of the 5,000 plus young people we support, thank you so much."

In addition to supporting St Basils, we also worked with other charities, such as the Social Mobility Business Partnership and Mosaic, and took part in the Legal Support Trust's fundraising legal walks.

### *Bringing people together: Our staff networks*

Staff networks help us to build a truly inclusive workplace and provide direct support to members through training and advice. They provide insight into the experience of colleagues, and have supported our links with external stakeholders and the communities we serve.

#### *Access Ability Network*

This network's aims and objectives are centred around promoting equal opportunities for disabled employees, and creating a safe, supportive and inclusive working environment. It also raises awareness of disability issues in and around the local area.

In February 2017, the network supported the Lord Mayor's Appeal campaign, This is Me. The campaign aims to reduce the stigma around mental health in the workplace and to raise awareness of wellbeing.

#### *BAME Network*

For black, Asian and minority ethnic (BAME) staff, this network provides networking opportunities and support, raising awareness of the issues that affect our BAME staff and race equality more generally.

The network is building relationships with other external networks to share best practice and enhance the support available to its members. The network held a number of events during 2016/17, including for Black History Month. To mark the occasion, the network, along with other activities, celebrated black art, authors and books. It also supported our race equality Black History Month panel and networking event, held in partnership with the Black Solicitors Network and hosted by Freshfields Bruckhaus Deringer.

#### *Christian Network*

The Christian Network is made up of colleagues who are Christian or have an interest in the Christian faith. The network supports staff to embrace and live out their faith while at work, and aims to help promote and live our values.

In 2016/17, the network held events on the meaning behind Christmas and Easter and promoted carol services for the business community in Birmingham.

### *SRA Nexus – Sexual Orientation and Gender Identity Network*

SRA Nexus is a sexual orientation and gender identity employee network. It was established to promote equal opportunities for LGBT+ staff members. It offers professional and confidential support, and it raises awareness of LGBT+ issues more widely.

This year, the network extended its reach to form SRA Allies, which gives all staff the opportunity to show support and commitment to creating a diverse and inclusive workplace.

The network also has a strong presence at Birmingham and London Pride, partnering with other regulators and local law firms

### *Women's Network*

This network is focused on promoting gender equality and supporting women. The network allows our staff to share experiences, opportunities and knowledge, offer support and discuss issues that are important to them.

It also encourages confidence building and skills development, and, this year, looked at issues such as imposter syndrome, where individuals doubt their achievements and live in persistent fear of being exposed as a "fraud". The network also helped with our Celebrating women in law: A shattering of glass event, hosted by Berwin Leighton Paisner and supported by the Association of Women Solicitors London.

### *Workforce profile*

#### *Gender pay*

Like other organisations with more than 250 staff, we have published our gender pay gap as part of the wider Law Society Group. Compared with the UK average of 18.4% (Office for National Statistics, 2017), the median gender pay gap across the Law Society Group, full-time and part-time staff combined, is 5.6%. The overall gender pay gap for the SRA is 3.6%, which is substantially lower than the 18.4% UK average.

Our profile is typical of organisations our size, with fewer women in the most senior job grades. We are looking at how we can do better and work to close the gap.

#### *Gender*

- Women – 61%
- Men – 39%

#### *Ethnicity*

- White/white British: 70%
- Asian/Asian British: 17%
- Declined to state/not specified: 4%
- Black/black British: 3%
- Mixed: 3%

#### *BAME representation continues to grow:*

- 42% of successful external candidates were BAME.

- 22% of successful internal applicants were Asian/Asian British.

### *Age and grade breakdown*

Age	16-24	25-34	35-44	45-54	55-64	Over 65
Total workforce	3%	30%	33%	26%	8%	0.6%

### *Grade breakdown*

Age	16-24	25-34	35-44	45-54	55-64	Over 65
Non management roles	13%	42%	19%	17%	7%	1.7%
Specialist and management roles	1%	29%	35%	27%	7%	0.4%
Heads of business units and directors	0%	2%	43%	37%	19%	0.0%

### *Sexual orientation*

2% of staff told us that they are gay or bisexual.

We saw a 5% decrease to 11% in the number of staff who chose not to specify their sexual orientation.

In 2017, we first appeared in Stonewall's Workplace Equality Index, appearing 241st on the Index, which featured more than 400 organisations.

### *Disability*

6% of staff declared a disability. Staff who have declared a disability are fairly evenly spread across all pay grades.

We have seen an 11% decrease to 3% in the past two years in the number of staff who chose not to say whether they have a disability.

### *Religion and faith events*

Religious groups represented. Please note, percentages may not total 100% due to rounding.

- Christian: 40%
- Buddhist: 0.8%
- Hindu: 3%
- Sikh: 7%
- Muslim: 6%
- Jewish: 0.5%
- Other: 0.6%
- No religion: 32%
- Not specified: 10.7%

As part of our commitment to a fully inclusive workplace, we continued to organise our popular staff faith events during 2016/17. These encourage staff from all religions and backgrounds to come together and celebrate as one.

- April: Vaisakhi and Passover
- June: Ramadan
- July: Eid
- October: Diwali
- December: Christmas

All information is taken from our Annual Diversity Report for 2017. The report covers the period from 1 January to 31 December 2017.

## *Corporate Strategy*

We work in the public interest and over the past three years we have been undertaking a major transformation of our approach to regulation and how we work. We have worked to make both fit for the future and to meet the complex challenges we face. Importantly, we are also working to improve access to high quality, affordable legal services for the people who need them.

We have come to the end of our 2014 to 2017 Corporate Strategy, which set out four key objectives. This section explains how we performed against each of these objectives during 2016/17.

### *Objective one*

We will reform our regulation to enable growth and innovation in the market and to strike the right balance between regulatory burdens and ensuring consumer protection.

#### *Better information, more choice*

We made progress on plans for better information to be made available to people choosing legal services. This includes information to help people better understand the price, quality and service that law firms offer, as well as the additional protections SRA-regulated firms provide. Decisions on the approach will be made in 2018. These proposals follow the Competition and Markets Authority conclusion that the legal services sector is not working well for the public, and better information is necessary to create a more open, competitive sector.

#### *Looking to the Future*

We want to make it easier for people to access solicitors' expertise and benefit from their high standards, potentially in more affordable ways. Following extensive engagement with around 11,000 people, we announced changes that will bring a focus to high professional standards while reducing the costly burden of bureaucracy for solicitors and firms. Changes to our rules will result in a simple, shorter Handbook, reduced it by more than 300 pages. This will remove outdated constraints and will free up solicitors to work in new markets. It will also help law firms to offer affordable services in a way that suits their customers.

#### *Question of Trust*

We concluded our Question of Trust campaign, which saw 5,400 members of the public, and the profession, share their views on what values and standards they expect solicitors to have and to meet. It found that the public and profession considered misuse of client money, criminal activities and or dishonesty to be the most serious offences. The information is now being used to help us develop a revised enforcement policy (see more under objective two).

#### *SRA Innovate*

We want to encourage firms to innovate and offer new services in new ways that help the public. We have developed new web resources and offer a safe space for firms to try out new things. To make sure the legal market is responsive to changing client needs in a modern-day market, we consulted on a new waivers policy. We proposed waiving some of our rules for firms if it allowed them to innovate and offer legal services in new ways, while still offering consumer protection.

### *Evidence-based policy making*

We are committed to making our regulatory policies evidence-based. This year, we researched the factors that led consumers to complain to their solicitor, and what subsequently pushes them to pursue complaints through the Legal Ombudsman, alternative dispute resolution, the courts and us. We also researched how the public perceives transparency of legal costs in the conveyancing market, supporting our Better Information work. We will also use research we commissioned on diversity in the legal profession in England and Wales as evidence to help the profession review its approach to recruitment, retention and progression.

### *Working with small firms*

We continue to work with small firms that provide essential legal services in so many local communities. This is so we can understand their businesses and reduce the burden of regulation. Through this, and our engagement with the Sole Practitioners Group, we have created a suite of useful resources. The feedback has also helped us to make our website easier to use.

## *Objective two*

We will work with solicitors and firms to raise standards and uphold core professional values.

### *Enforcement strategy*

Informed by the research from our Question of Trust campaign, we consulted on a new approach on how to enforce our rules. We want to make sure there is clarity about how we apply them. We are moving away from an overly prescriptive approach to a sharp focus on professional standards, making sure they are applied in a proportionate and consistent way.

### *Risk Outlook*

We continue to update and publish information on risks in the legal market through our Risk Outlooks. Our fifth annual Risk Outlook introduced solicitor involvement in questionable investment schemes as a key priority risk and again addressed the ongoing threat of cybercrime. We also explored how the sector can help widen access to legal services in our report, Improving access – tackling unmet legal needs.

### *Solicitor apprenticeships*

We continue to support this “earn as you learn” route to becoming a solicitor that gives people from every community an opportunity to pursue a career in law. This will increase diversity in the legal profession, and will make sure that firms benefit from a diverse workforce. Read more on solicitor apprenticeships [\[#apprenticeships\]](#).

### *Solicitors Qualifying Examination (SQE)*

The SQE is an independent assessment to make sure all solicitors meet consistent, high standards at the point of entry to the profession. Following 18 months of engagement involving 9,000 people and 500 responses to two consultations, we made the decision to introduce the SQE. Regardless of the route taken in their education and vocational training, all aspiring

solicitors will sit the same entrance exam to enter the profession. We continue to work alongside stakeholders to introduce the SQE and in 2016/17 consulted on the changes to regulations necessary for its introduction. Read more about the SQE [\[#sqe\]](#).

### *Warning notices*

We issue warning notices to caution the profession and warn the public about risks and poor practice. In 2016/17, we issued notices on five areas:

- solicitor involvement in dubious high-yield investment schemes, which have cost the public more than £100m
- offensive communications, which have seen solicitors fall below the standards we expect
- payment protection insurance claims, and
- holiday sickness claims, where solicitors have failed to act properly in the handling of such claims
- aggressive tax avoidance, to reflect HMRC's changing approach.

### *Objective three*

We will improve our operational performance and make justifiable decisions promptly, effectively and efficiently.

### *Organisational development*

We continue to work to improve timeliness, reducing cost and uncertainty for our customers and those we work with. This will help to reduce the cost of regulation and, in turn, the cost of legal services. Key improvements in our operational work over the past year include:

- assessing firm-based applications in 23 days on average, which is down from 31 days
- assessing individual-based applications in 10 days on average, which is down from 12 days
- carrying out forensic investigations in 142 days on average, down from 203 days in 2015.

We also continue to see a significant improvement in the time taken to assess the concerns and reports we receive about solicitors.

### *Customer service*

We continued to answer 93% of the 180,000 calls to our Contact Centre in less than 20 seconds. Our Ethics helpline received 35,000 calls, with Ethics Advisers offering firms and solicitors advice on issues such as possible breaches of our Accounts Rules and conflicts of interest. Our anonymous Ethics webchat service also helped nearly 4,000 people last year.

### *Modernising IT*

We are undertaking a major programme to modernise our IT infrastructure. We continue to work closely with the public, the profession and our own staff to make sure we understand and meet their needs and develop an IT infrastructure and digital services fit for the future. We successfully completed the initial phase of this work, which updated our general IT systems internally. Read more about our Modernising IT programme [\[##it\]](#).

### *Equality, Diversity and Inclusion (EDI)*

EDI is a priority for us. An important part of that is monitoring our operational work to check we are making fair and unbiased decisions. This year, we wanted to move on from specific EDI governance, with its tendency to side-line what are key issues, to embedding EDI

throughout our work. Our Board has taken on full oversight of EDI, we have embedded EDI considerations into our new Corporate Strategy and are building it into the foundations of everything we do. This is to make it a natural part of our work.

### *Our values*

We continue to promote our values: Independent, Professional, Fair, Inclusive and Progressive, and embed them in our work to create a culture of continuous improvement. We celebrate these values through channels such as values weeks, which give all our staff an opportunity to discuss and engage with what our values mean in daily practice.

### *Objective four*

We will work with our stakeholders to improve the quality of our services and their experience when using them.

### *Events and roadshows*

Meeting both the profession and the public face-to-face provides invaluable feedback on our regulatory approach and reform programme. This year, we held focus groups with the public on our Modernising IT programme and Better Information consultation. Our annual Compliance Conference was the most successful yet, with 1,000 attendees and 7.5 million impressions on social media. Our Board continues to meet people throughout England and Wales. We held our second Trust and the Market conference, bringing together regulators from many sectors to share expertise. Our SRA Innovate conference reached out to law firms interested in providing new services in new ways, attracting more than 600 viewers on periscope and making more than 130,000 impressions on social media.

### *Websites and social media*

The combined monthly reach of all our social media channels topped 800,000 in 2016/17, up 93% from the previous year. Total engagement – likes, shares, clicks – was also up by 60%. On Legal Choices, the public-facing website we run on behalf of all the legal regulators, social engagement was up 238% when compared with the previous year, at more than 70,000 interactions.

### *International presence*

iclr.net [<https://iclr.net/>], the website we run for senior legal service regulators around the world, provides thought leadership about legal services regulation worldwide. It now has around 150 registered users from 50 organisations in more than 20 jurisdictions.

### *A modern workforce*

As part of our work to support a diverse legal profession, we carried out our fourth firm diversity data collection exercise, with 92% of law firms reporting their data. Firms can use our online diversity data benchmarking tool to see how their firm's diversity profile compares with others. Read more about the latest data collection [#diversity].

### *Transparency*

We want to make sure our work is transparent and that we publish information in a clear, meaningful way. We are publishing all responses to our consultations where the respondent has given permission. We are also publishing our responses to other organisations' consultations. We will continue to develop how we provide information about those we regulate to the public through, for example, building on our Law Firm Search service.

### *Writing the SRA way*

We continue to review our communications to make sure they are accessible and straightforward to read. This year, we published our Annual Review in Welsh and easy read versions. We have brought in a new Welsh translation tool on our website and are publishing more information in Welsh on the website than ever before.

## *2016/17 in numbers*

### *The firms and individuals we regulate*

- Practising solicitors: 143,072
- Law firms: 10,420
- Law firms that have adopted an alternative business structure licence: 681
- Non-practising individuals on the roll of solicitors: 42,168
- Registered European lawyers: 676
- Registered foreign lawyers: 2,407
- Exempt European lawyers: 2,938

These figures were taken as at October 2017. Read more about the types of law firm we regulate [\[#profile\]](#).

### *Ethics guidance*

Our Ethics Guidance team offers guidance and support to solicitors and law firms on all ethics-related issues affecting their practice. We received 35,000 queries in 2016/17. The top five concerns were about:

- confidentiality and disclosure
- the Accounts Rules
- validity and expiration of practising certificates
- retainer agreements with clients
- conflict of interest.

### *Contact Centre queries*

We received 180,000 calls to our Contact Centre during 2016/17. In addition, the Contact Centre received 46,000 emails. They were from or about:

#### *Members of the public*

- 90,000 calls
- 23,000 emails

We helped people check a solicitor was who they said they were, set about retrieving people's files from a closed firm and handled complaints about solicitors.

#### *Firms and solicitors*

- 56,000 calls
- 15,000 emails

We handled calls about applications for practising certificates, advised on adopting new business models, and helped with mySRA account queries.

### *Education and training*

- 34,000 calls
- 8,000 emails

We answered common questions about the new continuing competence regime and other routes to qualification.

### *Engaging with stakeholders*

#### *Better information, more choice*

Consultation on making legal services more transparent for the public:

- 14,000 plus people voted on what is important to them when choosing a solicitor
- 4,000 visits to related web content
- 1,100 views of discussion on the proposals, for example at our Compliance Conference

### *Modernising IT*

Programme to invest in our IT to make it future-proof and user-friendly

- 70 hours of focus groups with the public
- 23 consumer representative group workshops
- 450 members of the profession engaged

### *Looking to the Future, Handbook reforms*

Proposals to simplify our rules:

- 11,000 people engaged on how to make our Handbook shorter, simpler and focused on high standards
- 300 pages of rules we propose to cut
- 7,000 people engaged on how we should enforce our new rules

### *Compliance Conference 2017*

Annual event to help firms and solicitors manage risk

- 1,000 attendees and 1,600 viewers online, our largest group of delegates at the conference yet
- 96% delegates said they would come to a similar event again

### *Solicitors Qualifying Examination*

Our second consultation on the licensing exam

- 253 responses to the consultation
- 6,800 people engaged through 45 events
- 4,650 visits to related web content

### *Online presence*

- 470,000 people used our Check a Solicitor's Record search
- 280,000 people used our Law Firm Search
- Visits to Legal Choices rose by 160%
  - 41,000 people viewed our page on driving laws
  - 10,000 people viewed our page on what to consider when getting divorced
- 46,000 views on information about the Solicitors Qualifying Examination
- 106,000 views of bogus firm and scam alerts
- 87,000 views of our Risk Outlook and related content
- 9.6 million – total page views for 2016/17

### *Embracing diversity*

As part of our commitment to encourage diversity in the profession and in our own organisation, we took part in a number of events to celebrate and promote diversity.

- **Black History Month, Manchester** | We hosted our first Black History Month event alongside the Black Solicitors Network and discussed access to the profession and career progression.
- **Pride, Birmingham and London** | For the third year, we supported the Birmingham and London Pride festivals, celebrating both the wider LGBT community and the role it plays in a diverse, modern legal profession. We were joined at both events by other organisations from the legal sector.
- **Legal Social Mobility Partnership (LSMP), Birmingham** | We hosted an event with the LSMP, now known as the Social Mobility Business Partnership, aimed at broadening access to the solicitor profession and developing essential skills for those who are the first generation in their immediate family to attend university or are, or have been, eligible for free school meals.

### *Meeting with stakeholders across England and Wales*

We engaged with stakeholders at 142 events, 31 of which we hosted.

- **Compliance Conference, Birmingham** | Now in its fifth year, this brought together more than 1,000 compliance professionals and discussed anti-money laundering, Brexit and new data protection regulations. We welcomed the National Crime Agency, Information Commissioner's Office and speakers from other external organisations to talk alongside us.
- **Keeping your firm healthy, Cardiff** | We talked about health and wellbeing, financial compliance and better information with firms based in Wales.
- **Legal Geek, London** | We discussed how law firms can bring about change and innovation in their business
- **Trust and the Market, London** | We brought together regulators from different sectors and debated how to make sure modern-day regulation is proportionate and meets people's needs.
- **Modernising IT focus groups, Swansea, Birmingham, Leeds, Manchester and London** | We met with members of the public and the profession to learn how improvements in our IT can help them better use our services.

- **Meet the Board, Sheffield, Boston, Cardiff** | Our Board met with members of the profession to discuss topical matters and hear about local issues.

### *Raising the profile of risk*

Our latest Risk Outlook highlighted eight key risks:

- lack of access to legal services
- standards of service
- investment schemes
- information security
- protecting client money
- money laundering
- independence and integrity
- diversity in the profession.

We issued 170 scam alerts to warn the public and firms about cybercrime. In the majority of cases fraudsters were pretending to be solicitors to give their scam an air of legitimacy. We issued five warning notices about concerning practices:

- dubious high-yield investment schemes
- offensive communications
- improper handling of payment protection insurance claims
- improper handling of holiday sickness claims
- aggressive tax avoidance.

### *Supervision outcomes 2016/17*

Read more information on the disciplinary action we take, and the definition of a regulatory settlement agreement (RSA) [#sanctions].

Please note, one file can result in multiple decisions

2016/17		
Cases where allegations were upheld/action taken	400	
	Decision outcomes	Agreed outcomes by RSA
Letter of advice	223	-
Finding/finding and warning	16	17
Rebuke or reprimand	54	41
Fine	28	26
Conditions imposed on a firm or individual	13	8
Section 43 order	34	11

A section 43 order means we restrict non-lawyers, eg managers and other employees, from working in a law firm without our permission.

### *Hearings at the Solicitors Disciplinary Tribunal 2016/17*

We brought 117 cases to the Tribunal in 2016/17 resulting in the following decisions. Please note, one hearing can result in multiple decisions.

2016/17	
<b>Cases brought</b>	117
<b>Strike off</b>	59
<b>Fine</b>	57
<b>Suspend</b>	18
<b>No order made</b>	7
<b>Other decision</b>	19

### *Compensation Fund*

We paid out £15.2m from the Compensation Fund to members of the public and businesses who suffered financial loss as a result of a solicitor's or law firm's dishonesty or failure to return client money.

The top two reasons for compensating people were:

1. replacing funds that were intended to pay for people's house deposits – £4m
2. replacing people's stolen inheritance – £3.3m.

The largest single payment was for just over £500,000. In this case, a solicitor took a client's house deposit and mortgage advance.

### *Education and Training*

We set the education and training standards for solicitors to make sure the people we allow into the profession are competent and the users of legal services receive a proper standard of service. We want to make sure that everyone who joins the profession meets the same high professional standards, so we are introducing a new single national examination. This will give both the public and the profession confidence in legal services, and encourage more flexibility and choice in training. The flexibility, which will include "earn as you learn" options, will help to encourage a diverse profession, attracting the brightest and the best from every community.

### *Character and suitability test*

We assess whether all candidates for admission as a solicitor are fit to enter the profession through our character and suitability test. The questions we ask include whether the applicant has been convicted of any criminal offence, whether they have been subject to any enforcement action by another regulator and whether they have ever been declared bankrupt. We consider all the information applicants give us and any evidence to show they have taken steps to reform their character.

In 2016/17, we refused five applicants due to issues such as criminal convictions, dishonesty, or where applicants were already subject to a section 43 order (which means we have prevented them from working in a law firm we regulate).

### *Solicitor-apprenticeships*

Qualifying through the solicitor-apprenticeship route allows individuals to start or even switch their career, without the cost associated with higher education. This also encourages a more diverse range of individuals to apply. Anybody, no matter their background or circumstances, has the opportunity to pursue a career in law. We developed the Trailblazer apprenticeship in law with employers and CILEx Regulation.

We are pleased to see that the number of solicitor-apprenticeships has increased since their introduction in 2016.

- 2016: 25
- 2017: 75

### *Education and Training – glossary*

- **CILEx**: Chartered Institute of Legal Executives – provides training to become a legal executive, and regulates legal executives.
- **CPE**: Common Professional Examination – a postgraduate law course taken by non-law graduates who wish to become a solicitor or barrister in England and Wales. Also known as the GDL (see below).
- **GDL**: Graduate Diploma in Law – see CPE.
- **LPC**: Legal Practice Course – a vocational stage of training just before the PRT.
- **PRT**: Period of Recognised Training – work-based learning which forms part of the vocational stage in the route to qualifying as a solicitor.
- **QLTS**: Qualified Lawyers Transfer Scheme – allows those who are already qualified lawyers in other jurisdictions to qualify as a solicitor of England and Wales.
- **QLTT**: Qualified Lawyers Transfer Test – this has now been phased out and replaced by the less bureaucratic QLTS. A small number of individuals still enter the profession via this route.

### *The year in education*

Our latest Regulation and Education report presents data from legal course providers about student performance on the LPC, CPE and GDL. The key findings in the 2015/16 report were:

- The overall rates for successfully completing the LPC and the CPE remain fairly constant for students. But there appear to be significant differences in the rates between providers.
- There are significant differences between providers in the number of students that achieve pass, commendation or distinction grades.
- Data indicates that students from ethnic groups other than white are less likely to successfully complete the CPE and the LPC.
- Male and female students appear to perform equally well on the CPE and LPC. Women outnumber men on both courses and at the point of admission.
- Our data on the ethnic origin of those undertaking periods of recognised training is less comprehensive because 87% of training contracts registered for the period 2015–16 indicated ethnic background as “unknown”.

## *Meet the Trailblazers | The Trailblazer solicitor-apprenticeship leads to qualification as a solicitor*

**Abbi Lavill** started the Trailblazer solicitor-apprenticeship in September 2017 at Gowling WLG. This was after Abbi completed an Advanced Apprenticeship in Legal Services with CILEx Law School.

“I was adamant that I didn't want to go to university and do things ‘the traditional way’. I didn't want the rising tuition fees or to land myself in debt. I wanted something that meant I could earn a salary, gain experience and start carving out a career. My day-to-day experience means that my skillset is constantly growing and I'm developing relationships with clients.”

**Miriam Ahmed** started the Trailblazer solicitor-apprenticeship in September 2017 at Addleshaw Goddard LLP. This was after completing A-Levels in Religious Studies, Combined Sciences and English Literature.

“I have really enjoyed working and studying simultaneously. My firm has been very supportive with balancing my workload to accommodate my studies. I have been allocated a mentor and a line manager, which is very helpful. The apprenticeship is a great way to qualify as a solicitor. If I had not had this opportunity, I don't think I would have ever pursued a career in law.”

**Holly Moore** started the Trailblazer solicitor-apprenticeship at ITV. This was after completing A-Levels in Law, English Literature and Psychology.

“I have loved every minute of my solicitor-apprenticeship. In particular, I enjoy applying the information I learn at university into my practical, on-the-job work, for example, studying contract law at university and drafting contracts at work. I also appreciate the level of responsibility I am given at such an early stage in my career. I believe it will prepare me for a long and successful career in law.”

### *The Solicitors Qualifying Examination in 2016/17*

To make sure all solicitors are tested to the same high standard, regardless of their route into the profession, we are introducing a Solicitors Qualifying Examination (SQE). This will provide a gold standard of consumer protection. People will know that their solicitor has had their core knowledge and skills assessed against a consistent standard. The timeline below shows how we have developed the SQE in the past year.

- **Oct 2016 to Jan 2017:** Second consultation published

Our second consultation on introducing the SQE was published. We engaged with more than 6,800 people through 45 events, meetings and digital activities and received more than 250

responses to the consultation.

- **Jan 2017 to April 2018:** SQE decision made

We analysed and considered all responses to the consultation, making changes to what the SQE will look like following stakeholder feedback. This included making a degree or equivalent and a two year period of work experience necessary for qualification. Our Board approved the proposals.

- **May 2017 to July 2017:** Consultation on SQE regulations published

We consulted on the changes to regulations necessary for the SQE's introduction. The regulations cover how qualified lawyers, such as those from overseas, will apply to practise as solicitors in England and Wales in the future.

- **June to 2017 to Sept 2017:** Tender to deliver SQE starts

We invited organisations to tender for the delivery of the SQE. The organisation will need to deliver a rigorous, valid and reliable assessment.

- **Nov 2017:** SQE regulations finalised

We confirmed the four elements needed to qualify as a solicitor: a degree or equivalent, passing both parts of the SQE, two years' qualifying work experience, and satisfactory character and suitability.

### *What's next?*

In 2018, we will appoint the organisation that will deliver the SQE. We will work with the organisation to finalise the development of the SQE and will continue to engage with firms and universities to make sure they are ready for the changes.

### *Ongoing professional development*

We ask solicitors to maintain their competence by keeping their knowledge and skills up to date. This helps to make sure the public always receives a good service from their solicitor.

From 1 November 2016 our new approach to continuing competence came fully into effect. Under the new approach, solicitors no longer need to count the hours of continuing professional development they are carrying out. Instead, solicitors should reflect on the quality of their practice, identify any learning and development needs and pursue the relevant training. At the end of each calendar year, solicitors make a declaration that they are competent to practise. During 2018, we will be carrying out an initial impact assessment of the changes.

“Trowers and Hamblins has embraced the new continuing competence regime. It allows us to identify more broadly the needs of our solicitors, so we can focus training efforts in the right way. It's also a lot clearer that needs can be met by study, reading, learning from others – it's a much more flexible regime. This has been implemented for nearly 400 solicitors worldwide.”

*John Worrall, Head of Learning and Development, Trowers and Hamblins LLP*

“The move to continuing competence has been a positive experience for us, where the focus is firmly on quality rather than quantity of training. Getting the reflection part right has been the key to our success, as this is the driver for everything else.”

*Clare Collins, Head of Learning and Development, Squire Patton Boggs*

### *Higher rights of audience*

A higher rights of audience qualification allows solicitors to act as an advocate in the higher courts. These are the Crown Court, High Court, Court of Appeal and Supreme Court in England and Wales. The number of solicitors we regulate that have higher rights of audience can be seen below.

	Civil	Criminal	Both	Total
October 2017	2,131 (31%)	3,272 (48%)	1,464 (21%)	6,867

### *Entry to the profession*

Solicitors currently enter the profession through a range of routes. These include taking a traditional law degree, or a non-law degree and the CPE, and then the LPC, through qualifying as a solicitor abroad under the QLTS, and through to qualifying as a Chartered Legal Executive, or CILEx. The table below shows the number of individuals that joined the profession from each route from 2014 to 2017. Please note, these figures are correct as of October in each year. A definition of terms can be found in the glossary above [\[#glossary\]](#).

Route	2014/15	2015/16	2016/17
LPC	5,347	5,580	5,588
QLTT	53	27	24
QLTS	485	541	693
CILEx	186	237	246
Other	37	67	48
Total	6,108	6,452	6,599

Other can mean, for example, some qualifying from Northern Ireland and the Republic of Ireland, some registered European lawyers and Magistrates' Clerks.

### *Joining the profession 2016/17*

The majority of solicitors still join the profession in autumn. This is because law firms' two-year training programmes mainly follow the academic year, finishing at the end of the summer. We also see a small peak in the number of solicitors we admit at the beginning of the calendar year, because some training providers have a second intake of trainees in March. Some training providers also reduce the two-year training programme by up to six months where an

individual has prior, relevant work-based experience.

We authorise 5,497 organisations to carry out a period of recognised training, the work-based part of a solicitor's training.

Month	Number admitted	Refusals
Nov-16	35	0
Dec-16	268	0
Jan-17	304	0
Feb-17	302	0
Mar-17	867	0
Apr-17	418	0
May-17	303	0
Jun-17	234	2
Jul-17	346	0
Aug-17	313	0
Sep-17	2,391	3
Oct-17	496	0
Total	6,599	5

### *Equivalent means*

In 2014, we introduced an alternative route to qualification that allows individuals to show they have met our requirements for a particular stage of training through equivalent means.

For example, solicitors can qualify even if they have not completed a two-year training contract with a law firm. If an aspiring solicitor can demonstrate they have experience equivalent to a training contract, we will allow them to join the profession.

We continue to see individuals qualify through the equivalent means route.

- 2014/15: **8**
- 2015/16: **63**
- 2016/17: **70**

### *Authorisation*

Entry to the profession is the key point at which we make sure individuals and businesses meet the high professional standards the public expects from their solicitor or law firm. Our Authorisation team does this by carrying out character and suitability checks, making sure they meet our training requirements and ensuring there is no risk to the public in allowing them into the profession. Our aim is to make the authorisation of firms and individuals as efficient and as smooth a process as possible.

## *Who we authorise and regulate*

- We authorise and issue practising certificates to solicitors who practise English and Welsh law, the vast majority of whom practise in England and Wales. We then regulate these solicitors.
- We authorise solicitors who practise English and Welsh law overseas.
- We authorise law firms and other types of businesses in England and Wales that offer legal services.
- We authorise registered European lawyers and registered foreign lawyers.
- We authorise exempt European lawyers.
- We regulate those we allow onto the roll of solicitors (see glossary).

## *Solicitor population 2014 to 2017*

Working as a solicitor in England and Wales continues to be seen as an attractive career, and the solicitor population is increasing year on year. These figures are taken from the October of each year and do not include registered European lawyers, registered foreign lawyers or exempt European lawyers.

Year	Practising certificate holders	On the roll of solicitors
2015	136,294	171,464
2016	139,313	178,340
2017	143,072	185,240

## *Authorisation – glossary*

**ABS:** Alternative business structure – a type of structure that allows non-lawyers to own or invest in law firms.

**Authorisation:** the process by which we consider applications from firms and individuals to enter the legal services market.

**Exempt European lawyer:** lawyers as described by an EU directive who practise in England and Wales on a non-permanent basis and who are based outside England and Wales.

**Incorporated company:** a type of business which has been set up by one or more persons. Incorporated companies are subject to different tax and governance rules, which can be attractive to the owners, depending on their business needs. The owners' financial liability is also limited.

**Limited liability partnership:** a type of business structure where there are two or more partners. It limits the financial liability of the partners.

**Multi-disciplinary practice:** a type of alternative business structure that offers customers legal and other professional services, such as accountancy or surveying.

**Partnership:** a type of business structure where there are two or more partners.

**Practising certificate:** a document that allows solicitors to practise the law. Solicitors must renew their practising certificate annually.

**Registered European lawyer:** an EU qualified lawyer who is registered with us and whose

practice in England and Wales we regulate.

**Registered foreign lawyer:** a lawyer from outside the EU and the European Economic Area, registered with us and whose practice in England and Wales we regulate.

**Roll of solicitors:** this is a list of solicitors we have authorised to practise English and Welsh law. Not all solicitors on the roll will actively be practising the law.

**Sole practitioner:** a qualified solicitor who runs their own legal practice.

## *Waivers and the Innovation Space*

We want to see firms innovate and grow in a modern legal market, working in new ways for their customers, making it easier for people to find the legal service they need. We understand that our rules can get in the way of firms and solicitors offering legal services in new, creative ways. Our waivers policy and Innovation Space allows firms, solicitors and new entrants to the market to explore new ways of running their business and introduce original ideas. It is a test area for ideas that are likely to benefit the public but in a controlled way.

### *Waivers fast facts*

Waivers allow firms to try different ways of offering the services that people are looking for.

- We are seeing an increase in demand for new arrangements through waivers.
- We receive between 100 and 150 applications for waivers each year.
- We grant six out of every 10 applications received.
- The most popular type of waiver we issue allows firms to become a multi-disciplinary practice. This allows them to diversify their business by offering a mixture of legal and non-legal services.

## *Waiver case study*

### *The business*

Parental Choice helps parents find childcare solutions. Its services include guidance on looking for a nanny or au pair, helping families looking to relocate and managing the administration involved in employing domestic help. CEO and solicitor Sarah-Jane Butler wanted to offer clients legal advice on becoming an employer to make them aware of their obligations. She also wanted to make sure nannies, and other domestic staff she worked with, knew their rights and were treated fairly.

### *Waiver we granted*

We allowed Sarah-Jane to offer legal services in a business that is not regulated by us or by another legal regulator. The services Sarah-Jane wanted to offer included non-contentious employment matters and commercial legal advice. Without the waiver, she would have had to outsource legal services, resulting in a fragmented customer experience and potentially extra expense.

### *The result*

Parental Choice is now piloting these services in our Innovation Space. They are initially being offered to existing clients, and will represent around 15% of Parental Choice's overall business. The legal services the business now offers are becoming more established, with initial feedback suggesting that clients are valuing the flexibility and diversity.

## *Sole practitioners and small firms*

Sole practitioners and small firms are a key part of the legal services market. Traditionally, they are a staple of high streets, serving the needs of local communities, but they may also offer niche legal services. We want to make sure that sole practitioners and small firms can comply with our rules in ways that work best for them, so that they can continue to offer legal services and best serve their clients. We consider a small firm to be made up of four partners or less.

### *Case study | Helping firms make the right choice*

We offer assistance to firms and solicitors who are thinking about adopting a new structure or who are considering starting a new business that offers legal services.

#### *The firm*

In the past year, we handled an application from a solicitor wanting to set up their own practice as a sole practitioner offering immigration legal services.

#### *The issue*

Although the solicitor anticipated that there may be times when they needed to handle small amounts of client money, they did not want to open a client account. Firms who do not handle client money are subject to less regulation as they do not need to follow our Accounts Rules. They also do not have to contribute to the Compensation Fund.

#### *Our solution*

We advised the solicitor that they could use third-party managed accounts. These are regulated by the Financial Conduct Authority and still offer financial protection for consumers. The solicitor would still be able to manage clients' money safely, without encountering unnecessary regulation for the small amounts of client money they would be handling.

“While the Sole Practitioners Group continues to represent the interests of sole practitioners, the SRA has positively engaged with us, taking the needs of sole practitioners into consideration in their regulatory reform work”

*Kemi Mosaku, Chair of the Sole Practitioners Group:*

## *Diversity profile of law firms*

We recognise that a diverse, modern legal sector, with solicitors from all walks of life, better serves the public's legal needs. To make sure we understand and share understanding of the diversity of law firms and solicitors, we have collected and published diversity data on those working in the firms we regulate in 2014, 2016 and 2018.

Our 2017 diversity data collection exercise gathered information from more than 9,000 law firms and the 180,000 people (solicitors and others) working in them. Just over 90% of law firms reported their data to us. We can see that the profession is continuing to diversify, but there is still more to do.

#### *Gender*

Nearly half of all lawyers are women, though only one-third of these are partners. This has not changed over the past three years. However, a closer look at the data shows that the number of women partners in large firms (50 or more partners) is rising. This has increased from 25%

in 2014 to 29% in 2017.

In our latest data collection, people were able to describe their gender identity as something other than male or female. Less than 1% (under 100) of all lawyers chose this as a response.

We also introduced a new transgender question. Some 2% of solicitors, 2% of other staff and 1% of partners responded to say they regarded their gender identity as different to the sex they were assigned at birth. Some 3% preferred not to say and 14% declined to answer the question. It is important to note that 13% of lawyers were not able to respond to this question as they had already made arrangements to submit diversity data based on previous questionnaires. The response rate is determined from those who were able to answer.

### *Ethnicity*

There has been an increase in the proportion of black, Asian and minority ethnic (BAME) lawyers working in law firms, from 14% in 2014 to 20% in 2017. This is largely attributable to the rise in the number of Asian lawyers in the profession, rising from 9% in 2014 to 14% in 2017. The proportion of black lawyers is now at 3%, rising by 1% since 2014.

The number of BAME partners has risen to 20%, a 4% increase from 2014. The largest firms have the lowest proportion of BAME partners at 8%, compared with one-partner firms where 34% of partners are BAME.

Paulette Mastin, Chair of the Black Solicitors Network (BSN) commented: "The BSN is actively involved with the SRA's work in, and commitment to, engendering greater diversity and inclusion within the legal profession, and we look forward to continuing to grow our relationship with the SRA in this important area of the profession's development."

### *Disability*

Disabled people are underrepresented in law firms compared with the wider population. Only 3% of all lawyers have reported that they have a disability.

There has been a small drop in the number of partners in medium-sized firms (six to nine partners) who have a disability. The numbers are small, so we cannot draw firm conclusions from these changes. We have, though, seen a small increase since 2015 in the number of people who selected "prefer not to say" or who did not provide a valid response to the question.

We support solicitors who have disabilities, mental or physical. Our Your Health, Your Career initiative, launched last year, highlights ways in which we can offer help and guidance to solicitors whose health and wellbeing might be affected by their work. We have had more than 3,000 visits to the webpage, which has examples of our work and signposts to other organisations that might be able to help.

### *Sexual orientation*

Some 3% of lawyers in 2014, 2016 and 2018 identified as lesbian, gay or bisexual compared with Stonewall's estimate of between 5 to 7% of the wider population.

There were small differences by firm size, with slightly more gay men in larger firms compared with smaller ones. Some 3% of partners in the largest firms of 50 or more partners are gay men. By contrast, only 1% of women in these firms said they were lesbian and less than 1% reported they were bisexual or described their sexual orientation in another way.

### *Social mobility*

Compared with 7% of the general population, 22% of lawyers are privately educated.

Although there is a high proportion of partners in the largest firms (50 plus partners) who went to fee paying schools, the figure has fallen from 43% in 2014 to 36% in 2017. At 56%, firms offering services in corporate law have the lowest proportion of solicitors who went to a state school. The highest proportion of state educated solicitors, 77%, work predominantly in criminal law services.

#### *In-house population*

- One in five lawyers works in-house:
  - 66% work in the private sector
  - 27% work in the public sector
  - 7% work in other sector organisations, for example charities.
  
- 58% of in-house lawyers are women. They are most strongly represented in the public sector, where nearly 66% of lawyers are women.
- 14% are BAME. This is a slight decrease from 17% in 2015, though slightly higher than the BAME working population, 11%
- Making up 1.5%, disabled in-house lawyers are underrepresented. This group is significantly underrepresented compared with 3% of law firm solicitors and 10% of the wider working age population.

#### *Profile of law firms 2014 to 2017*

The number of law firms choosing to apply for an ABS licence continues to increase and is an especially popular choice for incorporated companies. The overall number of law firms in England and Wales has stayed relatively stable. Please note, these figures are from the October of each year.

	2016/17	ABS subset 2016/17	2015/16	ABS subset 15/16	2015/14	ABS subset 2015/14
Incorporated company	4,537	477	4,205	369	3,813	268
Sole practitioner	2,489	-	2,627	-	2,725	-
Partnership	1,799	30	1,978	28	2,203	25
Limited liability partnership	1,557	172	1,559	152	1,550	130
Other	38	2	46	1	45	1
Total	10,420	681	10,415	550	10,336	424

#### *The regulatory landscape of Wales*

Around 3,770 practising solicitors and 440 head offices are based in Wales, largely in Cardiff (this is an estimate figure due to cross-border working).

Some 4% of law firm head offices are based in Wales, and 1,140 practising solicitors indicate that they speak Welsh. Some 737 practising certificates were issued in Welsh last year, supporting law firms to provide services to Welsh-speaking people.

Wales-based law firms' business continues to thrive. Their turnover came to £397m in

2016/17, up nearly £30m compared with two years ago.

### *Speeding up authorisation*

We have made improvements in the time taken to approve firm-based applications.

- 2014/15: 39 days
- 2015/16: 31 days
- 2016/17: 23 days

### *Maintaining standards: Investigation and supervision*

Every year we receive around 12,000 reports raising concerns about the solicitors and legal businesses we regulate. Concerns can come from the profession itself, for example, from compliance officers or solicitors, as well as from members of the public, the police and the courts.

Our Investigation team receives the concerns. It considers the following factors when deciding whether or not to investigate:

- the evidence provided and its source
- the regulatory history of the firm or individual
- the impact the alleged misconduct or issue might have.

Protecting client money during the investigation or supervision of a firm is vital. We work to make sure that people's money is not put at risk by any misconduct or poor management. And it is important that any firms closing down do so properly, so that their clients' paperwork and money is safe.

### *The investigations process*

During the investigation and supervision process, we keep in contact with the person who made the report to us. Depending on the circumstances, we will let them know the reasons why we have or have not decided to open an investigation into the reported individual or firm. We will always try to give as much detail for our decision as possible. Read details of our investigation outcomes [\[#process\]](#).

Some reports may be handed over to the Legal Ombudsman, which deals with complaints about service issues. Similarly, if the Legal Ombudsman through its investigation identifies that a solicitor may have breached our rules of professional behaviour, it will contact us. In more serious cases, we can fine a firm or individual, put conditions on their practising certificate, and even intervene into a practice. More on our interventions and how they protect the public [\[#client\]](#).

### *Reports 2016/17, received from 1 November 2016 to 31 October 2017:*

- Total reports received concerning solicitors' or firms' behaviour: 11,879
  - Referred to Supervision for investigation into conduct: 6,045
  - Sent to Supervision but does not warrant investigation. Information is used as part of our risk profiling: 4,067
  - Referred to the Legal Ombudsman: 1,194
  - Referred to another department in the SRA, because it is in fact a claim to the Compensation

Fund, or matter for Authorisation: 379

- No action taken as, for example, it is not in our jurisdiction to investigate: 194

### *Nature of issues reported to us 2016/17*

	Top 10 issues reported overall	Number received	Top 10 issues reported by those we regulate	Number received
1	Incompetent, negligent or delayed client care	2,006	Theft of a regulated person or organisation's ID (also covers cloned websites)	470
2	Taking unfair advantage of a third party	1,563	Confidentiality breach	216
3	Theft of a regulated person or organisation's ID (also covers cloned websites)	634	Incompetent, negligent or delayed client care	166
4	Intentionally misleading the court	622	Breach of our Accounts Rules: a shortage in the client account has been replaced	158
5	Deception and dishonesty	525	Deception and dishonesty	135
6	Confidentiality breach	509	Breach of undertaking	134
7	Misleading a third party	461	Intentionally misleading the court	97
8	Personal conflict of interest	422	Failing to release client documents	94
9	Failure to hold qualifying indemnity insurance	410	Practising uncertified or without registration	91
10	Breach of our Accounts Rules: the failure to account to the client or others	391	Personal conflict of interest	87

### *Case study | Offensive communications*

We have seen an increase in the number of reports about solicitors using emails and social media in an offensive or inappropriate way. Our guidance makes it clear that any communication sent to clients or posted in the public domain should not be derogatory, inappropriate or threatening, or cause the recipient alarm and distress.

Last year, we took action when a practising solicitor posted wholly inappropriate and offensive comments on a personal social media account. The Tribunal found one of the comments to be anti-Semitic. A member of the public and a charity, Campaign Against Antisemitism, reported the comments to us.

We brought the case to the Solicitors Disciplinary Tribunal on the grounds that the solicitor acted without integrity, and did not act in a way that maintains the trust the public places in solicitors and in the provision of legal services.

The Tribunal fined the solicitor £25,000 and ordered a one-year suspension from practice, suspended for 12 months. It also ordered them to pay £9,595 in costs.

### *Maintaining standards: Legal and enforcement*

The public, users of legal services and the profession have the right to expect that we will take action when solicitors or law firms fall short of the standards we set. Our Legal and Enforcement team works to enforce our rules fairly, taking robust action when needed. The aim of our enforcement work is to:

- protect solicitors' clients and the public – this could be by controlling or limiting the risk of harm, making sure an individual or firm is not able to repeat the offending or similar behaviour, or is deterred from doing so
- send a signal to those we regulate to prevent similar behaviour
- maintain and uphold standards of competence and ethical behaviour
- uphold public confidence in the provision of legal services.

Our own powers are quite limited unless we are dealing with licensed bodies (see more below under sanctions and prosecutions). However, when we take regulatory or disciplinary action in-house, we use the civil standard of proof. This means we determine, on the balance of probabilities, whether any allegations are true, making sure public protection is the priority. We prosecute serious issues at the Solicitors Disciplinary Tribunal. It is independent and has a range of powers it can impose. It uses the criminal standard of proof, which means matters have to be proved beyond reasonable doubt.

The legal regulator for barristers, the Bar Standards Board, consulted in 2017 on changing the standard of proof it uses from criminal to civil. It has decided to do so. We have been clear throughout last year that we want to see changes for solicitors too, with the Solicitors Disciplinary Tribunal moving to the civil standard, in line with other regulators.

### *When do we take action?*

Where there have been minor, isolated breaches, we may write to the firm or individual to remind them of our rules and the standards they must meet. If the breach is of a more serious nature, we may fine the firm or individual, or place conditions on their practising certificate. We will prosecute in the most serious of cases.

### *Sanctions and prosecutions*

The range of sanctions we can impose are limited. For example, our fining powers against an individual solicitor are limited to £2,000, and we are unable to strike off a solicitor. However, we can impose a fine of up to £250m on a licensed body and a fine of up to £50m on managers and employees of an alternative business structure.

Around 25% of cases may result in a regulatory settlement agreement (RSA). These are agreed with solicitors and/or firms during the supervision process or while we are referring the case to the Tribunal. RSAs are a practical way of achieving public protection without incurring further costs.

### *Our revised approach to enforcement: a timeline*

In 2017, we consulted on a new, revised enforcement strategy following our Question of Trust campaign. The revised strategy builds on the findings of the campaign, which asked the public and the profession what should happen to firms and solicitors when things go wrong. It also aligns with our new Handbook and Codes of Conduct for solicitors and firms, which concentrate on the high standards they should meet, rather than prescriptive rules they should follow.

These reforms will help make clear the standards we expect of solicitors and firms, and will allow them and the public to understand when and how we will take action when things go

wrong.

### *July 2015 to January 2016: Question of Trust campaign*

We talked to 5,400 members of the public and profession about what should happen when solicitors get things wrong in various circumstances. Dishonesty and misuse of client money were seen as the most serious offences, as well as any other deliberate and harmful action.

### *June 2016 to September 2016: Looking to the Future phase 1 – new Principles and Codes of Conduct*

We consulted on the first phase of simplifying and reducing the rules in our Handbook. We proposed the introduction of two separate Codes of Conduct, one for solicitors and one for firms. We want our rules to be easy to follow and to remove the bureaucracy in our regulation, but also to be clear about the high standard we expect of solicitors and firms.

### *September 2017 to December 2017: Looking to the Future phase 2*

We consulted on a revised enforcement strategy, which had been reviewed in alignment with the feedback to our Question of Trust campaign and changes to our Handbook and Codes. The revised strategy sets out our approach in a clear and transparent way. It continues to focus on taking action in the most serious cases, while moving away from a burdensome, tick-box approach to compliance.

### *What's next?*

We are currently analysing the responses to the phase 2 consultation. We will decide what proposals we need to take forward and will publish our decision in 2018.

### *Action we take and action the Solicitors Disciplinary Tribunal takes*

Action taken and in what circumstances	Level of misconduct	Our sanction	Tribunal sanction
Letter of advice: we remind the individual or firm, in writing, of their regulatory responsibilities.	Minor or where there has been appropriate firm management of an issue	✓	✗
Finding/finding and warning: for more significant but one-off misconduct. The finding/finding and warning can be taken into account in the outcome of any future investigation.	Moderate	✓	✗
Rebuke: we rebuke an individual or a firm where there has been a moderately serious breach of our requirements or standards.	Moderate	✓	✗
Fine: where there has been a serious breach of our requirements or standards and where, for example, the regulated person or firm has benefited financially from the misconduct, and it is appropriate to remove or reduce their financial gain.	Serious or a series of incidents which together are serious	✓ Up to £2,000 (however, we can impose a fine of up to £250m on an ABS and a fine of up to £50m on managers and employees of an ABS.)	✓ Unlimited.
Practising conditions placed on an individual: we restrict or prevent the involvement of an individual in certain activities or engaging in certain	Serious or a series of incidents which together are	✓	✓ Referred to as a "restriction order".

business agreements/associations or practising arrangements.	serious, and when it is necessary to deal with the risk posed		
Practising conditions placed on a firm: we restrict or prevent a firm, or one of its managers, employees, or interest holders from undertaking certain activities. This can help facilitate effective monitoring through regular reporting.	Serious or a series of incidents which together are serious, and when it is in the public interest to do so	✓	✓ Referred to as a "restriction order".
Reprimand: the Tribunal sanctions the regulated person for a breach of our requirements and/or standards. It is the Tribunal's equivalent of our rebuke.	Moderate seriousness, or a series of incidents which together are moderately serious	✗	✓
Section 43 order (for non-lawyers working in the profession, eg non-lawyer managers and employees such as legal secretaries): we restrict individuals from working in a law firm without our permission.	Serious or a series of incidents which together are serious	✓	✓
Suspension or revocation of a firm's authorisation/recognition: we remove a firm's authorisation either permanently or temporarily.	Serious or a series of incidents which together are serious	✓	✓
Suspension: the Tribunal suspends a solicitor from practising either for a fixed term or for an indefinite period. The Tribunal can also suspend a period of suspension, so long as a restriction order remains in place.	Serious or a series of incidents which together are serious	✗	✓
Strike off: the Tribunal stops a solicitor from practising entirely. The solicitor's name is removed from the roll.	Serious or a series of incidents which together are serious	✗	✓

### *Investigation outcomes 2014 to 2017*

The RSAs in the table below were agreed as part of the investigations process. RSAs allow us to protect both consumers and the public interest by reaching appropriate outcomes swiftly, efficiently and at a proportionate cost.

Although there appears to be an increase in the number of files where allegations were upheld and action taken, the number is still around the historical average for the past five years.

Please note, one file can result in multiple decisions.

	2014/15		2015/16		2016/17	
<b>Files where allegations were upheld/action taken</b>	265		377		400	
	Decision outcomes	Outcomes by RSA	Decision outcomes	Outcomes by RSA	Decision outcomes	Outcomes by RSA
<b>Letter of</b>	118	-	236	-	223	-

<b>advice</b>						
<b>Finding/finding and warning</b>	32	0	19	1	16	17
<b>Rebuke or reprimand</b>	37	2	65	12	54	41
<b>Fine</b>	15	3	42	7	28	26
<b>Conditions imposed on a firm's or individual</b>	28	0	23	0	13	8
<b>Section 43 order</b>	39	0	42	1	34	11

### *Agreed outcomes 2014 to 2017*

If the Tribunal says there is a case to answer about a firm or an individual and the firm or individual admits to the allegations, it may be appropriate to enter into an agreed outcome. Under an agreed outcome, the respondent will make admissions and we will agree on a set of facts, sanction and costs. The Tribunal then decides whether the agreed outcome is appropriate.

Like RSAs, agreed outcomes, where appropriate, are a cost-effective, swift and proportionate way of resolving a matter. Please note, a file with an agreed outcome can have more than one outcome.

	2014/15	2015/16	2016/17
<b>Files with an agreed outcome</b>	9	23	12
	<b>Agreed outcomes</b>		
<b>Fine</b>	6	16	9
<b>Rebuke or reprimand</b>	3	9	7
<b>Section 43 order</b>	0	2	0
<b>Section 47 (2) (g)</b>	1	1	3
<b>Other</b>	0	0	0

Other can mean, for example, that the solicitor agrees to remove themselves from the roll and pay our costs.

A 47 (2) (g) order means a former solicitor who has been removed from the roll cannot be restored to the roll unless the Tribunal allows it.

### *Hearings at the Solicitors Disciplinary Tribunal*

We brought 117 cases to the Tribunal in 2016/17, which resulted in the following decisions. One hearing can result in multiple decisions.

The 34% increase in cases we brought to the Tribunal in 2015/16 was the result of a full case review that we carried out, the effects of which we are still seeing now.

	2014/15	2015/16	2016/17

Cases brought	96	129	117
Strike off	53	75	59
Fine	30	52	57
Suspend	17	17	18
No order – ie the Tribunal does not find in our favour	7	3	7
Other decision	10	14	19

Other can mean, for example, a reprimand or section 43 order.

### *Case study | Taking client money*

Solicitors often deal with large amounts of people's money and they help people when they are most vulnerable. This is why the public, individuals and businesses must be able to place their trust in them with confidence.

In 2016/17, we investigated and took action in a case where a solicitor had invented invoices to take more than £300,000 from a vulnerable client, for whom he was acting under a power of attorney. They redirected the money to a secret bank account. There were also other breaches of our rules, principles and outcomes. We took the case to the Tribunal on the grounds that the solicitor had acted dishonestly.

The Tribunal said the solicitor's actions had caused significant harm to his client and to the reputation of the profession. It also said that it was a complete departure from the standards of integrity, probity and trustworthiness expected. It struck the solicitor off and ordered him to pay a fine of £70,000.

### *Client protection*

We can take quick action when we have evidence that the public may be at risk of using the services of incompetent or dishonest solicitors. When intervening into a firm about which there are serious concerns, we take possession of all client money and files and take steps to return them to their owners. For all intents and purposes, the practice is then closed down and no longer able to operate.

### *Why we intervene*

There are many reasons why we might intervene into a firm, for example, if it becomes insolvent or bankrupt, or if it has been abandoned. The most common reasons we intervene into firms are:

- we suspect someone in the firm has been dishonest
- there has been a serious breach of our rules
- we need to protect the firm's current, former or future clients.

Dishonest solicitors are a serious risk to their clients, the courts and the public, and we are very likely to intervene into their practice.

### *Grounds for intervention 2014 to 2017*

Please note, each intervention can have more than one reason for intervening.

Grounds for 50 interventions in 2016/17	Grounds for 37	Grounds for 40
-----------------------------------------	----------------	----------------

	interventions in 2015/16		interventions in 2014/15		
<b>Breaches of our Rules</b>	29	Suspected dishonesty	21	Protect interests of clients	30
<b>Suspected dishonesty</b>	29	Practice Rule breaches	18	Breaches of our Rules	18
<b>Breaches of our Accounts Rules</b>	27	Protect interests of clients	16	Suspected dishonesty	16
<b>Protect interests of clients</b>	26	Breaches of our Accounts Rules	15	Breaches of our Accounts Rules	10
<b>Breaches of Solicitors Indemnity Insurance Rules</b>	14	Bankrupt	5	Bankrupt	4
<b>Bankrupt</b>	2	Abandoned	1	Struck off or suspended	2
<b>Struck off or suspended</b>	2	Struck off or suspended	1	Abandoned	1
<b>Incapacitated</b>	1	Committed to prison	1	Incapacitated	1
				Insolvency	1

### *Case study | Intervention in action*

Last year, we intervened into a firm that dealt with a vulnerable client base. Its clients were in severe financial difficulty and had instructed a debt management company to manage their financial affairs. The firm handled the money for the debt management company.

We intervened into the firm because we suspected dishonesty on the part of its sole director. We had received a report that the firm was taking client money. After carrying out a forensic investigation into the firm, we found this to be true.

When we closed down the firm, we froze its client account. We then needed to reimburse nearly 600 people who had given around £0.6m to the firm to manage. They needed this money back as quickly as possible so that they could pay their creditors. The money owed to each client was between £100 and £1,500. Because of the vulnerability and number of clients, we worked with our intervention agent to set up a dedicated telephone line and email address through which the clients could contact us. This helped us to quickly make grants from the Compensation Fund to former clients, so they did not get into further financial difficulty.

### *At a glance: Interventions in the last decade*

The number of interventions peaked following the recession of 2008, which saw us intervene into many firms reliant on residential conveyancing. This was an area of work badly affected by the economic downturn. After a sharp fall in 2010/11, the number of interventions has settled at a relatively constant rate for five years.

Although the number of interventions we carried out in 2016/17 increased, it is still around the historical average for the past five years.

Year	Number of interventions
<b>2007/08</b>	66
<b>2008/09</b>	89

<b>2009/10</b>	74
<b>2010/11</b>	40
<b>2011/12</b>	42
<b>2012/13</b>	50
<b>2013/14</b>	51
<b>2014/15</b>	40
<b>2015/16</b>	37
<b>2016/17</b>	50

### *How does the Compensation Fund work?*

The Compensation Fund exists to compensate members of the public and small businesses who suffer a financial loss as a result of solicitors who are dishonest or fail to return money. Usually, people will make a claim to the fund after we have intervened into a law firm they were using. Solicitors and law firms fund it through an annual levy and we manage it.

We collected £32 from each solicitor and £548 from each law firm in 2016/17. Due to the increasing threat of solicitor involvement in questionable investment schemes, we have increased the levy to £40 per solicitor and £778 per firm for 2017/18.

People can make claims on the fund through our website, and we actively direct people to the fund when we intervene into a firm. Once we receive a claim, we assess whether the fund can help. People making a claim are often in difficult or distressing circumstances, so we work as quickly and as supportively as we can.

The fund is operated within a defined set of rules and we consider each claim carefully. We generally provide compensation if the claims fall within our rules and the member of public or small business concerned has suffered a financial loss.

The two most common reasons we make payments are:

- probate, when solicitors take someone's inheritance.
- conveyancing, where dishonest solicitors take or lose deposits, mortgage advances or sale proceeds.

There are some circumstances where we will refuse a claim. For example, if the claim:

- should be dealt with by the firm's insurer
- is from a business with a turnover of £2m or more per year
- is for losses resulting from activity that is not part of the usual business of a solicitor
- is made outside the time limit
- arises from the client not taking proper care of their money.

We monitor the amount paid out from the Compensation Fund each year and the types of claims we receive. The increase in the number of interventions in 2016/17 means the amount we have paid out has also risen. This year, we paid out £15.2m. We also monitor emerging risks to the public and their finances. For example, dubious investment schemes with solicitor and law firm involvement have already cost the public more than £100m.

## *At a glance: Compensation Fund grants 2012 to 2016*

The payments we make each year correlate closely with the number of interventions we carry out, though they will also depend on the value of individual claims. Although there has been an increase in the amount we have paid out from the fund, it is still around the historical average for the past five years.

Year	Total paid out in grants
2012/13	£15.8m
2013/14	£23.6m
2014/15	£17.8m
2015/16	£10.3m
2016/17	£15.2m

### *Managing client money, files and claims to the Compensation Fund*

When intervening into a firm, we remove all files from the its offices and contact the clients to explain what has happened. We work with our intervention agents to take responsibility for the client money in a firm's accounts and any client files. Our agent, usually a law firm, will deal with urgent client matters. It will identify whose file belongs to whom, so that we can contact the clients and let them know that we have shut down the firm. The agent also advises the firm's clients on what to do next.

If a client's file is not urgent or is dormant, we will archive it in our facilities in Coventry or Darlington. The archive is run by Capita. It deals with requests from clients for their papers. We analyse and reconstruct the accounting records for the firm and try to return the client money to its owners. Money is often missing from the client account. In these situations, clients who have not received their money can make a claim to the firm's insurers or to the Compensation Fund.

### *Case study | Compensation Fund in action*

Our largest grant from the Compensation Fund in 2016/17 was for £500,000. We shut down a firm offering private client and conveyancing services after suspecting dishonesty by the solicitor.

The solicitor was acting for the seller in a conveyancing transaction. Completion took place, and the buyer's solicitor sent the firm the purchase money. Instead of paying off the property's mortgage, the solicitor took the money. We made a grant from the Compensation Fund so that the mortgage could be paid off. This allowed the buyer to complete the purchase and register it with the Land Registry.

It also transpired that the solicitor had been taking money from other people, resulting in a client account shortfall of more than £1m. They were later struck off by the Solicitors Disciplinary Tribunal.

### *Headline figures in 2016/17*

- Claims made: 2,174
- Claims closed: 1,710\*
- Claims that led to a payment: 680

- Total value of closed claims: £15.2m
- Average value of a claim: £22,000

\*Please note, these may not be the same group of claims as those made in 2016/17.

### *Top five reasons we made payments 2014 to 2016*

	Claim reason 2014/15	Payment	Claim reason 2015/16	Payment	Claim reason 2016/17	Payment
1	Deposit (property and other)	£3.5m	Probate	£3.9m	Property sale proceeds	£4.0 m
2	Probate	£3.4m	Property sale proceeds	£1m	Probate	£3.3 m
3	Money paid but work not carried out	£2.2m	General client money	£1m	Deposit (property and other)	£2.6 m
4	Overcharging	£1.8m	Deposit (property and other)	£700k	Damages (for example, personal injury)	£0.8 m
5	Mortgage fraud	£1.8m	Conveyancing fraud	£700k	Mortgage fraud	£0.8 m

### *Holding money on trust and recovering costs*

- £5.5m – the amount we recovered in costs and Compensation Fund grants in 2016/17

If we are not able to return client money to its owner immediately after closing down a firm, we hold it in a statutory trust. We take steps to look for the owner, which will depend on how much information we have about the person and the amount of money involved. For example, last year, we returned £30,000 to an individual who was financially vulnerable. They had been set up as a beneficiary of a trust more than 10 years ago but had no idea where the money was. For large sums we have gone to great lengths to find people, including hiring enquiry agents and going to someone's house with a cheque. Sometimes the people we are looking for are overseas, so we instruct foreign enquiry agents.

We try to recover the interventions costs, the grants we make from the Compensation Fund and court and internal investigation costs from the firm involved. Our funding comes from the law firms and solicitors we regulate, so recovering costs is important as ultimately they are passed onto the public who buy legal services. We pursue all avenues in recovering costs, which includes the intervened solicitors or managers, the firm's insurer and, in certain circumstances, the firm's former partners and directors.

Last year, we recovered more than £1m worth of Compensation Fund grants from a firm's insurer. The firm had been using client money to cover its outgoings. In another case, we worked with the police to recover £150,000 of Compensation Fund grants from frozen assets. The solicitor had been taking money from people's inheritances, and was later struck off and imprisoned.

### *Case study | The rising threat of dubious investment schemes*

Fraudsters are always coming up with ways to win people's trust and take their money. They

present investment opportunities offering high returns as a means to take people's money, for example their pension pot. They may try to use real law firms as middlemen to make questionable investment schemes seem trustworthy and safe, offering people a higher return on their cash than they would see in a typical investment.

The vast majority of solicitors act with honesty and integrity. Yet a small number abuse their position of trust or take risks in helping schemes they do not understand. Some people have lost their life savings. In cases we are dealing with, people say they have lost more than £100m.

### *Types of schemes*

Some examples of dubious investment schemes are:

- Taking a lease of a hotel room, storage unit or similar and paying associated conveyancing costs. We can see no obvious reason why someone who wants to invest in a hotel business should buy a room by way of expensive conveyancing, nor why such a scheme should provide high returns.
- Landbanking. This is where people buy a small strip of land under the impression that it will rise hugely in value if planning permission is granted to develop it. In the cases we have seen, permission is not granted and was never likely to be granted.
- Diamond, fine wine, graphene and rare earth metal trading. Products like diamonds and wine can be bought and sold but there is no special way to make a high return.

This is not an exhaustive list, and new types of questionable investment schemes are appearing all the time. Our warning notices provide further information.

### *Action we are taking*

We have issued two warning notices to the profession and to the public, warning them not to become involved in such schemes. We have also cracked down on firms that front "get rich quick" schemes. There has also been increased enforcement action.

The solicitor was struck off and ordered to pay £67,000 costs after, among other things, they were found acting for investment companies offering opportunities in diamond and fine art trading. Some 24 different investors paid money into the client account, totalling more than £400,000. However, some investors did not receive the goods that they had expected. The solicitor also deducted fees from the investors' funds, even though this had not been agreed between the firm and the investors.

The Solicitors Disciplinary Tribunal commented that it had no doubt that the solicitor's involvement in these transactions lent a veneer of respectability to them.

### *Anti money laundering and counter terrorism funding*

Money laundering is where criminals disguise or transform the profits of crime into legitimate assets, such as houses or companies. Money is also moved around to fund terrorism.

Criminals make their money from crimes such as fraud, people or drug trafficking and insider trading. These activities can generate large amounts of profits or cash. Money laundering makes these profits look like genuine sources of income.

### *Why does it concern us?*

Solicitors and law firms are attractive to criminals because they process large amounts of money, are trusted and can make the transfer of money seem legitimate. Most law firms work

hard to spot money laundering and take necessary action, but some firms get involved unknowingly. A very few may even co-operate with the criminals.

We take money laundering extremely seriously. We investigate concerns and take action where needed. And we raise awareness of the risks to law firms and the threats to us all from money laundering.

One example of money laundering we see in the legal sector is where criminals use the proceeds of crime to buy houses and then sell them. Solicitors and law firms routinely undertake conveyancing, and the volume of business means that care has to be taken to identify any possible illegal activity taking place.

Another example is where people need to use a solicitor or law firm to set up shell companies or trusts. Criminals hide their money in these companies, which look legitimate.

### *In recent times*

The government published its latest risk assessment on anti money laundering in autumn 2017. It highlighted 11 high-risk areas where money laundering is taking place, three of which have a direct link to the legal industry. These are general legal services, property and estate agent services and trusts and corporate structures.

In the past year, the increased threat of terrorism has led to a focus on ways to prevent money laundering and terrorist financing. In addition, the 2016 release of the Panama Papers threw light on corporate structures where it is not clear who owns an organisation. This has led to a need for greater transparency on the ownership of companies. June 2017 saw the introduction of new anti-money laundering regulations. The Fourth Money Laundering Directive aims to combat money laundering and terrorist financing by strengthening the EU's defences. In the UK, this is brought into legislation by the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017. It also aims to make sure that all EU member states' standards are aligned with those of the international Financial Action Task Force (FATF). As well, a new oversight regulator, the Office for Professional Body Anti-Money Laundering Supervision (OPBAS), will supervise us and other professional regulators.

### *What are FATF and OPBAS?*

OPBAS is a new organisation, set up to oversee the anti money laundering work of 22 professional bodies, including us. It will review the quality of the work we and other organisations carry out. It aims to make sure the standards across all organisations are consistent, making recommendations on how to improve them where necessary.

FATF is a global organisation that sets the international standards on effective ways to combat money laundering. It reviews anti money laundering techniques and counter-measures used by member countries. It works with governments, regulators and law enforcement agencies. It also identifies vulnerabilities in countries' financial systems, and tries to prevent these systems from becoming a target for criminals.

This year, FATF will visit the UK and assess whether the standards it sets are being met. When assessing the UK, FATF will look at how effective its approach to preventing money laundering is, and whether it is delivering the right results. The visiting team will also look at the laws, regulations and other legal instruments in place to combat money laundering and terrorist financing.

To prepare for its visit, we have submitted information about how we monitor money laundering to FATF through the Treasury. Before the end of this year, FATF will publish the findings of its assessment of the UK, which will include an assessment of the legal sector.

## *What are the effects of the new rules and regulations?*

Under the new money laundering regulations, the Proceeds of Crime Act 2002 and the Terrorism Act 2000, most law firms already have a number of professional obligations concerning money laundering. However, under the new rules, there are a number of new regulations that will affect firms.

### *Monitoring activities*

The firms and solicitors we regulate will need to tell us if they are offering legal services that fall within the scope of the regulations. Examples of high-risk areas for money laundering activity are property and estate agent services, and solicitors' involvement in trusts and corporate work. These areas were identified by the National Risk Assessment.

### *Monitoring individuals*

People who have significant control over how a firm is run, such as managers and beneficial owners of firms, must seek approval from us to continue offering legal services that fall within scope of the regulations.

### *Monitoring firms*

We also intend to have a risk rating for each firm that offers services which fall within the scope of the new regulations. We will publish a risk assessment direct to firms on the areas we believe pose the highest risk of money laundering. The risk is determined depending on a firm's characteristics.

## *Anti money laundering fast facts*

- **£24bn** | The amount of money laundered in the UK every year.
- **419,451** | The number of suspicious activity reports the UK received in 2015/16.
- **10%** | The increase in SARs reported in year the UK compared with the previous period.
- **4,878** | The number of reports the National Crime Agency received from independent legal professionals from Oct 2015 to March 2017. We anticipate we will see more in the coming year.
- **216** | The number of reports we received concerning money laundering in 2016/17
- **67%** | The percentage of firms that fall within scope of the new money laundering rules, or 84,000 individuals

## *The year ahead*

2017/18 marks the start of our new three-year Corporate Strategy, which focuses on high standards for solicitors and promoting choice in the market for the public. For the first time, we consulted on our Corporate Strategy and used feedback to finalise the strategy.

### *Objective one*

**We will set and apply consistently high professional standards for the individuals and firms we regulate and make sure they are appropriate to meet the challenges of today and the future.**

### *Continuing competence*

Our revised approach supports high standards by making continuous professional development (CPD) more meaningful by removing the need to clock up CPD hours. Instead,

we are asking solicitors to make an annual declaration that they are competent to practise, have pursued relevant training, and are up to date with their legal knowledge. Following the introduction of our new approach to CPD in November 2016, we will evaluate its impact.

### *Evidence-based policy making*

We will publish a number of research and analysis reports throughout the year, which will provide part of the evidence base for our policy reforms and ongoing work. Our research programme will include work to understand how the public views legal services. It will have a sharp focus on Equality, Diversity and Inclusion (EDI) implications, for both the profession and the public.

### *Criminal advocacy*

We will continue to support the standard of criminal advocacy in the youth courts, following the introduction of a specialist support package for solicitors working in this area, and easy-access information for young people. We plan to publish a thematic review of criminal advocacy and will continue to review the development of a quality assurance of advocates.

### *Solicitors Qualifying Examination (SQE)*

We will work to realise the consistent high professional standards, public confidence and diversity benefits of the SQE. We will appoint the delivery agency and work closely with education and training providers and firms as we implement the SQE and the associated transitional arrangements. We aim to introduce the examination no earlier than September 2020.

### *Looking to the Future*

Our reform programme has a sharp focus on high professional standards and the reduction of unnecessary bureaucracy, reducing costs and removing constraints on an open and competitive legal sector. We will implement a complete review of our Handbook and deliver a full suite of rules and regulations to replace the current Handbook in 2019. This will be ready to go live the following year.

### *Equality, Diversity and Inclusion*

Working towards a legal profession that reflects the communities it serves is a priority. We will continue to promote diversity in the legal sector, working closely with the profession and groups within the profession. We will also publish supporting material such as focused thematic reviews, research and guidance. We are mainstreaming our work on EDI through everything we do, with a focus on:

- a diverse profession
- fair decision making
- EDI implications of our regulatory reforms
- inclusive engagement
- accessible IT and business systems.

### *Objective two*

**We will make sure our regulatory requirements are proportionate, providing solicitors and firms with the flexibility to innovate and better meet the needs of members of the public and businesses, while maintaining appropriate levels of public protection.**

### *Early disciplinary action*

We will improve our processes to better identify when a case is highly likely to go to the Solicitors Disciplinary Tribunal. Taking legal advice at an early stage is a more effective and streamlined way of managing our resources.

### *Safeguarding the users of legal services*

We want to make sure there are appropriate levels of protection available for people using legal services. We will look at reviewing financial consumer protection arrangements (professional indemnity insurance and our Compensation Fund) to make sure that they are fit for purpose.

### *Diversity data collection*

After the introduction of transgender questions in 2017, we will look at doing more on social mobility, in line with new Cabinet Office socioeconomic measures. We will publish the data and encourage firms to benchmark their profiles. A dedicated Risk Outlook, The business case for diversity, also explores the benefits of a diverse and inclusive profession.

## *Objective three*

**We will increase the availability of relevant and timely information to help people make informed choices in the legal services market.**

### *Better information and more choice for the public*

We have consulted on the development of a digital register and will work to deliver the outcome of that consultation, improving the availability of regulatory data and supporting consumer choice. To help the users of legal services we will look at how firms should be publishing prices and other information. We will also work with the public to understand what information they would find most useful.

### *Visual aid*

To help people understand the protections offered by regulated law firms, we will develop simple visual aids and customer journey maps to assist the public. This is subject to consultation.

### *Legal Choices*

We will improve the information available to the public by developing Legal Choices, the consumer-facing website we manage on behalf of the joint legal regulators. Against the background of unmet legal need, we plan to invest in the site to help people from every community find the legal services that are best for them. Working with partner regulators and advised by consumer advocacy groups, we will develop ways of supporting people to identify if they have a legal need and will provide accessible, objective information to assist in meeting that need.

## *Objective four*

**We will make sure that our regulatory arrangements work as effectively as possible for the public, businesses, solicitors and firms in the context of constitutional developments within the UK and any new relationship with the EU.**

### *Risk Outlook*

We will continue to monitor the market, including the impacts of the UK's withdrawal from the EU. We will provide an update to our Exiting the EU: an update for lawyers report, published in 2016, as the situation becomes clearer.

## *Wales*

As the regulator for solicitors and firms in England and Wales, we have already increased our activity in Wales and will do more. Our Board will meet in Wales every year, and we will continue to work closely with Welsh law schools and interest groups as we implement the SQE. We are committed to providing our publications and practising certificates in Welsh. We will look to our Welsh Advisory Forum for recommendations on what more we can do to meet the needs of the users of legal services in Wales.

## *Compensation Fund*

We will improve our understanding of the potential level of liability the Compensation Fund faces because of known and emerging risks in the sector, such as dubious investment schemes.

## *Money laundering*

Addressing money laundering is a key priority for governments and communities across the world. We will continue to focus on applying new responsibilities under the latest anti money laundering regulations [aml]. This includes:

- preparing for the Financial Action Task Force review in 2018
- working to meet the requirements of the new oversight regulator for money laundering, the Office for Professional Body Anti-Money Laundering Supervision
- making sure our staff are properly trained to effectively regulate in this area
- making sure we supervise firms in an appropriate manner
- helping solicitors comply with their obligations to prevent money laundering.

## *Warning notices*

In an increasingly interconnected global market, we will continue to publish information through warning notices on any serious risks or issues that are arising in the legal market. This way, both the public and the profession will be aware of these risks and the approach we are taking to deal with them.

## *Working with regulators around the world*

We have established a website for legal regulators to share information and experience. We plan to develop this resource further, helping to protect both consumers and the reputation of English and Welsh law by increasing understanding and supporting working relationships.

## *Objective five*

**We will work better together, and with others, to improve our overall effectiveness, our responsiveness and the delivery of our regulatory functions.**

## *Modernising IT*

We will continue to realise the benefits and improvements of our Modernising IT work. We are overhauling our existing IT with the user, solicitor and member of the public at the forefront of our minds. Making core, technological improvements will help us better achieve our regulatory objectives.

## *Policies and guidance*

We currently have a large and varied number of internal operational policies, processes and

guidance. We need to review these to make sure they are fit for purpose and complement our new IT system.

### *Data protection*

In May 2018, the Data Protection Act will be replaced with the new General Data Protection Regulations. We will make sure we meet and follow these new regulations. To do this, our work will cover a range of areas, but will include system development, staff training and process and cultural changes. And we will support firms to understand their obligations by signposting them to resources and help.

### *Working better together*

To make sure we are working as effectively as possible, we will continue to develop and deliver high quality staff communications through a range of channels. We will continue to support the work of our diverse staff networks and our series of annual faith events. We will continue to work to embed our corporate values.

### *Face-to-face and digital engagement*

We will deliver a coordinated and effective programme of corporate events, raising awareness of our regulatory approach. We will continue to work closely with groups from across the profession, for example the Sole Practitioners Group, the Black Solicitors Network and City of London Law Society, as well as the Law Society. And we will engage with a wide range of public, support and advocacy groups.

### *Public engagement charter*

We will develop a public engagement charter, which will set out what the public can expect from us and how the public views our work. We will develop this with advocacy bodies and members of the public during the coming year, with a view to consulting in late 2018. We will also work to expand our online communities to include more members of the public. We will make sure we work with representative groups to reach vulnerable groups of people.

### *Improving how we work*

### *Modernising IT*

Under our Modernising IT programme, we are investing in all our IT systems to make sure they are up to date, user-centric and user-friendly, and that they offer the best service possible to all our customers. To do this, we have and will continue to extensively engage with members of the public, advocacy groups and the profession about what kind of IT service they need from us.

### *Offering better services to the public*

So far, we have spent 70 hours, run five focus groups and talked to more than 80 members of the public, to find out what they would like to see from our new systems. Just some of the things we will be working on are:

- Making sure we are adaptable to individual circumstances, for example by making it easier for third parties to support a complaint on someone's behalf.
- Making information easier to find and understand, by improving the navigation on our homepage.
- Offering flexible customer services, by giving customers a choice on how they would like to be contacted and offering telephone help to people creating a login with us.

## *Offering better services to the people we regulate*

We have talked to 750 members of the profession to gain their views on what they would like to see improved. Just some of the things we will be working on are:

- Making our systems easier to use and information easier to find, such as on our website and through the online portal, MySRA.
- Making sure our services and processes are efficient and flexible, so that doing business with us is easier.
- Developing systems and processes that are simple to use and easy to understand.

## *Complaints about our service*

We are committed to dealing with everyone fairly and transparently. We recognise that we sometimes make mistakes and we look to resolve any problems with our service quickly.

“The SRA is always interested in the feedback we provide from the complaints we investigate and has shown a real desire to ensure the quality of the service it provides is as high as possible.”

*2016/17 Annual Report from Ombudsman Services, our independent reviewer*

Corporate complaints may be about issues such as how long we are taking to deal with a case, not explaining things clearly, or not considering all relevant information.

It's not only important to put things right for complainants – we must learn from their feedback. Our Corporate Complaints team is involved in major projects across the organisation to make further improvements in how we work. The key areas we have been developing are:

### *Customer care training*

This year, we have concentrated on raising the profile of good customer care. We have delivered training programmes and seminars focused on core customer care standards and how to implement them. We will continue this work in the coming year, building on our core standards and further upskilling our staff.

### *Written communications*

Alongside our customer care training, we have continued to focus on our written communication with customers. We know we must be clear, transparent and easy to understand when we write to people who have contacted us to raise a concern about a solicitor or law firm. We have delivered bespoke training to key operational teams, to further develop this.

### *Clearer information about our role*

We receive a number of concerns about solicitors from members of the public where we are not able to help. This might be because we are not the right organisation to take action, or because we cannot become involved in a case until another organisation has conducted an investigation, for example, the police. We are working to improve the information on our website and the information we send to members of the public when they report a concern to us, so that they have a better understanding of when and why we would take action against a solicitor or firm.

### *Working with the Legal Ombudsman*

In some instances, the Legal Ombudsman may be better placed to deal with a concern as it is a complaint about the service provided by the solicitor or firm. The Legal Ombudsman may also receive reports that it is unable to look into as they are about a solicitor's professional misconduct. It will redirect these to us. We are working the Legal Ombudsman to improve our joint communications, so that the public can better understand our roles and which organisation is best placed to help with their concerns.