

Open Letter

Cc LSB, TLS



Dear Aileen and Kate,

Thank you for meeting with us on 8 October to discuss our concerns about the proposed COLP and COFA changes. Thank you also for agreeing to provide notes from the recorded meeting. We look forward to receiving them.

We appreciated the opportunity to speak frankly about the day-to-day realities of running small legal practices and protecting clients. No regulator should operate in a vacuum. Practitioners' first-hand experience must inform both the design of regulatory requirements and the assessment of their practical consequences.

Our letter of 11 September formed the basis of our discussion. We acknowledge the explanations given during the meeting, but do not consider that they adequately addressed our central questions or demonstrated the evidence supporting the proposed changes. We therefore ask for a substantive written response addressing:

- How effectively the existing COLP and COFA arrangements prevent serious regulatory failures, identify problems and ensure concerns are reported and acted upon
- How the failures relied upon to justify the proposals were detected, what information the SRA held and what action followed
- What evidence supports the view that the proposed changes would have prevented or detected those failures, and what additional protection they would provide alongside accountants' reports and other financial controls
- What evidence informed the proposed turnover and client-money thresholds, and why those thresholds are appropriate indicators of risk across different business models

We welcome the pause while stakeholder engagement takes place. We also seek assurance that the SRA will use this period to analyse the data it already holds, identifying where past failures occurred, their causes and whether earlier intervention could have prevented or reduced harm.

That analysis should distinguish deliberate wrongdoing from errors and technical non-compliance, and assess how the frequency and severity of breaches vary across business models, ownership structures and governance arrangements. Please clarify what analysis has already informed the proposals, what further work is planned and when the findings will be shared. We ask that this evidence is used to determine whether changes are needed and which safeguards would be effective before any decision is made to proceed.

The independent reviews of the SRA's handling of Axiom Ince and PM Law reinforce the need to examine the regulator's own effectiveness. They identified shortcomings in regulatory action, including, in the PM

Law case, failures to bring together information already held and act promptly on emerging risks. Please explain how the proposed COLP and COFA changes address the failures identified, alongside improvements to the SRA's own supervision, use of intelligence and timely intervention. Additional obligations on firms cannot substitute for correcting weaknesses within the regulator itself.

For conveyancing practices, a client-money threshold also needs to account for substantial geographical differences in property values. A small firm handling a few higher-value transactions may hold substantial client balances without having the staffing or resources of a larger business. Please explain how the proposed £2 million threshold accounts for these differences and temporary transaction-related balances. The impact assessment should also consider whether it could encourage small firms to decline higher-value instructions, diverting work to larger providers and reducing consumer choice.

We also raised the disproportionate burden experienced by small practices. Small firms provide local employment, support their local economies and offer accessible, personal legal services. Regulatory requirements carry cumulative costs in money, management time and fee-earning capacity. An additional obligation can threaten a firm's viability.

Where existing governance and safeguards are effective, imposing changes with damaging consequences requires clear evidence of the risk being addressed and the additional protection those changes would deliver.

The strength of concern expressed during the meeting reflected a serious question about whether the SRA sufficiently understands these practical realities. We ask that the cumulative burden is expressly assessed, including its effects on firms' viability, local services, access to justice and consumer choice.

As we explained, our concerns extend beyond the COLP and COFA proposals. They reinforce the need for a wider review of whether the SRA's regulatory priorities and approach remain appropriate for today's legal services landscape, including whether the COLP and COFA model itself remains effective across the wide spectrum of businesses now operating.

We agree that common standards of client protection are essential. The means of achieving them should reflect actual risks, existing safeguards and the nature and complexity of the business. The review should test which measures work, in which settings, and whether their benefits justify their costs.

Please confirm whether the SRA's wider review will address these questions, its anticipated timetable and how practitioners can contribute. That process should not delay a substantive response to the evidence questions in our letter.

CTF remains ready to contribute practical experience and help develop regulation that protects clients effectively and proportionately. We would welcome confirmation of the next steps and when we can expect your response.

Kind Regards

Stephen Larcombe
On behalf of the Conveyancing Task Force