

The impact of the revised Solicitors Regulations Authority Accounts Rules (2019)

Solicitors have witnessed significant regulatory change following the introduction of the new Solicitors Regulation Authority (SRA) Standards and Regulations which came into effect from 25 November 2019.

The new Accounts Rules are substantially less prescriptive, condensed down from 40-pages to only seven. Undoubtedly this allows solicitors to exercise greater flexibility. However, it will also require increased professional judgement from both solicitors and accountants.

Along with the reduction in the quantity of detailed Accounts Rules and the adoption of a more principles-based approach to handling client money, the revised rules include a change to the definition of client money and exemptions, and alternatives to operating client accounts. We explore each of these below.

1. Principles-based approach

The change in model to a principles-based approach removes a significant number of the requirements solicitors previously had to abide by. One of the largest of these is the removal of timing deadlines for transactions involving client money. The previous rules required office money to be transferred out of the client account within 14-days of receipt, while the new rules simply require funds to be allocated promptly. Similarly, the old rules required signed authority, but the new rules only require transactions to be appropriately authorised and supervised.

While there are clearly further simplifications to create such a substantial reduction in the number of pages of the rules, interestingly the regulations regarding bank reconciliations has been tightened, with all reconciliations needing to be signed by the compliance officer for finance and administration (COFA) or a manager of the firm.

2. Client money definition

Within the new SRA regulations, the client money definition has been revised. An impact of this amendment means that funds received for unpaid disbursements are only considered client money if held or received prior to delivery of a bill for the same. This effectively removes the two-day rule in relation to unpaid disbursements.

However, while the two-day rule may be relaxed, consistently transferring funds received for unpaid disbursements to the office account in advance of paying the third party may give rise to doubts as to whether the funds are being used appropriately for their intended purposes or are being used to aid cash flow.



3. Client account exemption

An extension to the change in the definition of client money is that a client account does not need to operate at all if the money held is solely in relation to the solicitor's fees and unpaid disbursements, providing that the money held for disbursements relates to incurred expenses for which the solicitor is liable, and you do not have any other reason to operate a client account. The client must be informed in advance of where and how the money will be held.



This offers a simplification in operations for many solicitors and would remove the requirement to obtain an Accountant's Report. However, it does not exempt the solicitor from complying with other Solicitors Regulation Authority Standards and Regulations.

4. Third-party managed accounts

With the new regulations also came the introduction of third-party managed accounts, where authorised third parties, who are regulated by the Financial Conduct Authority, hold money on behalf of solicitors and their clients. This takes the money outside the definition of client money and removes some of the burden on solicitors, including the requirement to annually obtain an Accountant's Report.

However, as with the exemption to operate a client account above, solicitors still need to comply with other sections of the SRA Standards and Regulations, including fundamental principle seven 'the obligation to act in the best interests of each client', which will include in the operation of the third-party managed account.

Conclusion

It is clear that the rules have changed significantly and the impact of the new regulations must not be underestimated as they offer solicitors a number of solutions to simplify their operations. However, the basic principle of handling money in the best interests of each client is unchanged and remains the fundamental concept in both the old and the new Accounts Rules.

Would you like to know more?

The adoption of the new Accounts Rules may be the perfect opportunity for solicitors to review their systems and consider the most commercial, whilst compliant, methods of practice. We have many years' experience assisting our solicitor clients with practical systems implementation, in addition to wider services including the preparation of financial statements, the preparation of tax returns and the compliance work for the delivery of a SRA Accountants' Report.

If you would like to discuss how the revised Accounts Rules for the Solicitors Regulations Authority affect you, please get in touch with your usual Blick Rothenberg contact or one of the individuals listed below.



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