

Our new Accounts Rules: your questions answered

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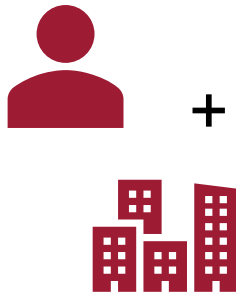
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SRA Accounts Rules: 25 November



Clearer and sharper rules setting the standards



Reduced prescription and clarity about application



Definition of client money and approach to third-party managed accounts



Requirement to complete checks and keep records



A new approach to final reports

Safeguarding money




- Firms must safeguard money that has been entrusted to them!
- Have you considered your obligations in conduct?

Are you confident...

...that you can keep client money safe and:

- manage the movement of money 'promptly'
- exercise your own professional judgement
- develop effective systems and controls
- speak to managers/staff about obligations

Client money

-  A revised simpler definition of client money
-  An exemption not to operate a client account
-  All other client money must be paid into client account, as now

Guidance available on our website: sra.org.uk/newregs

- Do I need to operate a client account?

Keeping client money safe

- All client money must be kept separate from the firm's money
- Receipt of mixed money must be moved to the right account 'promptly'
- Can a delay in moving firm money impact on your financial stability and business viability?

Keeping client money safe

- Money must be returned promptly to the client when there is no reason to continue hold – are your teams aware?
- Client money can only be used to cover your costs after sending a bill or notification of costs – are your case management systems ready for this change?

Other keys risks...

- Have you allowed your client account to be used as a banking facility?
- Are your systems and controls robust enough to prevent money being lost because of a cyber attack?
- What does the use of a suspense account mean for money laundering compliance?

Withdrawals from client account

- Withdrawals can only be made for the purposes of which money is held or on the clients instructions
- Firms need to have systems and controls that make sure withdrawals are both:
 - appropriately supervised
 - appropriately authorised

Residual client balances

- Balances under £500:

The prescribed circumstances are mandatory and must be complied with

- Balances over £500:

You'll need our authority

Systems and controls...

- All records need to be “accurate, contemporaneous, and chronological”
- Firms are required to:
 - ✓ Keep ledgers
 - ✓ Obtain monthly (or at least every 5 weeks) statements
 - ✓ Carry out 5 weekly reconciliations

A client's other money

- Firms must safeguard money held in joint accounts or the client's own account
- An obligation to keep records – see our guidance on joint accounts
- Rule 10 notice – sets out our expectations

Guidance available on our website: sra.org.uk/newregs

- Helping you keep accurate client accounting records

Putting things right

- Any breaches identified must be corrected ‘promptly’ – by who?
- Any money lost or withheld from the right account must be replaced immediately
- Firms must review the effectiveness of their systems and controls

Reporting your concerns

- A requirement to report to us (or another approved regulator):
 - ✓ any facts or matters that you reasonably believe are capable of amounting to a serious breach
 - ✓ promptly
- Do not stop anyone else wanting to make a report to us

Impact on PII

- A breach of the Accounts Rules is a claim on your PII
- Are your PII providers confident that you can manage risks associated with client money?
- Are repeated breaches impacting on your ability to secure PII?

Third-party managed accounts (TPMA)

- 👍 Nothing in our current rules prohibits the use of TPMA
- ✓ Guidance published to clarify our position
- 💭 A number of firms looking at using TPMA
- 🚧 We regulate the solicitor and firm, not the TPMA provider

Guidance available on our website: sra.org.uk/newregs

- Third-party managed accounts

The role of the reporting accountant



To make sure that client money is not at risk



Their work must be sufficient to allow them to complete a report



Checks need to be proportionate and targeted



Report on what's a serious breach

Engagement terms...

- Firms can engage their accountants on their own terms, but we will prescribe if ‘necessary’
- ‘Necessary’: for example, we want accountants to focus on whether client accounts are being used as a banking facility
- See our guidance on ‘planning for and completing an accountant's report’ - sra.org.uk/newregs

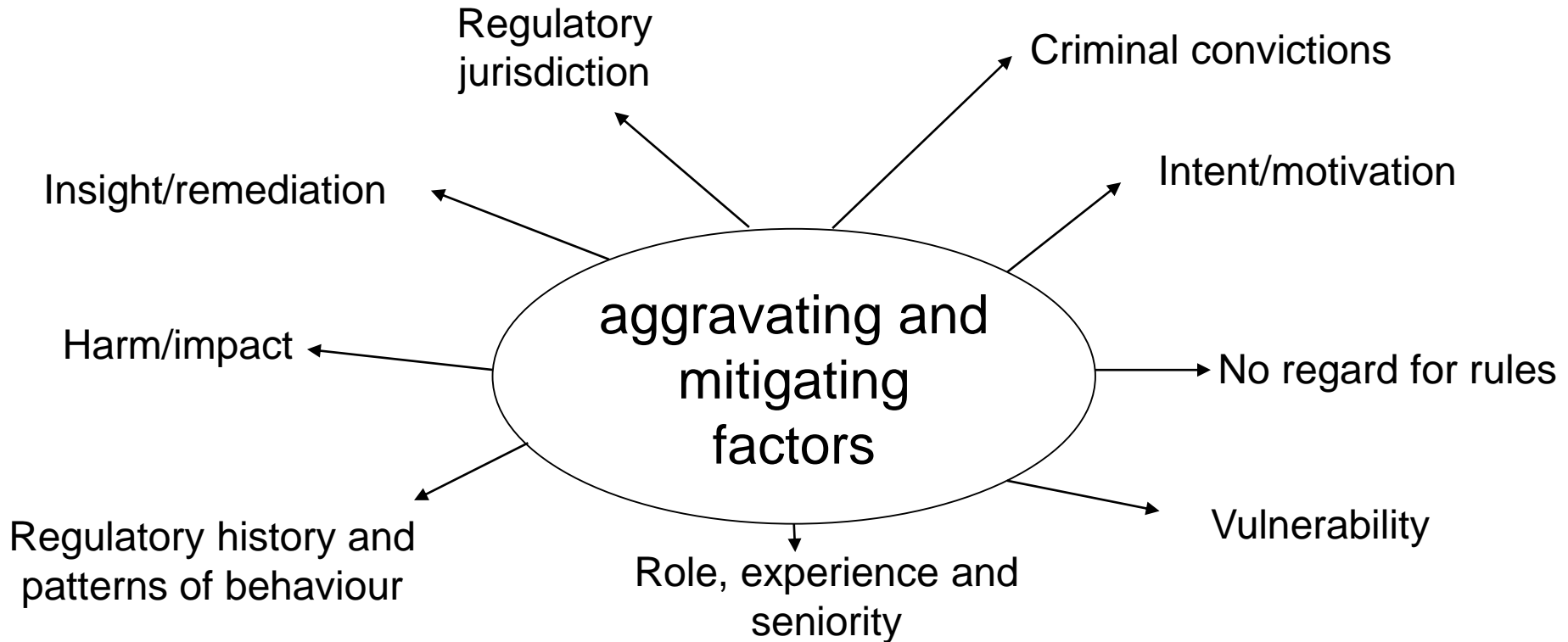
Final accountant's reports

- Up to the SRA to call for a final (cease to hold) report as and when we think necessary
- Factors that might make it necessary:
 - Inconsistencies in records
 - Open conduct/regulatory investigations
 - Previous poor compliance with the Accounts Rules

Qualified Accountant's Reports

- We'll take action when for example:
 - Theft of client money
 - No steps to replace shortfalls
 - Repeated poor behaviour
 - Ongoing/poorly managed residual balances
 - Providing banking facilities

Regulatory outcomes will depend on...



Preparing for 25 November

Cultural shift,
less
prescription



Review
your
systems &
controls



Share
updates/
knowledge
with staff



Use SRA beta
site &
guidance



Engage with
your
reporting
accountants



Talk to us



Find out more

- Beta website: beta.sra.org.uk
- Guidance: sra.org.uk/newregs