

Summary of Decision

The purpose of this summary sheet is to provide a high-level and accessible overview of the Legal Services Board's ("LSB") decision. Readers are recommended to read the formal decision notice below for further details. This summary is not and should not be taken as a formal part of the LSB's decision notice under the Legal Services Act 2007 ("the Act").

This decision notice relates to an application from the Solicitors Regulation Authority ("SRA") for approval of alterations to its regulatory arrangements in relation to Compensation Fund contributions and distribution rates in 2026/27. These are payable by individuals and firms that hold client money and are authorised by the SRA to carry out reserved legal activities.

The SRA proposes to alter the Compensation Fund apportionment of contributions, moving from a 50:50 split between individuals and firms to a 70:30 split. The new distribution translates to an individual contribution of £170 for 2026/27 (2025/26: £70) and a firm contribution of £2,170 (2025/26: £1,950), with a total contribution level of £46.3m (2025/26: £26m).

The SRA also proposes maintaining access to a banking facility to support the Compensation Fund, and the ability to carry out a mid-year collection if necessary.

Based on this proposal, the SRA forecasts that the Compensation Fund should be able to provide no less than £46.3m in the 2026/27 practising year (2024/25: £33.4 million).

Following our assessment of the SRA's application, the LSB has concluded that the changes do not meet the conditions for refusal under paragraph 25(3) of Schedule 4 to the Act. The LSB's decision is to grant the application in full.

The decision notice explains our assessment of the main issues that we considered in reaching our decision.

Decision notice

The Solicitors Regulation Authority's ("SRA") application for approval of alterations to its existing regulatory arrangements relating to contributions payable to the SRA Compensation Fund in 2026/27

1. The Legal Services Board ("**LSB**") has granted an application from the SRA for approval of its 'Determination of Compensation Fund contributions 2026/2027' (at Annex A to the application) and 'Determination of Compensation Fund contributions for Licensed Bodies 2026/2027' (at Annex B to the application, together "**the Determinations**") made under rule 1.2 of the SRA Compensation Fund Rules 2021¹. The Determinations will set the 2026/27 level of contribution to the SRA Compensation Fund ("**the Fund/Compensation Fund**") payable by persons the SRA authorises over this period to carry out reserved legal activities².
2. The LSB is required by Part 3 of Schedule 4 to the Legal Services Act 2007 ("**the Act**") to grant or refuse applications by approved regulators to make alterations to their regulatory arrangements. The Law Society ("**TLS**") is an approved regulator, and the SRA is the regulatory body to which TLS has delegated its regulatory functions. Contributions to the Compensation Fund are regulatory arrangements which are distinct from the setting of practising fees. Practising fees are considered and approved separately by the LSB in accordance with section 51 of the Act.
3. This decision notice sets out the decision taken, including a description of the alterations to the regulatory arrangements and why they are being made. Information on the statutory framework under which approved regulators make applications to the LSB for approval can be found on the LSB website³.

Chronology

- This application was received on 27 July 2026.
- The LSB confirmed receipt of the application from the SRA on 28 July 2026.
- The 28-day initial decision period for considering the application ended on 23 August 2026, however, a notice was issued on 21 August 2026 to extend the initial decision period to 90 days. The extended decision period comes to an end on 23 October 2026.
- This decision notice is effective from 25 September 2026.
- The decision notice will be published on the LSB's website by 29 September 2026.

¹ [SRA Compensation Fund Rules 2021](#), made by the SRA Board on 14 July 2020

² These are individual solicitors, registered European lawyers, registered foreign lawyers, registered Swiss lawyers; and recognised sole practitioners, recognised bodies and licensed bodies who receive or hold client money, authorised by the SRA.

³ <https://legalservicesboard.org.uk/our-work/statutory-decision-making/alterations-to-regulatory-arrangements/statutory-framework-for-applications-to-the-lsb-for-approval-of-changes-to-regulatory-arrangements>

Background

4. On 27 July 2026, the SRA submitted an application⁴ to the LSB for approval of alterations to its regulatory arrangements relating to Compensation Fund contributions and rules. The SRA regulates solicitors and firms in England and Wales and, as part of its regulatory arrangements, the SRA maintains a Compensation Fund in accordance with the SRA Compensation Fund Rules.
5. The Fund provides discretionary grants for losses falling within the SRA Compensation Fund Rules 2021. Contributions are made to the Compensation Fund to ensure it continues to have an adequate level of assets to provide compensation for consumers. Claims to the fund are subject to the relevant eligibility requirements, exclusions and limits.
6. The SRA, under the Solicitors Act 1974, may make rules requiring authorised persons to pay contributions to the Compensation Fund. Those rules are regulatory arrangements and require the LSB's approval before they have effect. The LSB granted the SRA's application to introduce the current⁵ Compensation Fund Rules in June 2021.
7. Contributions to the Compensation Fund help to finance the awarding of compensation claim grants, the Fund reserve⁶, the costs of handling claims to the Fund, and interventions into firms where client monies and files are at risk. The fund is an important element of consumer protection.
8. Contributions are usually collected as part of the annual practising certificate renewal, which is conducted in October. This year, the SRA expects 195,000 solicitors and 6,500 firms to pay the proposed individual and firm contributions. This compares to 187,000 solicitors and 6,650 firms in 2025/26. All solicitors holding practising certificates make contributions to the Fund, except those working for the Crown Prosecution Service. All firms that hold client money make contributions to the Fund.
9. In addition to contributions, the Compensation Fund also receives income by recovering money held in Statutory Trust Accounts ("**STAs**"). These accounts are for client money held by a law firm which are taken over by the SRA when it intervenes to close the firm.

Summary of proposed changes

10. The SRA proposes to increase both individual and firm contributions in the 2026/27 practising year and to change the apportionment of contribution rates between individuals and firms. This follows significant claims on the Compensation Fund, arising from recent cases of solicitor misconduct and law firm failures which resulted in significant client money losses.

⁴ [SRA Compensation Fund part 3 of schedule 4 application - July 2026](#)

⁵ [LSB Decision Notice](#), effective 14 June 2021

⁶ The SRA holds a ringfenced, separate reserve related to its Compensation Fund. The SRA has a Compensation Fund reserves policy, stating the amount of money necessary for a target minimum level of reserves. Further information can be found below in this decision notice.

11. At paragraph 22 of the application, the SRA states that the proposed contributions would raise £46.3 million in 2026/27, an increase of £20.3 million from 2025/26. This will mean an individual contribution of £170, increasing from £70 in 2025/2026, and contributions from firms increasing from £1,950 in 2025/2026 to £2,170.
12. The SRA also proposes to change the apportionment of contributions between individuals and firms to mitigate the impact of the increase on smaller firms and sole practitioners, moving from the current 50:50 split between individuals and firms to a 70:30 contribution rate.
13. The SRA states that the proposed contributions will set the Compensation Fund at a level where it can continue to be managed on a sound financial basis. At paragraph 29 of the application, the SRA explains that the increase in the proposed contribution for 2026/27 is largely a consequence of claims in connection with PM Law closing in February 2026. In September 2026, the LSB initiated further enforcement action against the SRA to secure urgent improvements in its performance. This followed consideration of the independent report into the SRA's pre-intervention handling of PM Law. The SRA is currently subject to three concurrent statutory enforcement measures: (1) the Axiom section 32 Directions⁷, (2) the SSB s31(1)(b) performance targets⁸ and (3) the section 35 censure⁹ relating to SSB Group.
14. The SRA notes that the increased contribution for 2026/27 is also linked to the increase in the number of regulatory interventions into firms and the associated administrative costs (such as storage costs for files related to interventions). At paragraph 34 of the application, the SRA states that it carried out 45 interventions between November 2025 and June 2026, compared with 42 interventions during the whole of the 2024/2025 financial year. Intervention costs rose from £15,115m in 2024/25 to a forecast £18,666m in 2025/26.
15. The table at paragraph 62 forecasts total expenditure for 2025/26 of £71,043m. Grants are typically the largest expenditure for the Fund. Grants totalled £46,444m in 2025/26 and £46,359m in 2024/25.
16. Page 10 of the application explains that the SRA forecasts expenditure based on known averages from the past six years as shown in table 61¹⁰. Using this methodology the SRA forecasts total expenditure for the Fund as £46,143m for 2026/27. This is a decrease in total expenditure from the previous two years.

⁷ [20250529-Section-32-Directions.pdf](#)

⁸ [SSB-Decision-Notice.pdf](#)

⁹ [Annex-B-Public-Censure.pdf](#)

¹⁰ Please note that the figures provided by the SRA exclude grant payments related to the Axiom Ince intervention for 2023/24 and 2024/25. SRA explains at page 10 of the application that the SRA's approach to excluding exceptionally large interventions from core modelling is supported by a robust, evidence based forecasting framework. The SRA forecasts for known claims with long term averages derived from six years of historical data, ensuring that projections reflect typical operational experience rather than anomalous events. Further, the SRA is also still seeking recovery of costs in the case of the Axiom Ince intervention therefore the SRA would not characterise it as an unrecoverable intervention.

17. Page 26 of the application explains that the Compensation Fund reserve seeks to ensure provision is sufficient to cover a level of unanticipated claims as well as anticipated future demand. The target minimum reserve is £32.4m which is double the average cash requirement of £16.2m between 2019/20 and 2024/25. The minimum reserve level reflects the low point in the Fund's annual cash cycle of September. In June 2026, the Fund balance was £11.4m which is significantly below the target reserve.
18. As set out above at paragraph 11 the SRA expects to raise £46.3m from contributions during 2026/27. The SRA states that this level of income would help rebuild its reserves and result in forecast reserves of approximately £50.4 million by October 2026. The SRA also noted the continued access to a short-term banking facility which alongside the reserves seeks to ensure that the Fund remains viable even in unusual circumstances.

Key Issues

19. The LSB's overriding concern is to ensure that the interests of consumers and the wider public interest is protected and promoted. The LSB's key focus in considering this application is the integrity and viability of the Compensation Fund and ensuring that it is maintained at a level that will provide a meaningful source of consumer redress. We have sought to understand whether the proposed changes have a negative impact on access to justice or pose any risks to the Compensation Fund's resilience and viability as an important source of consumer redress. This is further discussed in paragraphs 24 onwards in this decision notice.
20. We also considered whether the SRA's proposed contribution levels are proportionate and reasonable, in line with the Better Regulation Principles, given potential impacts on consumers, competition, market participation and access to justice.
21. We recognise that the closure of PM Law and the SRA's increasing number of interventions into firms has resulted in both high-value and multiple claims. Following enforcement action by the LSB, the SRA is in the process of transforming its operations so that it can better identify risks to client money and take appropriate action to reduce the likelihood of consumer detriment much more effectively. To do so, it intends to establish a proactive supervision function to undertake engagement directly with firms to identify, understand, and manage risks. While such proactive supervision should reduce the SRA's reliance on intervention as a primary tool for protecting consumers, it is currently experiencing a higher number of interventions and it is therefore essential that the Compensation Fund remains resilient in response to potential claims.
22. In our assessment of the SRA's proposals, we have considered the SRA's current application, responses to our queries during the assessment process, how the SRA has met expectations from last year's Compensation Fund application and how the proposal meets the interests of consumers. We note that in paragraph 29 of the application, the SRA addressed the expectations set by the LSB in the September 2025 decision notice¹¹.

¹¹ [Decision-Notice-SRA-Compensation-Fund-contributions-2025.pdf](#)

23. Throughout our consideration of this application, we have taken account of the importance of compensation funds as a source of redress for consumers. Market changes and the variety of consumer risks emerging make routes of redress an essential element of consumer protection and ensuring the scope and levels of compensation funds, reflect current consumer risk, is paramount.

Impact on consumers and access to legal services

24. It is of paramount importance that the Compensation Fund is maintained at an appropriate level to provide effective consumer redress. As set out in paragraphs 13-18 above the forecast expenditure for 2025/26 and 2026/27 and the current low levels of reserves mean that the Fund requires the proposed level of contributions to be adequately funded for 2026/27.

25. Paragraphs 12 to 18 of the SRA's application set out the rationale for the changes to the SRA's apportionment methodology. It explains that the previous apportionment methodology for securing contributions to the Fund raised half of the total amount required from individual solicitors and half from firms. However, since the 50:50 apportionment was established, there has been a significant increase in the number of individual solicitors required to contribute and a decrease in the number of firms. This means that had the previous methodology been maintained, this would have resulted in the firm fee increasing to £3,600 rather than the proposed £2,700.

26. We understand that the SRA Board approved the proposed change to a 70:30 apportionment rate to mitigate the scale of fee increases on smaller firms. The application also explains that larger firms typically pay contributions on behalf of their employees which means that in practice fewer individual solicitors make a contribution directly, and a greater share of the total cost of the Fund is paid by larger firms.

27. In its application, the SRA's Impact Assessment identified that the increases in fees and the proposed change to the apportionment methodology would most significantly impact individual solicitors employed by small firms who pay individual fees, those who have lower earnings and a cohort of individuals with certain protected characteristics (see Annex D of the application). We note that solicitors and firms who provide legal aid to some of the most vulnerable consumers¹² broadly match the types of providers that the SRA's Impact Assessment identifies as most affected by the increased rates. We are mindful that the impact of the proposed increases on legal aid providers may adversely impact consumers' access to justice by adding financial pressure on firms and solicitors providing legal aid which may result in a reduction in the availability of legal aid services. We note that on page 30 of the application, the SRA says that it does not have complete information of the impact on individuals who pay their own fees.

28. The Legal Services Consumer Panel (LSCP) has also highlighted the absence of consumer impact analysis in the SRA's risk assessment and proposed fee distribution and has urged the SRA to maintain the current apportionment of fees rather than the proposed one, pending the SRA's wider client money review¹³. The LSCP is also

¹² [civil-legal-aid-providers-survey.pdf](#)

¹³ [LSCP response to SRA Business plan consultation 2026/27](#)

concerned about the impact of the proposed apportionment of fees on consumers, and access to justice.

29. We asked the SRA whether it had considered mitigations to counter the impact of increased contributions on firms/individuals providing legal aid and/or the knock-on impact of the increased fees on consumers and how it intends to monitor and measure the impact.

In response, the SRA said that while there is limited evidence that regulatory increases of this nature directly lead to fee increases or firm closures in the near term, it accepts that this is possible in certain circumstances. The SRA explained that its change to the apportionment of contributions will ensure that contributions will be significantly smaller for small firms than they would have been under the previous years' 50:50 apportionment. It said this change will benefit many small firms that undertake legal aid and consumer-facing work.

30. The SRA noted that it will monitor the potential impacts of the increased contributions through its regular engagements with stakeholders, as well as routine data analysis. The SRA will also explore how to mitigate any unintended consequences for particular cohorts, especially when setting contribution levels for 2027/2028.
31. We have considered the overall funding requirement and proposed apportionment. We note that the 70:30 split reduces the contribution payable by firms compared with retaining 50:50 but increases the burden on individuals paying their own contributions. We recognise the potential equality and access-to-justice impacts and the limitations of the available evidence. While we note the impact on individual solicitors paying individual fees, we note that the SRA has sought to mitigate the impact of the increased level of contributions on smaller firms which will benefit many small firms that undertake legal aid and consumer-facing work.
32. In light of this, we expect the SRA to monitor the impact of the increased contributions, and to publish the data gathered regarding the impact of contributions on specific cohorts of professionals, including legal aid providers and those with protected characteristics. We also expect the SRA to develop and consult on additional mitigation measures for such cohorts in next year's Compensation Fund consultation, as well as consider longer-term mitigation measures.

Viability of the Compensation Fund and SRA's modelling position

33. To ensure that the Fund provides adequate consumer protection and consumer redress, the viability of the Compensation Fund is key.
34. In the September 2025 decision notice, the LSB set an expectation for the SRA to ensure its approach remains compatible with Principle 2¹⁴ of its Compensation Fund Principles, which requires the SRA to minimise year-on-year fluctuation in contribution rates while maintaining reserve levels. As stated in paragraph 27 above, the SRA's proposed individual fees are the highest since 2010/2011. The table at paragraph 27

¹⁴ [SRA | Compensation fund contribution level principles | Solicitors Regulation Authority](#)

demonstrates fluctuations in contributions since 2023/24 when compared to the 3 years before.

35. In light of Principle 2, we asked the SRA whether the proposed contribution increase is intended primarily to stabilise the Fund following recent significant claims or to reflect an expectation of sustained higher contributions, and higher-value and volume of claims. We also sought clarification on what contribution levels the SRA anticipates for 2027/28 and 2028/29, and whether the SRA has taken into account the significant grant payments in both 2024/25 and 2025/26, related to Axiom Ince and PM Law interventions, when forecasting the Fund's future position and its ability to meet potential claims.
36. As set out at para 13 above, the SRA explained that the increases are primarily to address increased claims but the increase also reflects the indication of a higher level of claims and intervention activity in the future, when compared to the period before Axiom Ince and PM Law, specifically before 2022/23, as shown in the table in paragraph 61 of the SRA's application. The SRA noted that the proposed contribution should not be viewed solely as a one-year correction, nor should it be taken as a fixed expectation that contributions will remain at the same level indefinitely. It also highlighted that its financial modelling is designed to maintain the Fund's balance in compliance with its 'target reserve' level, including at the Fund's lowest point during the year.
37. The SRA explained that the 2027/28 contribution level would remain broadly in line with the 2026/27 levels. As set out below in paragraphs 40 and 41, the PM Law intervention may lead to successful claims over several financial years.
38. The SRA also expects that ongoing cash inflows and outflows will stabilise the Fund at a more balanced rate, projecting a reduction in the 2028/29 contribution levels and it will continue to review its forecasts monthly and update as necessary.
39. We reiterate last year's expectation that it is important for the SRA to meaningfully implement Principle 2 of its Compensation Fund Principles, (see paragraph 35 above) to minimise year-on-year fluctuation in contribution rates while maintaining reserve levels when modelling the next year's contribution rates. We expect to be kept informed by the SRA when it reviews contribution forecasts.
40. Paragraph 29 of the application explains that the SRA has incorporated grants related to PM Law into future cash flow, grant and reserve forecasts. We note that the SRA expects PM Law claims to total approximately £30m once all claims have been considered and we queried whether the SRA has reflected any remaining anticipated claims and intervention costs in the Fund's cash flow and reserves forecasts, including any contingency for further claims or costs.
41. The SRA confirmed that the estimated £30m full cost of the PM Law intervention has been recognised in the Compensation Fund financial accounts and included in cash-flow projections. This includes grants already paid (£15.7m), grants still to be paid (£10.3m), and an estimated figure for unknown grants still to be paid, increasing projected future grant payments over the next 12 months (£4m). We expect to be kept informed about the SRA's actual costs versus projected costs from PM law and other interventions if these costs put the resilience of the Fund at risk.

42. In the September 2025 decision notice, we set an expectation for the SRA to keep under review its financial procedures for accounting for the Compensation Fund, including its approach to making payments to the SRA for intervention costs. We note from page 21 of the Audited Financial Statements that the SRA owed the Compensation Fund £10.4m in 2024 and £19.8m in 2025, respectively and that it collects money on behalf of the Compensation Fund and transfers the amount to the Fund. That money is collected in October and transferred to the Compensation Fund in November. The Fund also pays the SRA for intervention costs (client protection costs).
43. We asked the SRA to update us on its current approach to managing money flows between the SRA and the Fund. The SRA explained that the approach to cost repayments was changed during 2025/26, to reflect that the SRA is refunded only when cash is spent on interventions. They also explained that the balance between the SRA and the Compensation Fund depends on when contributions are collected and transferred. By the end of October, after most contributions have been received but the transfer hasn't yet occurred, the Fund records a net asset (money owed by the SRA to the Fund). Even though the position is reflected in the October audited financial statements, it is not representative of the position throughout most of the year.
44. After contributions are transferred in November to a ring-fenced account, the Fund records a net liability (money owed by the Fund to the SRA), because the SRA pays administration and intervention costs before being refunded.
45. We note that the SRA has taken steps to ensure that the money flows between the Fund flows in a timely way.

Decision

46. The LSB has considered the application against the criteria in paragraph 25(3) of Schedule 4 to the Act. It considers that there is no reason to refuse this application, and accordingly, the application is granted in full.
47. **Annexes A and B** to this decision notice contain the Determinations approved by the LSB.

Summary of expectations

48. For the reasons set out in this decision notice, the LSB expects the SRA:
- 1) To monitor the impact of the increased contributions and to publish the data gathered regarding the impact of contributions on specific cohorts of professionals, including legal aid providers and those with protected characteristics. We also expect the SRA to develop and consult on additional mitigation measures for such cohorts in next year's Compensation Fund consultation, as well as consider longer-term mitigating measures.
 - 2) To meaningfully implement Principle 2 of its Compensation Fund Principles, on minimising year-on-year fluctuation in contribution rates while maintaining reserve levels, when modelling next year's contribution rates. We also expect the SRA to keep us informed as it reviews contribution forecasts.

- 3) to keep the LSB informed about the SRA's actual costs versus projected costs from PM law and other interventions.

Richard Orpin, Chief Executive Officer

Acting under delegated authority granted by the Board of the Legal Services Board

25 September 2026

Annex A – Determination of Compensation Fund contributions 2026/2027

This determination is made by the Solicitors Regulation Authority Board under rule 1.2 of the SRA Compensation Fund Rules 2021, with the approval of the Legal Services Board under paragraph 19 of Schedule 4 to the Legal Services Act 2007.

- (1) Every person who applies for a practising certificate to commence on or after 1 November 2026, or who applies for initial registration or renewal of registration as a registered European lawyer, registered foreign lawyer or registered Swiss lawyer to commence on or after 1 November 2026, shall pay with the fee payable in respect of that application, a contribution of £170 to the Fund.
- (2) Every recognised body or recognised sole practice that has held or received client money (as defined in the SRA Accounts Rules) during the period 1 November 2025 to 31 October 2026, shall pay with the annual periodical fee, a contribution of £2,170 to the Fund.
- (3) Every person that:
 - a. applies for initial recognition as a recognised body or initial recognition as a recognised sole practice to commence during the period 1 November 2026 to 31 October 2027; and
 - b. intends to hold or receive client money (as defined in the SRA Accounts Rules) at any time during the period 1 November 2026 to 31 October 2027;

shall pay with the fee payable in respect of that application, a contribution to the Fund as follows:

- i. £2,170 on applying for initial recognition to commence in the period 1 November 2026 to 31 December 2026;
 - ii. £1,627 on applying for initial recognition to commence in the period 1 January 2027 to 31 March 2027;
 - iii. £1,085 on applying for initial recognition to commence in the period 1 April 2027 to 30 June 2027;
 - iv. £542 on applying for initial recognition to commence in the period 1 July 2027 to 31 October 2027.
- (4) The SRA may waive the contribution payable under paragraph (3) above in circumstances where the initial application is made by a body which is changing its legal status or is succeeding to the practice of another authorised body and the predecessor body or practitioner has already paid a contribution to the Fund.
- (5) In this determination:

Fund means the Solicitors' Compensation Fund established and maintained under rule 1.1 of the SRA Compensation Fund Rules 2021;

All other terms are to be interpreted in accordance with the Practising Certificate Fee Determination 2026.

- (6) This determination shall come into force on 1 November 2026.

Annex B - Determination of Compensation Fund contributions for Licensed Bodies 2026/2027

This determination is made by the Solicitors Regulation Authority Board under rule 1.2 of the SRA Compensation Fund Rules 2021, with the approval of the Legal Services Board under paragraph 19 of Schedule 4 to the Legal Services Act 2007.

- (1) Every licensed body that held or received client money (as defined in the SRA Accounts Rules) at any time during the period 1 November 2025 to 31 October 2026, shall pay, with the annual periodical fee, a contribution of £2,170 to the Fund.
- (2) Every licensed body that intends to hold or receive client money (as defined in the SRA Accounts Rules) at any time from the date on which the body is authorised to 31 October 2026, shall pay, with the initial periodical fee, a contribution to the Fund as follows:
 - i. £2,170 on applying for initial recognition to commence in the period 1 November 2026 to 31 December 2026;
 - ii. £1,627 on applying for initial recognition to commence in the period 1 January 2027 to 31 March 2027;
 - iii. £1,085 on applying for initial recognition to commence in the period 1 April 2027 to 30 June 2027;
 - iv. £542 on applying for initial recognition to commence in the period 1 July 2027 to 31 October 2027.
- (3) The SRA may waive the contribution payable under paragraph (2) above in circumstances where the initial application is made by a body which is changing its legal status or is succeeding to the practice of a recognised body or recognised sole practitioner and the predecessor body or practitioner has already paid a contribution to the Fund.
- (4) In this determination:

Fund means the Solicitors' Compensation Fund established and maintained under rule 1.1 of the SRA Compensation Fund Rules 2021;

All other terms are to be interpreted in accordance with the Licensed Body Fee Determination 2026.

- (5) This determination shall come into force on 1 November 2026