Direction 206 issued under Part 3 of Schedule 4 to the Legal Services Act 2007 to the Institute of Chartered Accountants in England and Wales

1. This is a direction to exempt alterations pursuant to paragraph 19(3) of Schedule 4 to the Legal Services Act 2007 ("**the 2007 Act**").

2. Unless stated otherwise, words in this direction are used as they are defined in the 2007 Act.

3. In accordance with paragraphs 19(3) and (4) of Schedule 4 to the 2007 Act, the Legal Services Board ("**LSB**") has directed that the alterations made by the Institute of Chartered Accountants in England and Wales ("**ICAEW**") to its Compensation Scheme be treated as exempt alterations for the purposes of paragraph 19(2)(c) of Schedule 4.

Background and proposed changes

4. On 17 August 2026, the ICAEW submitted a request for approval of the ongoing operation of its Compensation Scheme.[1]

5. The LSB has previously approved an application from the ICAEW on 3 September 2025, to alter its governance arrangements for legal services regulation, delegating primary oversight to its Legal Services Committee (LSC), with the ICAEW Regulatory Board ("**IRB**") retaining a continuing review role.[2]

6. Additionally, contributions to the ICAEW compensation fund (the "**Fund**") for the 2026 practising year were approved by the LSB on 17 September 2025.[3]

7. As stated in paragraph 22 of the application, we note that ICAEW's Scheme is a core consumer-protection and public-interest safeguard within ICAEW's services regulatory framework, providing a discretionary route of last resort for eligible consumers, small businesses and charities, to compensate them for harms arising from fraud, dishonesty or failure caused by an accredited firm.

8. In paragraph 27, ICAEW states that under the Legal Services Compensation Scheme Regulations, the LSC has the power to make discretionary grants of up to £500,000 in respect of any one estate and up to £5 million in aggregate in a calendar year. Compensation decisions are made independently of ICAEW representative interests and in accordance with the Regulations.

9. The ICAEW proposes to reduce the level of contributions for the 2027 practising year by 95% compared with 2026, because the Scheme's target cash reserve of £2.5m is expected to be met during 2026. The ICAEW explained the rationale for the £2.5m target

[1] ICAEW request for exemption 17 August 2026
[2] LSB Decision Notice, effective 3 September 2025
[3] ICAEW ED196 Compensation Scheme 17 September 2025

in response to enquiries by the LSB in 2024, and these are summarised at paragraph 21 of our 2024 decision notice.[4]

10. The contributions are set out in the tables below, demonstrating that contributions will be made by authorised and licensed firms according to the number of principals in each firm and offices [5], as follows:

Contributions to the Fund for 2027

Levy 2027

Principals	Authorised Offices 1	2-10	10+
Sole	5	7	10
2 - 5	7	10	13
6 - 9	10	13	18
10 - 50	13	18	25
50+	27	36	49

Principals	Licenced Offices 1	2-10	10+
Sole	5	7	10
2 - 5	14	29	53
6 - 9	19	40	72
10 - 50	27	54	98
50+	53	108	196

Levy 2026

Principals	Authorised Offices 1	2-10	10+
Sole	105	143	194
2 - 5	143	194	265
6 - 9	194	265	361
10 - 50	265	361	492
50+	530	720	982

Principals	Licenced Offices 1	2-10	10+
Sole	105	143	194
2 - 5	286	581	1,060
6 - 9	387	795	1,440
10 - 50	530	1,081	1,964
50+	1,060	2,160	3,927

Change

Principals	Authorised Offices 1	2-10	10+
Sole	(100)	(136)	(184)
2 - 5	(136)	(184)	(252)
6 - 9	(184)	(252)	(343)
10 - 50	(252)	(343)	(467)
50+	(503)	(684)	(933)

Principals	Licenced Offices 1	2-10	10+
Sole	(100)	(136)	(184)
2 - 5	(272)	(552)	(1,007)
6 - 9	(368)	(755)	(1,368)
10 - 50	(503)	(1,027)	(1,866)
50+	(1,007)	(2,052)	(3,731)

11. The ICAEW has indicated at Appendix 4 of its application that it expects to raise a total of £8,026 from contributions for the 2027 practising year.

Reasons for exemption direction

12. The LSB's overriding concern is to ensure that the interests of consumers and of the wider public are protected and promoted. Our key focus in this context is the integrity and viability of the Compensation Fund, ensuring that it maintains adequate consumer protection levels.

13. The ICAEW confirms at paragraph 29 of their application that there have been no claims on the Fund. The Fund currently stands at £2.43m and is expected to reach its target level of £2.5m by the end of 2026. As such, Appendix 4 and paragraph 16 of the request, confirm that the reduced levy is intended to cover the Fund's operating costs, and ensure its value is not eroded by inflation, rather than continue to build the reserve.[6]

14. The ICAEW states at paragraph 7 of its request that the proposed reduction in contributions does not *"reduce the protections available to consumers, alter eligibility, reduce claim limits, change governance arrangements or diminish the financial resilience of the Scheme."*

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[4] ICAEW Compensation Fund decision notice – effective 24 June 2024
[5] ICAEW defines a principal as follows:
- an individual in sole practice (where the firm is a sole practice);
- a person who is a partner (including both salaried and equity partners) (where the firm is a partnership);
- a member of a limited liability partnership (where the firm is a limited liability partnership);
- a director (where the firm is a company);
- a member of the governing body (where the firm is an unincorporated body, other than a partnership); or
- any individual or person who is held out as being a director, partner, member, or member of the governing body.

[6] See paragraph 10 of ICAEW request for exemption 17 August 2026

15. Moreover, the ICAEW considers the 95% reduction this year, to be appropriate, reflect the strong fund position, lack of claims history, and low claims risk, whilst also retaining a reduced levy to maintain firms' contributions, thereby preserving the ability to replenish the fund if future claims, inflation or other pressures erode its value.

16. We consider that a 95% reduction in contributions is, in itself, a material alteration to the Scheme's funding arrangements. However, our assessment of whether an alteration is suitable for exemption is not determined by the scale of the change alone, but by its likely impact on the regulatory objectives and on consumer protection. This reduction reflects the Fund reaching its target reserve level with no claims history and no identified increase in risk. On that basis, we consider the alteration to be reasonable and unlikely to have a negative impact on consumers or the regulated community.

17. In view of this, we consider that the ICAEW has appropriately justified its determination to require a substantially lower level of contributions to the Fund when compared to the previous year, while ensuring the maintenance of consumer protection and the Scheme's viability. The ICAEW has provided assurance that it has considered the impact of this reduction in contributions on members of its regulated community, the consumers and the public.

18. Because the resilience of the fund is likely to be maintained under the proposal, we consider it unlikely that there will be any negative impact on the regulatory objectives or consumer protection.[7] ICAEW consulted on the contribution level[8] and considers the 95% levy reduction for 2027 of benefit to all Reserved Legal Activity (RLS) firms[9] with only a nominal contribution remaining. The proposal has the benefit of minimising the cost burden on firms, which is an important factor in supporting economic growth.[10] The consultation also confirms there is no expected negative impact on professionals with certain protected characteristics.

19. Paragraphs 59-60 confirm that the ICAEW will continue to monitor the Scheme and undertake more comprehensive reviews to maintain the resilience of the fund, if claims emerge, reserves fall, relevant risks increase, or market conditions change. We expect the ICAEW to keep current contributions and fund levels under review, particularly if any claims are made.

20. In light of the above considerations, the LSB has approved this reduction in contributions for 2027 as an exempt alteration to regulatory arrangements under Part 3 of Schedule 4 to the 2007 Act.

21. This direction is approved on and effective from 11 September 2026.

For and on behalf of the Legal Services Board
11 September 2026

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[7] See paragraph 6 ICAEW request for exemption 17 August 2026
[8] A 4-week public consultation
was conducted in 2026 covering budget, fees and the Scheme This consultation will run for 4 weeks from 13 July to 14 August 2026. Further information about the consultation process is set out in Appendix 4
[9] The population of accredited RLS firms is small (c300 firms) and the work is specialist and limited - see paragraph 52 of ICAEW request for exemption 17 August 2026
[10] Refer to the section under paragraph 62 of ICAEW request for exemption 17 August 2026