Appendix 5

CILEx REGULATION RESERVES POLICY: 2026

Purpose

1. Under rule 18 of the Practising Fee Rules 2021, an approved regulator may keep reserves of practising fee income. However, this must be kept separate from and separately accounted for from other reserves held. Rule 19 of these rules requires that where the regulatory body is a separate company, that company should hold and control the account where these reserves are held. Therefore, CILEx Regulation's reserves should be governed by a separate policy, which enables CILEx Regulation to manage and control its own reserves as far as it is practicable to do so.

2. This policy sets out the principles which will govern the management of the CILEx Regulation contingency and working capital reserves. It includes:

   - Types of reserve held by CILEx Regulation;
   - General principles which govern how the CILEx Regulation reserves are held and managed;
   - How we set out target reserves and how this is reviewed and managed;
   - How we identify committed reserves;
   - Our target for uncommitted reserves;
   - Actions we will take should our reserves be below or above our target;
   - What events might trigger access to our reserves;
   - How we decide whether reserves should be utilised; and
   - The administration of the CILEx Regulation reserves within the CILEX Group Reserves.

Types of reserve held by CILEx Regulation

CILEx Regulation controls 2 types of reserve:

- Contingency reserves, and
- Working Capital reserves

General Principles

3. The contingency reserves are held and managed by CILEx Regulation.

4. The working capital reserves are held by CILEx Regulation. Working capital reserves in excess of the amount stipulated in this policy will be added to the contingency reserves, unless they are reserves which have been committed to identified regulatory activities, in which case they will continue to be held as working capital reserves.

5. Notwithstanding this policy, CILEx Regulation will have the right under the CILEX Group policy to apply for funds from the CILEX strategic reserves.

Setting and managing the target reserves level

6. When setting our target reserves, we take into account known risks to the organisation, assessed through analysis of the risk register and identify major strategic risks to the organisation, which the reserves aim to mitigate.

7. In setting the target, we ensure that there is a balance between ensuring risks can be insured against and not increasing costs to the regulated community unnecessarily.

8. Having undertaken this analysis, we identify committed reserves for the next 12-month period and calculate the funds which will form the uncommitted reserves.

9. Our uncommitted reserves target is as follows:

Uncommitted Reserves

10. Between 3 and 6 months of operating costs will be held as uncommitted reserves. These will be held either as contingency reserves or working capital reserves.

11. If the uncommitted working capital reserves exceed 2 months of operating costs at the end of the financial year, the additional funds will be added to the CILEx Regulation contingency reserves.

12. This target will be reviewed annually as part of the practising fee setting process.

13. The maximum uncommitted reserves that CILEx Regulation will hold as contingency and working reserves combined will be no more than 6 months operating costs in total. CRL reserves the right to increase the reserve beyond 6 months of operating costs, provided a rationale is provided.

14. Where the uncommitted reserves held are higher than the target, CILEx Regulation will consider actions to bring the reserves back within the target range, for example:

    - to further our strategic objectives,
    - to provide additional regulatory activities in accordance with the regulatory objectives,
    - to enable future investment in innovation, which is considered essential in the current legal services market, or
    - reducing the practising fee to bring reserves back into alignment with 6 months operating costs

Identification of committed reserves

15. CILEx Regulation will consider the following factors to identify committed reserves:

    - Specific projects for which financing from reserves is required
    - Funds required for regulatory or disciplinary action
    - To cover identified risks

Purposes of the uncommitted reserves

16. CILEx Regulation's uncommitted reserves are required to cover the following eventualities:

    - To provide for unexpected or exceptional costs
    - To provide for unexpected, short-term fluctuations in income
    - To cover for a short-term loss of practising fee income caused by e.g., our PCF application being delayed or refused

Accessing the CILEx Regulation reserves

17. Where an event occurs which requires CILEx Regulation to access its contingency reserve, the case will be put to the CILEx Regulation Board for decision.

Review

18. The CILEx Regulation Board owns this policy. It will be reviewed annually as part of the practising fee setting process.

Statement of reserves: as at the end of June 2026

	Contingency reserve	Working Capital reserve	Total uncommitted reserves
Total contingency reserve	700,000		
Total working capital reserve		443,719	
Reserves committed to the CILEX compensation arrangements	250,000		
Intervention monies ringfenced	70,000		
Committed working capital reserves		100,000	
Uncommitted reserves	380,000	343,719	**723,719**
Uncommitted reserves as a proportion of operating costs	2 months	1.8 months	**3.8 months**