SOLICITORS INDEMNITY FUND

ANNUAL REPORT AND
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2021

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ADMINISTRATION OF THE FUND

Solicitors Indemnity Fund Limited (the "Company") holds, manages and administers the Solicitors Indemnity Fund (the "Fund"). The Directors (the "Directors") of the Company are responsible for the governance of the Fund.

THE BOARD OF DIRECTORS

The non-executive Directors of the Company are appointed by the Solicitors Regulation Authority ("SRA") under delegated authority from The Council of The Law Society of England and Wales ("TLS"). TLS and SRA each nominate a non-executive Director to represent its interest on the Board. The appointment of the Chair is made following a joint selection process involving TLS and SRA. The remaining non-executive Director is drawn from the legal profession or with relevant insurance expertise. The following were Directors during the financial year under review and up to the date of signing of the non-statutory financial statements ("the financial statements"):

J. T. Young – Chairman
D. Neave (Independent non-executive director)
E. Rosser (SRA nominated non-executive director)
T. Fothergill (TLS nominated non-executive director)

Company Secretary – Andrew Darby

PURPOSE AND PRINCIPAL ACTIVITIES OF THE FUND

The Solicitors Indemnity Fund is a statutory fund established in 1987 governed by the Solicitors' Indemnity Rules 1987 as amended from time to time. The Rules are presently made under sections 37, 79 and 80 of the Solicitors Act 1974, section 9 of the Administration of Justice Act 1985, and paragraph 19 of Schedule 11 of the Legal Services Act 2007, with the approval of the Legal Services Board under paragraph 19 of Schedule 4 to the Legal Services Act 2007. The Rules are now also known as the SRA Indemnity Rules.

The Fund provided indemnity in respect of the practices of solicitors, recognised bodies and registered foreign lawyers carried on wholly or in part in England and Wales, with up to £1 million of cover per claim (£1.5 million for recognised bodies) until 31 August 2000, when the Council of The Law Society decided to require firms to purchase indemnity insurance in the open market. The Fund therefore went into run-off from 1 September 2000. In 2004, the indemnity limit increased for new claims arising within existing practices to £2 million and £3 million for recognised bodies.

The Council of The Law Society determined that from 1 September 2007 the Fund would also provide cover for new claims and settle the associated liabilities arising from firms insured in the open market and which have ceased without successor from 1 September 2000 and where the requisite six-year run-off period provided by their last market insurer or the Assigned Risks Pool has elapsed. This indemnity cover for expired run off claims, also referred to as "post six-year run off claims", commenced on 1 September 2007 and ended on 30 September 2020, but was subsequently extended by an additional year to 30 September 2021. During the year this cover was extended further to cover claims to 30 September 2022. The SRA Indemnity Rules 2012, under which this cover is provided for, requires that all post six-year run off claims must be made and intimated to the Fund by 30 September 2022 for there to be an entitlement to an indemnity.

The purpose of the Fund is to:

- Manage the ongoing notified claims arising from the pre 1 September 2000 period ("historic claims") and settle the associated liabilities arising. The number of notified cases has been decreasing as cases meet their statutory limitation periods and the number of claims outstanding has been decreasing as claims have been concluded.

- Manage new claims arising from 1 September 2000 against practices that had ceased without successor prior to 1 September 2000 and settle the associated liabilities arising ("historic claims").

- Manage new claims and settle the associated liabilities arising from firms insured in the open market and which have ceased without successor from 1 September 2000 and where the requisite six-year run-off period provided by their last market insurer or the Assigned Risks Pool has elapsed ("post six-year run off claims").

PURPOSE AND PRINCIPAL ACTIVITIES OF THE FUND (continued)

- Manage the claim recoveries, and any interest due on those recoveries, that have materialised as a result of a previous claim settlement.

PRINCIPAL RISKS AND UNCERTAINTIES

The Fund's business carries significant uncertainties and the financial statements include significant judgements around claims costs and provisions, based on past historic experience and known circumstances. The principal risks from the Fund's indemnity operations arise from fluctuations in the timing, frequency and severity of claims compared to expectation and inadequate reserving.

In addition, the Fund is exposed to financial risks arising from the fluctuation in the returns of the investments it holds.

Risk management (considering indemnity risk, credit risk, market risk and liquidity risk) is discussed in Note 4 to the financial statements.

The Directors have assessed the effect of COVID-19 and the conflict in Ukraine on the business and consider this may have an impact in relation to expected future investment performance or on some future asset valuations which cannot be determined until such time. The impact of COVID-19 has also been assessed on known and future claims and reserves have been appropriately adjusted.

RESULTS FOR THE YEAR

The activities of the Fund gave rise to a deficit before tax of £0.2 million for the year (2020: deficit £1.3 million). The Fund benefitted from interest and returns generated from the investment portfolio of £3.4 million (2020: £1.1 million); and incurred administrative expenses of £0.6 million (2020: £0.7 million). Collectively these account for £2.8 million of surplus (2020: £0.4 million) with a deficit of £3.0 million (2020: £1.7 million) arising from developments on the indemnity operations which includes a payment of insurance premium of £0.8 million. The tax credit for the year was £52k (2020: credit £0.2 million), giving a net deficit after tax for the year of £0.2 million (2020: deficit £1.1 million).

The result of the operations will fluctuate as they are based on the development of claims and indemnity recoveries which may differ from expectation.

CLAIMS

As at 31 October 2021, there were 163 open cases (2020: 212) a net decrease of 49 in the year. The increase in claims incurred net of insurance was £3.0 million (2020: £1.7 million), brought about by an increase in net provision for claims of £1.6 million (2020: increase £0.4 million), a payment of insurance premium of £0.8 million, whilst claims payments, net of indemnity claim recoveries, and including claims handling costs, during the year were a net cost of £1.0 million (2020: £1.3 million). Amounts recoverable from insurers increased by £0.4 million (2020: £nil) in the year, whilst insurance recoveries in the year were £1k (2020: £nil).

Provision has been made within claims incurred but not reported ("IBNR") for the total estimated future liabilities arising from the post six-year run off claims. This is estimated using external actuarial advice, based on all available information at that time including historic trends and recent development and amounts to £3.3 million (2020: £2.4 million). Further information is provided in Note 13.

INSURANCE AGREEMENT

During 2017 the Company entered into an Insurance Agreement (IA) with a leading insurer to insure the Fund's claim liabilities for post six-year run off claims to 30 September 2020 (with the exception of one claim). The Fund's ultimate claim liabilities on the post six-year run off book of business to 30 September 2020 in excess of £8.4 million and up to a maximum of £20 million are covered by the IA with effect from 1 November 2016. Paid and estimated liabilities to 31 October 2021 (and at 31 October 2020) from claims falling under this cover have not reached the excess point and, therefore, there is no recoverable amount included within the Insurers' Share of Claims Provision for this cover.

During the current year the Company entered into a supplementary Insurance Agreement to insure the Fund's claim liabilities for the one year extension to post six-year run off claims to 30 September 2021. The Fund's ultimate claim liabilities relating to this one year extension in excess of £1.7 million and up to a maximum of £4.3 million are covered by the supplementary agreement with effect from 1 October 2020. A premium of £0.8 million was paid for this cover. Paid and estimated liabilities to 31 October 2021 from claims falling under this cover have reached the excess point and, therefore, a recoverable amount is included within the Insurers' Share of Claims Provisions as reflected in Note 10.

INVESTMENTS

The Fund's investment strategy is to hold a varied and diversified portfolio to maximise returns at a level of risk agreed by the Directors of the Company. The Fund holds an investment portfolio consisting of equities, sovereign and investment grade bonds as well as other securities and cash. This provides the Fund with a constant income from investment. There remains volatility in the underlying value of the funds within the portfolio, which is accounted for as either an unrecognised loss or gain in the Statement of Comprehensive Income. Further details are provided in Note 9.

INTEREST ON INDEMNITY CLAIM RECOVERIES

The Fund is entitled to interest on certain indemnity claim recoveries. Where the legal right to interest exists, the interest can be accurately calculated and there is a reasonable expectation of recovery, the interest receivable has been recognised within these financial statements as a receivable item within Debtors. Further details are provided in Note 11.

OPERATING EXPENDITURE

The charges incurred by the Fund during the year for other operating expenses incurred were £0.9 million (2020: £1.0 million) before allocating a proportion to claims handling.

INDEPENDENT AUDITORS

BDO LLP have expressed their willingness to continue in office, and this has been confirmed by the Directors of the Company.

THE LAW SOCIETY

The financial statements of the Fund are consolidated with the financial statements of The Law Society as at 31 October 2021 based on an assessment by The Law Society that the Fund should be a consolidated part of The Law Society's Group due to the control of the Fund and its entitlement to surplus accumulated reserves. Copies of The Law Society financial statements can be obtained from The Law Society, Law Society Hall, 113 Chancery Lane, London, WC2A 1PL.

STATEMENT OF RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors of the Company are responsible, on behalf of the Fund, for preparing the financial statements for the Fund for each financial year. The Directors are responsible for preparing the financial statements in accordance with United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Fund and of the deficit for the Fund that year.

STATEMENT OF RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS (continued)

In preparing those financial statements, the Directors of the Company are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable United Kingdom accounting standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Fund will continue in business.

The Directors are also responsible for keeping adequate accounting records that disclose with reasonable accuracy at any time, the financial transactions and the assets and liabilities of the Fund. They are further responsible for safeguarding the assets of the Fund and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

STATEMENT OF DISCLOSURE OF INFORMATION TO AUDITORS

In the case of each director in office at the date the Directors' report is approved, the following applies:

- so far as the Directors are aware, there is no relevant audit information of which the Fund's auditors are unaware; and

- the Directors have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Fund's auditors are aware of that information.

Approved on behalf of Solicitors Indemnity Fund Limited

J. T. Young

Chairman
8 March 2022

INDEPENDENT AUDITORS REPORT TO THE DIRECTORS OF SOLICITORS INDEMNITY FUND LIMITED (AS ADMINISTRATOR OF SOLICITORS INDEMNITY FUND)

OPINION ON THE NON-STATUTORY FINANCIAL STATEMENTS

In our opinion the financial statements:

- give a true and fair view of the state of the Fund's affairs as at 31 October 2021 and of its deficit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and

We have audited the non-statutory financial statements (the "financial statements") of Solicitors Indemnity Fund ("the Fund") for the year ended 31 October 2021 which comprise the Statement of Comprehensive Income, the Balance Sheet, Statement of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

BASIS OF OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENCE

We are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

CONCLUSIONS RELATING TO GOING CONCERN

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Fund's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

OTHER INFORMATION

The Directors are responsible for the other information. The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

AUDITORS RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

EXTENT TO WHICH THE AUDIT WAS CAPABLE OF DETECTING IRREGULARITIES, INCLUDING FRAUD

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- Obtaining an understanding of the legal and regulatory framework applicable to the Fund's operations and the control environment in monitoring compliance with applicable laws and regulations;
- Considered the accounting policies and estimation techniques to ensure that they are compliant with International Standards on Auditing (UK) (ISAs (UK));
- Our responses to significant audit risks over management override of controls are intended to sufficiently address the risk of fraudulent manipulation. Specially we review manual adjustments made to the financial statements and the application of various estimation techniques;
- Enquiries of management;
- Review of minutes of board meetings throughout the period; and
- Agreement of the financial statement disclosures to underlying supporting documentation.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

USE OF OUR REPORT

This report is made solely to the Directors of Solicitors Indemnity Fund Limited (as administrator of the Fund). Our audit work has been undertaken so that we might state to the Directors of Solicitors Indemnity Fund Limited those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Directors of the Solicitors Indemnity Fund Limited for our audit work, for this report, or for the opinions we have formed.

DocuSigned by:

John Perry

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John Perry (Senior Statutory Auditor)
For and on behalf of BDO LLP, statutory auditor
55 Baker Street
London
W1U 7EU

10 March 2022

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

SOLICITORS INDEMNITY FUND

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 OCTOBER 2021

	Note	**31 October 2021** **£000**	31 October 2020 £000
Claims costs (net of indemnity recoveries)	5	**(977)**	(1,315)
Insurance recoveries		**1**	-
Net claims costs		**(976)**	(1,315)
Increase in gross provision for claims	13	**(1,337)**	(474)
(Decrease)/increase in expected indemnity claim recoveries	11	**(221)**	53
Increase in net provision for claims		**(1,558)**	(421)
Increase in amounts recoverable from insurers	10	**378**	-
Insurance premium		**(801)**	-
Increase in claims incurred net of insurance		**(2,957)**	(1,736)
Realised gains/(losses) on investments	6	**1,278**	(437)
Unrealised gains on investments	6	**2,193**	1,243
Interest from investments and indemnity claim recoveries	7	**53**	479
Investment expenses		**(144)**	(146)
Total interest and investment movements		**3,380**	1,139
Administrative expenses	5	**(634)**	(683)
Contributions receivable		**4**	-
Deficit before taxation	5	**(207)**	(1,280)
Taxation credit	8	**52**	232
Deficit for the year		**(155)**	(1,048)
Other comprehensive income:			
Other comprehensive income		**-**	-
Other comprehensive income for the year, gross of tax		**-**	-
Total comprehensive (expense)/ income for the year		**(155)**	(1,048)

All activities of the Fund relate to continuing operations.

The notes on pages 11 to 22 form part of these financial statements.

SOLICITORS INDEMNITY FUND

BALANCE SHEET AS AT 31 OCTOBER 2021

	Note	**31 October 2021**	31 October 2020
		£000	£000
Current assets:			
Financial assets at fair value through profit or loss			
Investments	9	**32,102**	30,808
Financial assets that are debt instruments measured at amortised cost			
Insurers' Share of Claims Provisions	10	**378**	-
Debtors	11	**1,254**	1,772
Cash and Bank		**169**	401
Total current assets		**33,903**	32,981
Current liabilities:			
Financial liabilities measured at amortised cost			
Creditors	12	**(151)**	(411)
Net current assets / Total assets less current liabilities		**33,752**	32,570
Reserves for Indemnity Provisions:			
Provisions	13	**(11,424)**	(10,087)
Total liabilities for indemnity provisions		**(11,424)**	(10,087)
Total Liabilities		**(11,575)**	(10,498)
Net Assets		**22,328**	22,483
Retained Surplus		**22,328**	22,483

Approved on behalf of Solicitors Indemnity Fund

J. T. Young
Chairman

8 March 2022

On behalf of Solicitors Indemnity Fund Limited, in its capacity as administrator of the Fund.

The notes on pages 11 to 22 form part of these financial statements.

SOLICITORS INDEMNITY FUND

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 OCTOBER 2021

	Retained surplus £000	Total £000
Balance as at 1 November 2019	23,531	**23,531**
Deficit for the year	(1,048)	**(1,048)**
Other comprehensive income for the year:		
Other comprehensive income	-	**-**
Total comprehensive expense for the year	(1,048)	**(1,048)**
Balance as at 31 October 2020	22,483	**22,483**
Deficit for the year	(155)	**(155)**
Other comprehensive income for the year:		
Other comprehensive income	-	**-**
Total comprehensive expense for the year	(155)	**(155)**
Balance as at 31 October 2021	22,328	**22,328**

The notes on pages 11 to 22 form part of these financial statements.

1. GENERAL INFORMATION

The Solicitors Indemnity Fund is a statutory fund established within the United Kingdom in 1987 governed by the Solicitors' Indemnity Rules 1987 as amended from time to time as outlined in the Report of the Directors. The principal office where the Solicitors Indemnity Fund is administered is 10 Lower Thames Street, London, EC3R 6AF, United Kingdom.

2. STATEMENT OF COMPLIANCE

The individual financial statements of Solicitors Indemnity Fund have been prepared in compliance with United Kingdom Accounting Standards, comprising Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102").

Due to the nature of the Fund it is not required to comply with the Companies Act 2006 and as such these are non-statutory financial statements. However, the Fund has complied with those elements of the Companies Act relevant to the financial statements that the Directors believe are necessary to enable the financial statements to give a true and fair view.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below.

(a) Basis of preparation

The most significant accounting policies adopted by the Fund are described below and these have been applied consistently to all the years presented, unless otherwise stated. The Fund continues to prepare its financial statements in accordance UK Accounting Standards.

Whilst the Fund is not required to comply with Financial Reporting Standard 103 "Insurance Contracts" where relevant the principles the standard have been used in determining the accounting policies.

Following the decision of the Council of The Law Society in June 1999 to move to market insurance, the Fund went into run-off on 1 September 2000.

The Company which administers the Fund, holds title to some of the legal assets which are beneficially held for the Fund. In accordance with the initial set up guidelines for the Fund, all of the assets and liabilities are recorded in these financial statements as if they belong to the Fund, and are not recognised in the financial statements of the Company.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Fund accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3 (p).

(b) Going Concern

The Directors have considered the ongoing consequences of COVID-19, alongside the Fund's principal risks, and they have determined that they do not create a material uncertainty that casts significant doubt upon the Fund's ability to continue as a going concern. The Directors consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements.

(c) Exemption for qualifying entities under FRS 102

FRS 102 allows a qualifying entity certain disclosure exemptions, subject to certain conditions, which have been complied with, including notification of and no objection to, the use of exemptions by the Fund's shareholders.

The Fund has taken advantage of the following exemptions:

i) from the requirement to prepare a statement of cash flows as required by paragraph 3.17(d) of FRS 102;
ii) from the requirement to disclose the key management personnel compensation in total as required by paragraph 33.7 of FRS 102.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) **Basis of accounting**
The financial statements are prepared under the historical cost convention with the exception of the valuation of investments. See Note (e).

(e) **Valuation of investments**
Investments, comprising listed securities are valued at their market value at the Balance Sheet date on a portfolio basis. Realised gains or losses represent the difference between net sale proceeds and purchase price. Investments are measured at fair value. Changes in fair value are recognised in the Statement of Comprehensive Income. The fair value of investments are obtained at the balance sheet date based on net asset value readily available from an exchange, investment manager or pricing service.

(f) **Interest from investments and interest from indemnity claim recoveries**
Income from the various investment portfolios is remitted throughout the year but is accounted for on an accruals basis. Interest from indemnity claim recoveries are recognised when they are able to be reliably measured and there is a reasonable expectation of recovery.

(g) **Contributions**
Contributions are accounted for on the accruals basis.

(h) **Insurance recoveries**
Insurance recoveries are accounted for as and when receipt becomes due based on the liability being incurred.

(i) **Claims costs**
Claims costs recognised each year comprise claims handling costs including the costs of panel solicitors, damages paid out, and other costs net of indemnity recoveries. Claims costs are accounted for when incurred and indemnity recoveries are recognised at the point they can be reliably measured and there is a reasonable expectation of recovery.

(j) **Claims provisions**
Estimation techniques are used to determine the Gross Claims Provision which represents the estimated outstanding liabilities relating to all indemnity years.

Ultimate claim settlements are estimated by the use of statistical projections of historical data, together with case by case reviews of notified losses, and are based on information available at the time the estimates are made. There is uncertainty as to the quantum of the ultimate settlement of the liabilities which is inherent in the process of estimating such that, in the normal course of events, unforeseen or unexpected future developments could cause the ultimate cost of settling the outstanding liabilities to differ from that currently estimated. Any differences between provisions and subsequent settlements are dealt with in later accounting periods as actual costs and non-insurance recoveries are known. Claims provisions include the estimated future costs of panel solicitors and claims handling costs, including a proportion of overheads. Claims provisions are not discounted.

(k) **Insurance provisions**
Insurance policies are held to provide cover for the risk associated with uncertainties of certain claims settlements and costs. Claims are made against policies to the extent that criteria have been met. Amounts are recognised to the extent that the Directors believe they are recoverable with provision made for any doubtful debts.

(l) **Indemnity recoveries provisions**
Indemnity recoveries are recognised at the point at which they can be measured and there is a reasonable expectation of recovery, practically when the Fund is notified of entitlement to amounts. Assessment is made of the likelihood of recovery and subsequent provision made if required.

The Fund does not make provision for other potential future indemnity recoveries due to the uncertainty of whether any amounts can be recovered.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Taxation

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the Statement of Comprehensive Income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively.

Current or deferred taxation assets and liabilities are not discounted.

Current tax

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

Deferred tax

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is recognised on all timing differences at the reporting date. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

(n) Financial instruments

The Directors have chosen to adopt the Sections 11 and 12 of FRS 102 in respect of the financial instruments.

Financial assets

Basic financial assets, including trade and other debtors and cash and bank balances are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in the Statement of Comprehensive Income.

Other financial assets, including investments in equity instruments which are not subsidiaries, associates or joint ventures, are initially measured at fair value, which is the normal transaction price.

Such assets are subsequently carried at fair value and the changes in fair value are recognised in profit or loss, except that investments in equity instruments that are not publically traded and whose fair values cannot be measured reliably are measured at cost less impairment.

If there is decrease in the impairment loss arising from an event occurring after the impairment was recognised the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in the Statement of Comprehensive Income.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Financial instruments (continued)

Financial liabilities
Basic financial liabilities, including trade and other creditors are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

The Fund does not hold or issue derivatives financial instruments.

Offsetting
Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle to liability simultaneously.

Fair value estimation
Financial instruments carried at fair value can be categorised by the following valuation methods:

Level 1	Quoted prices in an active market
Level 2	Recent transactions in an identical asset if there is an unavailability of quoted prices
Level 3	Use of a valuation technique if there is no active market or other transactions which are a good estimate of fair value.

The Fund's investments of £32.1 million (2020 £30.8 million) comprise of equities, investment grade bonds and other securities. They are all categorised as level 1.

(o) Related party transactions
The Fund discloses transactions with related parties which are not wholly owned with the same group. It does not disclose transactions with members of the same group that are wholly owned.

(p) Critical accounting judgements and estimation uncertainty
Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Note 13 provides a breakdown of the provisions.

Sources of estimation uncertainty
The Fund makes estimates and assumptions concerning the future. The resulting accounting estimates may differ to actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are addressed below.

The ultimate liability arising from claims
The estimation of the ultimate liability arising from claims under indemnity contracts is the Fund's most critical accounting estimate. The Fund's Provisions at year-end total £11.4 million (2020: £10.1 million) and consist of three components: case reserves, claims incurred but not reported ("IBNR") and a claims handling costs provision. Case reserves are estimated on a case by case basis by claims handlers and, where deemed necessary and appropriate, further opinions are sought from third party solicitors. Indemnity claim recoveries are only recognised where there is a reasonable expectation of recovery. This is practically when the Fund is notified of entitlement to amounts and so subject to a lesser degree of uncertainty then case reserves.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Critical accounting judgements and estimation uncertainty (continued)

The ultimate liability arising from claims (continued)
External actuaries estimate IBNR using standard actuarial claims projection techniques on a triennial basis or when deemed appropriate. Such methods extrapolate the development of paid and incurred claims, indemnity recoveries from third parties, average cost per claim and expected loss ratios. The main assumption underlying these techniques is that past claims development experience is used to project ultimate claims costs. To the extent that the ultimate cost is different from the estimate, where experience is better or worse than that assumed, the surplus or deficit will be credited or charged through the Statement of Comprehensive Income in future years.

Direct claims handling costs are recognised to the extent they can be separately identified as specifically relating to claims handling expected to be incurred due to known claims and IBNR cases.

4. RISK MANAGEMENT

The process of governance and risk management is addressed through a framework of policies and procedures as documented within the Administering Company's Corporate Risk Register. Risk management policies are developed by the Directors and executives taking into account the size and nature of the organisation. The Directors are responsible for satisfying themselves that a proper internal control framework exists within the Fund to manage financial risks and that adequate controls are in place and operate effectively.

a) Indemnity Risk

The principal risks from the Fund's indemnity operations arise from fluctuations in the timing, frequency and severity of claims compared to expectation for known claims (claims reserves and expected indemnity claim recoveries) and future claims (IBNR). These reserve risks are considered in turn.

i) Claims Reserves

These provisions are for all known cases and are notified on a claims made and circumstances notified basis and fall within an indemnity year. Reserve estimates are made by specialist claims experts and panel solicitors of the likely damages and potential costs involved in settling the claim, as well as any expected indemnity recoveries to be made. These reserves are revised on a regular basis based on updated information as the claims progress. These provisions are sensitive to changes in the complexity of the case and the potential outcome and therefore cost of damages changing. Therefore there is a risk that known claims may have been inadequately provided for or there may be a deterioration in the claim leading to adverse development.

Claims reserves are made up of all outstanding claims relating to the pre 1 September 2000 operational period and include claims made and circumstances notified against practices that had ceased without successor since 1 September 2000 but only in respect of those firms that had ceased prior on or before 31 August 2000. The claims reserves also include for all the claims arising from the post six-year run off protection provided by the Fund. This protection relates to claims made against firms that had ceased without successor on or after 1 September 2000 and after a lapse of the six-year run off cover provided by the prior market participating insurer. The development of the historic claims are almost complete and there remain a small number of cases left to resolve. The majority of claims reserves in value and volume relate to the post six-year run off protection provided.

The table below sets out the split of claims reserves by historic claims and post six-year run off claims:

	31 October 2021	31 October 2020
	£000	£000
Historic claims	**828**	827
Post six-year run off claims	**5,550**	5,518
	6,378	6,345

The movement of claims reserves are a Key Performance Indicator and are reviewed by the Directors periodically. Furthermore, the Directors are provided with more information relating to large and sensitive claims being any claim with a reserve movement in excess of £50,000.

4. RISK MANAGEMENT (continued)

a) Indemnity Risk (continued)

ii) IBNR

This provision relates to claims incurred but not reported (IBNR). These claims arise where the event that triggers a claim has already happened i.e. an act of negligence has occurred at some time in the past but is presently unknown to the Fund because it has not been reported. When disclosed to the Fund it would still be subject to any statutory limitation provisions applying. An actuarial projection is made of this provision. The principal assumptions underlying the actuarially calculated liability estimates is that the future claims development will follow a similar pattern to past claims development experience. Additional qualitative judgements are used to assess the extent to which past trends may not apply in the future, for example, one-off occurrence, changes in market factors such as public attitude to claiming, recession, cessation of firms and other market conditions. Judgement is further used to assess the extent to which external factors such as judicial decision and government legislation affects the estimates. Conveyancing claims make up the majority of claims by value and volume within the IBNR provision and are the single largest risk type by category.

Actuarial reviews are carried out on a triennial basis or when deemed necessary. The latest actuarial review was undertaken during the current financial year. The Directors take a prudent approach when selecting the level of reserving from the range identified by the actuarial review. The Directors review the development of claims against the expected actuarial projection and where necessary adjust the provision accordingly. Directors assess movements to determine an appropriate reserve in the intervening periods. The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Fund, where more information about the claim event is generally available.

iii) Claims Handling Costs

Provision is made for all future costs that will be incurred in the direct management and administration of claims. There are a number of steps that need to be followed before settlement of any claim. Claims made are assessed for their validity, negotiated and then settled. These procedures carry administrative and operational costs for the Fund. Estimates are made of all future costs of the Fund and an analysis is carried out to assess the extent to which these costs are directly attributable to claims handling.

iv) Expected Indemnity Claim Recoveries and Interest on Claims Recoveries

Indemnity recoveries and interest are only recognised once there is a reasonable expectation of the recovery being received and this is reserved at the net anticipated recovery value. Indemnity claim recoveries and interest relate almost entirely to historic claims and generally relate to assignments and charges obtained against third party assets as a consequence of an underlying claim settlement. The recovery reserves are subject to periodic review for changes in circumstances, such as changes to underlying asset values and adjustments are made if required. A review was undertaken during the year to assess the recoverability of the interest on claim recoveries and this resulted in a reduction in the asset of £0.3 million.

The Directors of the Company review and monitor the progress of indemnity claims recoveries periodically. Detailed commentary on the recovery as well as updates are provided for all recoveries. The Director actively seek to crystallise any potential future recovery at the earliest time whilst being mindful of the sensitivities that surround any given claim.

v) Sensitivity analysis

There is a wide range of possible outcomes in assessing claim provisions due to the uncertainty associated in estimating ultimate claims liabilities.

For known claim reserves and indemnity recoveries estimates, a range of outcomes are identified and a best estimate of the claims settlement or recovery value is used to raise a claim reserve or expected claim recovery.

For all actuarial projections, the final outcome will depend on the actual development of claims which in turn relies on the appropriateness of the historical data to predict the likely development of claims by type. Unforeseen changes may affect the suitability of that data and would be expected to have an impact on the accuracy of the results and increased uncertainty in the projections. Such changes could include unexpected claims inflation, shocks to the global economy, deep recession or a house market crash, changes in legislation or the emergence of new types of claim.

An estimate is made of future claims handling costs for both type of reserves. Estimates are made annually of all future costs of the Fund and an annual analysis is carried out to assess the extent to which these costs are directly attributable to claims handling and the proportion relevant to known claims and IBNR.

4. RISK MANAGEMENT (continued)

v) Sensitivity analysis (continued)

Sensitivity analysis is provided by the actuarial forecasts, ranging between the 50^{th} percentile and 99.5^{th} percentile forecast which provides differing outcomes of the IBNR provision for post six year run off claims. The Directors have taken a prudent approach when selecting the level of reserving for these financial statements.

The securing of the IA as reported in the Report of the Directors on Page 3 limits the Fund's exposure to IBNR risk on the post six-year run off book of business to 30 September 2020 in as much as any deterioration in that book of business above what is estimated and provided for is covered by the IA up to an additional £11.6 million. So the IA covers the Fund beyond the 99.5^{th} percentile for claims to 30 September 2020. The Fund is exposed to any further deterioration above £20 million which is considered remote.

During the year the Company entered into a supplementary Insurance Agreement to insure the Fund's claim liabilities for the one year extension to post six-year run off claims to 30 September 2021. The supplemental Insurance Agreement provides protection in excess of £1.7 million and up to a maximum of £4.3 million which is beyond the 99.5^{th} percentile. The Fund is exposed to any further deterioration above £4.3 million which is considered remote.

The Law Society of England and Wales has provided an unconditional financial undertaking in relation to this one-year extension and further details are contained within Note 14 Contingent Gains and Losses. As a consequence of this undertaking and the potential costs the Board has taken the decision not to put an insurance agreement in place to insure the Fund's claims liabilities for the further one-year extension to 30 September 2022.

b) Credit, Market and Liquidity Risk

Credit risk is the risk an obligor or counterparty will be unable to pay amounts in full when due. Market risk is the risk of fluctuations to the net asset value of investments due to the volatility or level of financial variables impacting the value of the Fund's investment portfolio. Liquidity risk is the risk that cash may not be available to pay obligations when due.

The Fund's primary financial risk, and exposure to the above risks, is that proceeds from financial assets are not sufficient to meet its claims settlement obligations due under the run-off its indemnity business. As the Fund has no premium income, the underlying security of the investment portfolio is paramount to ensure that the income generated is available to contribute towards payment of claims and operating expenses.

The Directors have set an investment strategy, within its risk appetite as identified by the Corporate Risk Register, and has retained the services of an independent investment manager under specific mandates to administer the Fund's investments.

At present, the Fund has invested in a diversified, and appropriately liquid, investment portfolio. The investments are held within two investment funds - one broadly representing the surplus capital and invested with a longer-term view and the balance broadly representing the potential known liabilities. Both are fully managed by its investment managers and held independently via a custodian.

The investment manager produces periodic investment reports to explain movements in the investment mix and performance against benchmark indices. These reports are considered periodically and contact is maintained throughout the year with the investment manager and meetings take place twice a year to discuss the performance and appropriateness of the investment portfolios given the Directors risk appetite.

The Board has considered plausible adverse scenarios, including, for example, geopolitical risks, which could impact the value of investments and ultimately the solvency of the Fund. The Board is content that the investment strategy adopted remains appropriate in light of current circumstances. The longer-term investment strategy has been aligned with that of The Law Society Group as it is anticipated that what remains of the long-term fund will be transferred to The Law Society Group as surplus at the appropriate time when the Fund is closed.

5. DEFICIT BEFORE TAXATION

Deficit before taxation is stated after charging the following amounts:

	31 October 2021	31 October 2020
Expenditure in the year:	**£000**	£000
Staff costs	**338**	397
Premises and IT costs	**85**	82
Insurance and other operating costs	**46**	59
Legal and professional	**383**	407
Audit	**53**	51
Net operating expenditure in the year	**905**	988

	31 October 2021	31 October 2020
	£000	£000
Included within the Statement of Comprehensive Income as follows:		
Cost of claims handling, including claims related share of overheads included within 'claims costs'	**271**	305
Non claims related costs included within 'administrative expenses charge'	**634**	683
	905	988

Costs

Audit expenditure of £53k (2020: £51k) is in respect of the audit of the financial statements. Non-audit services paid to the auditors was £nil (2020: £nil).

Directors' emolument costs of £57k (2020: £53k) are charged directly to the Fund and are included above within legal and professional costs.

The staff are employed by the Company and not the Fund. All staff costs are incurred by the Company and recharged to the Fund at cost.

Analysis of claims costs within the Statement of Comprehensive Income is as follows:

	31 October 2021	31 October 2020
	£000	£000
Amounts paid	**(840)**	(1,103)
Indemnity recoveries received	**134**	93
Claims handling costs	**(271)**	(305)
Claims costs (net of indemnity recoveries)	**(977)**	(1,315)

6. GAINS AND LOSSES ON INVESTMENTS

	31 October 2021	31 October 2020
	£000	£000
Net realised gains/(losses)	**1,278**	(437)
Net unrealised gains	**2,193**	1,243
	3,471	806

7. INTEREST FROM INVESTMENTS AND INDEMNITY CLAIM RECOVERIES

	31 October 2021	31 October 2020
	£000	£000
Interest from investments	**353**	391
(Reversal of)/Interest on indemnity claim recoveries	**(300)**	88
	53	479

8. TAXATION CREDIT

	31 October 2021	31 October 2020
	£000	£000
(a) Analysis of total tax credit in the year		
Current Tax		
Current Tax - Income tax credit on deficit for the year	**(41)**	(244)
Adjustment in respect of prior years	**(11)**	202
Current tax credit	**(52)**	(42)
Deferred Tax		
Deferred tax charge	**-**	-
Adjustment in respect of prior years	**-**	(190)
Total deferred tax credit	**-**	(190)
Total tax credit on deficit for the year	**(52)**	(232)
b) Factors affecting tax credit for the year		
Deficit before taxation	**(207)**	(1,280)
Tax credit at 20% (2020: 20%)	**(41)**	(256)
Expenses not allowable for tax purposes	**-**	12
Adjustment in respect of prior years	**(11)**	12
Total tax credit	**(52)**	(232)

9. INVESTMENTS

	31 October 2021	31 October 2020
	£000	£000
Managed investment fund	**32,102**	30,808
	32,102	30,808

The historic cost of investments amounts to £28.8 million (2020: £29.8 million).

10. INSURERS' SHARE OF CLAIM PROVISIONS

	31 October 2021	31 October 2020
	£000	£000
Recoverable under insurance arrangements	**378**	-
	378	-

Recoveries under insurance arrangements includes £0.4 million (2020: £nil) falling due after more than year. Recoveries are only recognised when management believe there is a reasonable expectation of recovery.

11. DEBTORS

	31 October 2021	31 October 2020
	£000	£000
VAT recoverable	**33**	36
Expected indemnity claim recoveries	**589**	810
Interest on indemnity claim recoveries receivable	**543**	854
Income tax recoverable	**40**	-
Deferred tax asset	**14**	14
Other debtors	**35**	58
	1,254	1,772

Interest on indemnity claim recoveries receivable includes £0.5 million (2020: £0.8 million) falling due after more than year. All other amounts are considered due within one year except for the expected indemnity claim recoveries, of which £0.5 million (2020: 0.8 million) is falling due after more than one year.

Recoveries are only recognised when management and external advisors believe there is a reasonable expectation of recovery.

As explained in Note 14 there are some additional assets over which the Fund has some title or claim, which may lead to potential future recovery. However, there is such uncertainty over the timing and amount of any recovery that no estimate can be made of the value of the asset.

11. DEBTORS (continued)

The deferred tax asset included within debtors is as follows:

	31 October 2021	31 October 2020
	£000	£000
Decelerated capital allowances	**8**	10
Accruals deductible when paid	**6**	4
Deferred tax asset	**14**	14

12. CREDITORS

	31 October 2021	31 October 2020
	£000	£000
Accruals and deferred income	**134**	171
Amounts due to The Law Society	**3**	-
Claims payable	**4**	64
Tax and social security payable	**10**	176
	151	411

13. PROVISIONS

The claims provisions are made in accordance with the accounting policies and as explained in the Report of the Directors, they carry a significant level of judgement and rely on estimation techniques based on experience and available information.

There are three main aspects to the provisions as follows:

	31 October 2021	31 October 2020	Movement
	£000	£000	£000
Gross claims reserves	**6,378**	6,345	33
IBNR	**3,302**	2,422	880
Claims handling costs	**1,744**	1,320	424
	11,424	10,087	1,337

a) Gross claims reserves – Provision is made for known cases. Estimates are made by specialist claims experts and panel solicitors of the likely damages and potential costs involved in settling the claim, as well as any expected indemnity recoveries to be made. These estimates are revised on a regular basis based on updated information as the claims progress. These provisions are sensitive to changes in the complexity of the case and the potential outcome and therefore cost of damages changing. The settlement of reserves is dependent on the specific circumstances of the individual claim and can vary significantly case by case.

13. PROVISIONS (continued)

b) Incurred but not reported (IBNR) – An estimate is made of those cases where the event that triggers a claim has already happened i.e. an act of negligence has occurred at some time in the past but is presently unknown to the Fund because it has not been reported. When disclosed to the Fund it would still be subject to any statutory limitation provisions applying. An actuarial projection is made of this provision periodically. The risk exposure of all IBNR claims reduces over time as cases reach their primary or statutory limitation period. There remains significant risk in the post six-year run off provision as this continues to be a developing area of business that took effect from 1 September 2007 when the Fund began providing cover for certain post six-year run off claims. The Directors also believe while there is a risk that there maybe some additional historic claims they are so uncertain that they cannot be quantified and so no IBNR provision is made for these potential claims.

c) Claims handling costs - These costs are recognised to the extent they can be separately identified as specifically relating to claims handling expected to be incurred due to known claims and IBNR cases. The provision for direct claims handling costs relating to gross claims reserves are £1,169k (2020: £885k) and IBNR of £575k (2020: £435k). There are additional costs which will be incurred in the administration and management of the Fund. However in accordance with UK Accounting Standards these have not been provided for. These are and will continue to be very real and significant costs the Fund will need to bear. As provision cannot be made for these in these financial statements, they will be set aside from within the surplus and ring-fenced.

14. CONTINGENT GAINS AND LOSSES

There are some assets over which the Fund has some title / claim which may lead to potential future recoveries. These potential assets are not recognised as part of the provisions for indemnity recoveries as, in the opinion of the Directors, they are so uncertain that they cannot be practically measured and hence no estimate is included here.

The Law Society of England and Wales has provided an unconditional undertaking to reimburse to the Fund the amount of any net solvency shortfall (i.e. any deficit) in its capital arising from the extension of the Fund's liability for post six-year run off claims until 30 September 2022, limited to a maximum liability of £4.0 million. The Law Society shall be released from this undertaking upon receipt by the Fund of adequate alternative comfort on the affordability of the extension, whether from an actuarial review or otherwise.

15. RELATED PARTY TRANSACTIONS

The Fund is exempt from disclosing other related party transactions as they are with other companies that are wholly owned within The Law Society Group.

16. ULTIMATE CONTROLLING PARTY

In the opinion of the Directors the ultimate controlling party is the Council of The Law Society by virtue of it being the controlling party of the Fund due to The Law Society's entitlement to surpluses of the Fund. Copies of The Law Society's financial statements can be obtained from The Law Society, Law Society Hall, 113 Chancery Lane, London, WC2A 1PL. Consolidated financial statements including the Fund are prepared by The Law Society, which is the parent undertaking of the largest and smallest group of undertakings to consolidate these financial statements at 31 October 2021.