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This paper will be published

Chief Executive's Report

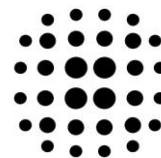
Purpose

- 1 This report provides an update to the Board on our priorities and any key developments that it needs to be aware of. It also provides information on important external developments and our engagement activity with key stakeholders.

Recommendations

- 2 The Board is asked:
 - a) to consider the Chief Executive's report
 - b) to comment on and approve the annual report from the Board to the Business and Oversight Board at annex 1
 - c) to comment on and approve the annual report from the Board to the Group Audit Committee at annex 2.

If you have any questions about this paper please contact: Paul Philip, Chief Executive, paul.philip@sra.org.uk, 0121 329 6940.



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- 3 At the Board's last meeting, it considered our approach to reporting on our operational and financial performance through a balanced scorecard and agreed our plans for it to be reported on a quarterly basis. The Board will receive our next balanced scorecard at its next meeting.
- 4 At the same time, we are also moving to reporting on our progress against our annual work programme on a quarterly basis in a separate report, with my report focusing on reporting on key developments that the Board need to be aware of.

Update against priorities / key developments

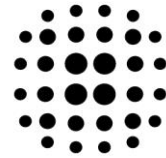
- 5 This section provides an update to the Board on our key priorities and any key developments

Annual reports to the Business and Oversight Board and Group Audit Committee

- 6 Following the changes to The Law Society's General Regulations in October 2017, the Board is required to provide annual reports to the Business and Oversight Board (BOB) and to Group Audit Committee (GAC).
- 7 The report to BOB is required for consideration within three months of the end of each financial year. It has to provide information on the Board's oversight and governance of the SRA, including how the Board has discharged its responsibilities both directly and through its committees, and on our financial performance.
- 8 This is our third annual report to BOB, which covers the 2018/19 financial year. The draft report for 2018/19 is attached at annex 1. The Board should note that the financial update at the end of the report differs to the version reported to the last Board meeting due to the completion of year end processes.

Recommendation: the Board is asked to comment on and approve the annual report from the Board to the Business and Oversight Board at annex 1.

- 9 The Board is also required to submit its report to the GAC at its meeting on 24 February 2020. This report, alongside a separate report from The Law Society, has to provide information on the operation of effective systems of financial control, risk management and internal audit, including how they operate in respect of shared services and common systems, to provide assurance to GAC.
- 10 Our draft report covering the financial year 2018/19 is attached at annex 2. It focuses on providing assurance to GAC that there are no issues to report within GAC's remit that would have a material impact on the Group accounts. Finance and Audit Committee (FAC) reviewed an initial draft of this report at its meeting on 26 November and the Chair of FAC commented on and approved a further version by email prior to it being circulated to the Board.



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Recommendation: the Board is asked to comment on and approve the annual report from the Board to the Group Audit Committee at annex 2.

Solicitors providing immigration services update

- 11 In October the Board agreed to introduce transitional arrangements that would maintain the status quo in relation to solicitors providing immigration advice and services. This was at the request of the Office of the Immigration Services Commissioner (OISC). This means that solicitors can provide immigration advice and services to the public from:
- organisations authorised by us or another qualifying legal services regulator
 - a narrow range of OISC regulated organisations - law centres and other non-commercial bodies.
- 12 Following further discussions with OISC, we propose to consult on arrangements that will maintain the existing transitional provisions on a permanent basis in February. This will provide long-term certainty for the sector.

Anti-money laundering (AML) update

New Money Laundering Regulations

- 13 New AML legislation came into force on 10 January 2020. The regulations transpose the 5th money laundering directive which has a focus on transparency of ownership. We expect further changes towards the end of the year when the 6th money laundering directive must be implemented.
- 14 The change in the legislation means that we have had to change the way we approve some individuals as we now need to see evidence that any beneficial owners, officers or managers do not have any criminal convictions that would prevent them from being approved under the money laundering regulations. This means that when a solicitor, or other individual, is appointed to one of these positions for the first time, or moves firm, they will need to get a basic DBS check and provide it to us.

Extension of activities – tax advisers

- 15 The new regulations also expand the definition of ‘tax adviser’. Under the previous (2017) regulations, we supervise two categories: independent legal providers and trust and company service providers. We believe we need to extend our AML supervision to include firms offering tax advice under the new, expanded definition, as many firms we supervise will be offering this alongside other AML-regulated services such as conveyancing or trust and company work. We can integrate the supervision of tax advice work within our existing AML activities; however, we will need to produce some guidance in this area.

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- 16 We are planning to communicate these changes to those we supervise. To understand which firms need to be supervised, we will ask firms we already supervise for AML purposes whether they offer tax services and we will communicate to firms we do not supervise for AML purposes that we can offer supervision in this area. We will also publish some guidance for firms offering tax advice on which areas are high risk and what best practice looks like.
- 17 If a large number of new firms come into our AML supervision, it is likely to have an impact on our resources. It could also impact on the fee we pay to the Office of Professional Body AML Supervision (OPBAS), which is set based on the number of beneficial owners, officers and managers we supervise under the money laundering regulations.

AML supervision

- 18 On 12 December 2019, we wrote to all 6,749 firms we supervise under the money laundering regulations asking them to confirm by the end of January that they had an AML risk assessment in place that complies with the requirements in the money laundering regulations. The Board will recall that we have recently issued a suite of guidance to help firms comply with this requirement. We will follow-up with firms that declare that they don't have a compliant risk assessment in place and those that don't respond. From February, we will begin a rolling exercise to call in a sample of firms' AML risk assessments.

Education Authorisation and Monitoring report 2017-18

- 19 We have published our annual education Authorisation and Monitoring Report on our work to monitor the academic and vocational stages of pre-admission training. This report analyses the information we receive from the course providers that we approve or authorise to provide courses. It also analyses information we gather on the routes to qualification of those admitted to the profession. The report can be viewed at the following link: <https://www.sra.org.uk/sra/how-we-work/reports/monitoring-activity-2017-18/>.

Brexit

- 20 In December we were interviewed by officials at the Ministry of Justice, on behalf of the Department of Business, Enterprise, Innovation and Skills, who were interested to understand our processes for individual and firm-based authorisations, information sharing arrangements and our technical standards (Code of Conduct and Standards and Regulations) in the context of the anticipated international trade negotiations following the UK's departure from the EU.
- 21 We explained the safeguards we have in place to ensure that the international qualifications we recognise are equivalent in content and standard to domestic requirements and that we have an adaptation test (the Qualified Lawyers Transfer Scheme, and in future the Solicitors Qualifying Examination) to provide a route to admission for qualified lawyers whose qualifications are not equivalent. Any mutual recognition arrangements will need to reflect these safeguards.

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Professional Indemnity Insurance (PII) and Compensation Fund

- 22 We published our position paper setting out the Board's decision not to proceed with substantive changes to our PII arrangements on 19 December 2019. This received a mainly positive response by stakeholders, commentators and the legal media.
- 23 We will publish our revised Compensation Fund proposals towards the end of January.

Practising Certificate renewal exercise (PCRE)

- 24 The PCRE project is near completion. At the end of December 2019, £118.8 million had been collected against a target of £120 million (99%). 39,978 renewal forms had been submitted compared to 38,468 in 2018 and 144,990 practising certificates had been approved compared to 140,899 in 2018.
- 25 On 6 December 2019, we revoked 3,388 practising certificates as well as the registration of 57 registered European lawyers and 173 registered foreign lawyers for non-renewal. These figures are comparable with 2018 where we revoked 3,448 solicitors, 39 registered European Lawyers and 164 registered foreign lawyers.
- 26 We will continue to contact firms and individuals with outstanding payments, currently around 230 firms and 80 individuals, and this work normally continues until early March, with most completing payment. The small number of firms and individuals outstanding at that stage will then be subject to follow up work from our Investigations and Supervision team.

Gender pay gap report

- 27 The Law Society Group Gender Pay Gap Report for 2019 will be published in February 2020 on the Government website, in accordance with statutory requirements. This report, together with the results for the SRA, will be discussed at the next People Strategy Committee.

Modernising IT Programme (MIT)

- 28 An update on MIT is attached at annex 3.

External Developments and Engagement Activity

Legal Services Board (LSB)

Business plan consultation

- 29 The LSB is currently consulting on its draft business plan for 2020/21. The consultation document and draft business plan are attached at annex 4.

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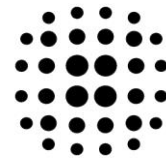
- 30 In the LSB Chair's forward to the consultation document, she highlights the LSB's aspiration to be more open about what it thinks the issues are in legal services regulation. The draft Business Plan itself includes a number of areas of focus and work programmes, including public legal education, regulatory approaches to technology, concluding its review of the Practising Certificate fee approval process and engaging on the LSB's future approach to enforcement and oversight. We will respond in due course and by the 14 February 2020 deadline.

Performance assessment

- 31 In December, the LSB published its updated assessment of our performance, alongside its assessment of other legal regulators. Of the three areas that they have previously identified as needing more work, one has now been recorded as 'met' following the launch of the Solicitors Register in November.
- 32 The second area on transparency of decision-making and performance, has been changed from 'not met – action being taken' to 'not met – action required'. Following the Board meeting in December, and after our latest update to the LSB, we published the full suite of Board information, improving transparency with our accountability and transparency statements, as well as the Board decision making framework and new web pages with news about the work of the Board.
- 33 We are continuing to work through our plans on the third area on advocacy standards, which the LSB continues to record as 'not met – action being taken'. We plan to meet the requirements during the course of this year. The report can be viewed at: <https://www.legalservicesboard.org.uk/our-work/regulatory-performance#regulatory-performance-reports>.

Stakeholder Engagement

- 34 Our ongoing engagement programme with stakeholders continues. Following the General Election, we have written to new in post MPs, providing support packs for their constituency work.
- 35 We have also continued to consult widely on our new corporate strategy. Events have included, workshops with young people, organised through Just for Kids Law and St Basil's charity, and older users of legal services, and their supporters, through the UK Asian Women's Centre and Age UK. We have also held roundtables with small and medium enterprises, consumer organisations and applicants to our Legal Access Challenge. The consultation closes on 23 January 2020.
- 36 Our annual Solicitors Qualifying Examination (SQE) conference was held at the University of Manchester and attracted around 100 attendees, primarily from universities and training providers, with a further 100 viewers online. Ahead of the conference, we [published](#) sample SQE 1 functioning legal knowledge questions. We have also published the SQE1 assessment specification for this part of the assessment.



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Author Paul Philip, Chief Executive
Date 14 January 2020

Annexes:

Annex 1 Draft annual report to the Business and Oversight Board
Annex 2 Draft annual report to Group Audit Committee
Annex 3 Modernising IT Programme update
Annex 4 LSB business plan consultation paper and draft business plan

NB: Annexes 1 to 3 to this paper will not be published because they contain information which is commercially sensitive or include discussion of risk that might be exacerbated by publication.