

Axiom's Debacle Casts Doubt Over SRA-CILEX Tie-Up

By **Marialuisa Taddia**

Law360, London (November 15, 2023, 9:53 PM GMT) -- The Solicitors Regulation Authority's inability to spot issues at Axiom Ince before it took over two other struggling law firms has cast doubt over the watchdog's plans to expand its oversight further to CILEX members.



The SRA is looking to regulate 17,000 legal executives as well as the country's solicitors. (iStock.com/Janis Abolins)

The SRA is looking at extending its regulatory oversight to authorized members of the Chartered Institute of Legal Executives, which is preparing to move about half of its 17,000 members away from its own regulator to cut costs.

While both the SRA and CILEX have said the plan would help simplify oversight, the Law Society and others have raised concerns. And the growing scandal after it emerged that Axiom Ince Ltd.'s founder had used much of the nearly £65 million (\$81 million) missing from its client account to take over two insolvent law firms has prompted more questions.

As the SRA has already indicated that fees to fund its client compensation fund will need to go up, a leading regulatory expert warned Wednesday that it was hard to see how the SRA could take on chartered legal executives without putting an extra burden on solicitors.

"It is clearly not in the public interest to amalgamate the two professions," Paul Bennett, a partner at Bennett Briegal LLP, told Law360 on Wednesday. "I am puzzled it has got as far [this]," he said.

Bennett, who represents one of the Axiom executives the SRA has suspended, argued that, despite a significant increase in its annual budget of nearly £98 million, the regulator is struggling to meet the costs of regulating the sector and protecting the public. Taking on the regulation of CILEX members would create "burden on solicitors," he said.

The SRA intervened in October to stop Axiom Ince from operating, after blocking three of its executives from practicing in August. That work has already cost the regulator an estimated £10 million to £15 million, and that's before any claims from the clients who have lost money.

Not only is Axiom Ince the SRA's biggest-ever intervention, the watchdog said Tuesday that the number of firms it has had to shutter has **more than doubled**, going from 25 to 65 in the year ended Oct. 31.

"This raises questions about the issue of consumer protection and specifically the role of the compensation fund," the SRA said.

The agency said it was working through the best way to compensate current claims while also ensuring the fund remained "financially viable." It is also seeing "a pattern of increased claims to the fund," which the SRA said meant it "looks likely" it would need to increase its levies to solicitors.

Andrew Pavlovic, a CM Murray LLP partner specializing in SRA professional discipline and investigations, told Law360 on Wednesday said that it would be "sensible" and "useful" from the public's perspective to consolidate the "real mishmash" of legal regulators. However, he said that in the context of the ongoing discussions within the SRA, including a potential levy on solicitors' practicing certificates to cover potential claims to the compensation fund, "it does raise the question as to whether that's something they want to proceed with" right now.

The SRA is also investing time and resources in **beefing up its role** in combating money laundering and is conducting some thematic reviews. And it takes the regulator an average of 12 months to investigate alleged misconduct by solicitors, and Pavlovic said this is causing "a lot of anguish" to the practitioners he represents.

"There is quite a lot that could be done to improve the process for the current people that the SRA regulates," he said, and this includes getting faster decisions on investigations.

"But I think that with the amount of things that the SRA have got going on at the moment, it doesn't seem to me sensible to bring more people within their regulatory sphere," Pavlovic said

The Law Society recently slammed the SRA's plan to take on the regulation of CILEX members, calling it "seriously misguided"

"There are serious issues with the proposals, which are unsupported by evidence that they will benefit the public," Nick Emmerson, the Law Society president, said this month.

Bennett, who is chair of the Law Society's law management section committee, also argued that under the U.K. legislation that governs the regulation of the country's legal sector, there is a "fairly rigid structure" that would have to be revised.

Otherwise, he predicted challenges from the Law Society as well as the Bar Council and Bar Standards Board would be likely, as the move looks like a push toward creating a single regulator for the entire profession.

"I have not spoken to a single solicitor who thinks this is a good idea," Bennett told Law360. "Ultimately it feels like a power grab by the SRA."

Speaking at the SRA annual compliance conference in October, Anna Bradley, the chair of the SRA's board, sought to reassure the profession regulating CILEX members was not part of a design to take over the rest of the regulators — at least not yet.

"I don't think there's any chance of there being a single regulator, or a move to a single regulator, without legislation, and I don't see any ambition in Parliament or from either party for moving to that legislation at this point," she said. "There's too many other issues on everyone's minds."

But Bradley pointed out that fusing the regulation of solicitors and legal executives was "a much more pragmatic and practical proposal which was explicitly made by CILEX."

"They came to us and asked if we were prepared to put a proposal to them because they saw issues with the arrangement that they had previously delegated to," she said.

Although Bradley stressed this was "not a development towards a single regulator," she did note that there could "be a political will at some point to move in that direction."

"Certainly the LSB has made no bones about the fact that it thinks that's the right way forward," Bradley said. "But we are not headed there right now."

Speaking to Law360 earlier in the year, Matthew Hill, the chief executive of the LSB, said that the legal

profession in England and Wales was "fragmented" and that it "has not been built from the point of view of the public." But he noted that despite the fact that the variety of types of lawyers would likely "bewilder" an average member of the public, he didn't see any chance that the legislative overhaul necessary to streamline the profession was coming "any time in the next two decades."

But in the context of CILEX, Hill said that the LSB has "been very clear that where regulators can work together to take away some of that confusion to perhaps build some economies of scale that enable them to do their job better, that's something we would very, very strongly encourage and support and welcome."

--Editing by Brian Baresch.

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