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STRUCTURAL CHANGES TO YOUR PRACTICE

The process of converting into a company or LLP has become more complex, and similar concerns arise for legal disciplinary practices that will need to convert into an ABS structure.

The SRA has recently combined its authorisation and licensing teams with the result that it has aligned application procedures for both conventional firms and ABSs, which does seem to have had the main consequence of slowing down the processes for law firms seeking authorisation or changed status. The bad news for firms intending to make any such application is that they will be expected to jump through similar hoops to those seeking to be licensed as an ABS.

A very much more detailed information gathering process will now apply if you are a partnership and want to convert to LLP status. You and your partners might assume that because you have been practising together for the last ten years, have unconditional practising certificates, have always submitted an unqualified accountants report and have good complaints and claims records, the SRA will only ask for basic information concerning the structure of the new LLP and its members. Not so. You can expect to be asked for your business plan, cash flow projections, a business risk analysis and all the other information which a prospective new firm would be asked for. If you are connected to an overseas firm – for example, if you are a London firm with a parent firm in the United States you are likely to be questioned on confidentiality and the way in which clients are referred between the English and overseas firm.

Many firms which became LDPs because they have one or more non lawyer managers may well be wondering whether it is a good idea to get ahead of the game and apply now to become an ABS. It would be logical to assume that because the SRA knows all about your business model and has details of the non lawyer managers this would be a simple process.

The SRA did talk about “passporting” for such firms. However, it is now clear that even if your firm is not changing its business model, “passporting” will require you to fill in the “Stage 2” form which is used for all new ABS applicants. Again, this is a detailed and lengthy form which must be accompanied by, amongst other things, a business plan, a detailed description of the firm’s structure and governance arrangements and details of any separate businesses, outsourcing arrangements and referral arrangements.

If you are an LDP which is proposing to change its business model by introducing new members or shareholders then expect to be treated as an entirely new ABS applicant. This will require the payment of a fee and the approval of all the new investors who have a material interest.

The date when all LDPs must become ABSs is not yet known. Some LDPs may be wondering if it is best to wait for that date on the basis that the SRA might simply convert all remaining LDPs to ABS status. Given the SRA’s approach to firms that want to convert earlier than that it would seem unlikely and it must be assumed that the SRA will use the occasion to get up to date information about all the firms which need to convert.

The overall message is that if you are planning to make any of these types of change you need to be aware that the process will not be quick and will carry frustrations. Although the SRA talks about streamlining its procedures there is little evidence of this at present and its approach remains cautious.

For those planning a change of status the first port of call must be the SRA’s website <http://www.sra.org.uk/solicitors/firm-based-authorisation/our-approach.page>. The SRA sets out there its primary concerns in any application for authorisation – whether a new firm or a change of status. Thereafter seek specialist advice to talk through your plans well in advance of any launch date for the new business. ■

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