



## **CILEx Regulation response to the Ministry of Justice consultation into Interest on Lawyers' Client Accounts Scheme**

CILEx Regulation (CRL) welcomes the opportunity to comment on the proposed Interest on Lawyers' Client Accounts (ILCA) Scheme. As the independent regulator for Chartered Legal Executives, CILEX practitioners, and firms, our primary focus is the maintenance of professional standards and the protection of the public interest.

We wish to clarify at the outset that CRL does not take a formal view on the merits of the policy itself, nor the principle of remitting client account interest to fund the justice system. We see this as a matter for the Government to decide.

However, we have two points of note to make. First, this proposal is likely to meet with resistance from law firms and, second, we have concerns regarding the practical implementation of the scheme and its potential impact on regulated community operations and consumer costs.

1. **Likely resistance:** We anticipate that the Government's proposals will be met with some, if not significant, resistance from law firms. This is based on two sources of information. First, we have been contacted directly by firms who have argued that the Government's proposals will put firms at risk. Second, in 2022, CRL consulted on proposals to remove the ability for CRL regulated firms to hold client money and replace the existing CRL overseen 'client account' arrangements with a Third-Party Managed Account (TPMA). This was backed up by research into client money and account handling by law firms<sup>1</sup>. However, at consultation phase, this proposal was met with significant resistance from regulated entities, who argued that the impact of the change on firms would be substantial. We therefore decided to withdraw the proposal.
2. **Implementation:** While the policy intent is clear, there are potential operational hurdles that need to be considered:
  - **Administrative and Technical Burden:** The requirement for daily interest calculations and periodic remittance introduces a high level of complexity. Many CRL-regulated firms are small-to-medium enterprises (SMEs) or sole practitioners who may struggle to handle these new workflows without significant capital investment.
  - **Regulatory Burden:** CRL-regulated entities report back to us that they are facing increased regulatory burden, leading some to consider leaving the market. There is a risk that additional regulation could disincentivise market entry at a time when regulators are being asked to prioritise growth.
  - **Banking Infrastructure Readiness:** The success of this scheme relies heavily on the banking sector. If banks do not provide integrated, compliant account products that automate reporting and remittance, the burden of manual calculation will fall

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<sup>1</sup> Available here: [IRN-Research-Spinnaker-Client-Accounts-Research-Report-29th-March-2022.pdf](#)

entirely on the practitioner, increasing the risk of accounting errors and subsequent disciplinary issues.

- **Impact on Business Viability and Consumer Fees:** For many smaller firms, interest on pooled accounts helps offset the high costs of maintaining client accounts and general banking fees. Removing this revenue stream, while simultaneously increasing administrative costs, may force firms to increase their fixed fees, potentially harming the very access to justice the scheme seeks to fund.