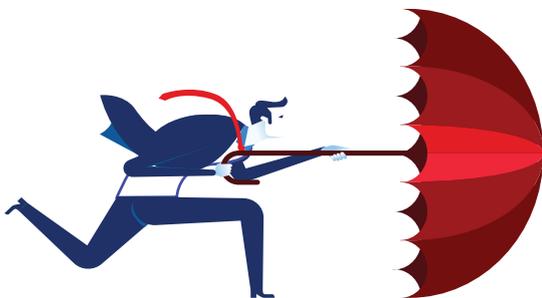


Strategic Risk Committee Report 2017



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Chair's Foreword: Sarah Ryan



"Whilst this has been a quiet year for the Committee, we have observed the efforts of the team in moving forward with entity regulation. We are all looking forward to helping set standards on risk for licensing, regulatory switching and education standards in 2018. I would like to thank the other members of the committee for their support during my time as chair and wish my successor every success at this exciting time for CILEx Regulation."

Introduction



- ✓ CILEx Regulation operates an outcomes-focused, proportionate and risk-based approach to regulation
- ✓ It is designated to authorise both individuals and entities
- ✓ This report outlines the work undertaken by the Strategic Risk Committee in relation to risk in 2017
- ✓ It also identifies areas for development of our risk-based approach to regulation

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The functions of the Strategic Risk Committee



The Strategic Risk Committee provides an oversight function for the review and application of our risk framework and how this should be applied to our authorisation processes. In addition it can consider and decide whether to endorse decisions to reject or revoke authorisation for our firms.

Following a successful recruitment process commenced in 2017 the committee will start 2018 with five members, comprising both Lay and Professional members, all of whom are looking forward to helping support CILEx Regulation in its work in the coming year. 2018 will also see a new chair appointed and new terms of reference will be approved.

Individual supervision

CILEx Regulation decided that the risk-based approach to individual supervision should be enhanced, and the role of the Strategic Risk Committee be extended to include individuals within the work that it carries out.

A first draft of a new Terms of Reference was proposed to enable the Strategic Risk Committee to now advise CILEx Regulation on the development and monitoring of risk in relation to the authorisation and supervision functions at CILEx Regulation for both regulated individuals and authorised entities.

This is seen as an important step forward in the approach by CILEx Regulation to individual supervision, especially with the future development of a new Customer Relationship Management (CRM) system. This will see the full integration of its supervisory activities for individuals as well as our firms within the new system.



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Areas for development

In 2018 CILEx Regulation will commence the work on a practitioner risk matrix for integration with the CRM system. This will take into account the area of practice in which the individual works, the type of practice in which the individual works (e.g. regulated firm) the nature of the work undertaken (e.g. advocacy) and the type of consumer to which legal services are delivered (e.g. vulnerable consumer). The initial draft matrix and risk framework will be reviewed by the Strategic Risk Committee.

It is proposed that the risk matrix and framework will come under the terms of reference of the Strategic Risk Committee and, as risk intelligence develops, there will be opportunities to review the risk ratings applied to the matrix and framework.

The Strategic Risk Committee recognises the importance of the work around individual supervision with new education standards and the development of new roles in law firms requiring a different approach to supervision. CILEx Regulation will be involving the Strategic Risk Committee in providing oversight on their approach to this work.

In addition the Strategic Risk Committee will be helping to develop our approach to supervision for the various areas of advocacy as part of an appropriate replacement for the Quality Assurance Scheme for Advocates (QASA).

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Entity authorisation and supervision



Whilst the Strategic Risk Committee was not directly involved in the review of any entity authorisation decisions, it continued to play a key oversight role in 2017.

With the decision to proceed with an application to become a licensing body, CILEx Regulation consulted with the Strategic Risk Committee on the additional considerations that should form part of the additions to the risk framework when assessing the risks of licensing an ABS firm. The Strategic Risk Committee believed that the specific risks CILEx Regulation needed to address were:

- ✦ to clearly understand ownership and connected businesses; and
- ✦ the risk of undue influence from non-lawyers on the standards within an entity, which should be incorporated into the assessment process.

The role of the Strategic Risk Committee and the insight provided was referenced within the ABS application and then commented on positively in the responses by the statutory consultees.

In order to maintain a consistent approach to decision making for non-ABS and ABS, CILEx Regulation also proposed to extend the same oversight function of the Strategic Risk Committee to cover decisions relating to licensing of ABS. This has required new Strategic Risk Committee rules to be drafted and submitted as part of the overall ABS application.

CILEx Regulation has also agreed to review and set out clearly to the Strategic Risk Committee how the regulatory objectives are achieved within the risk framework for both non-ABS and ABS entities.

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Areas for development

The Strategic Risk Committee will continue to provide input in to the development of the risk framework for ABS. They will assist and guide the development of our approach to different types of applicant ABSs, ensuring that we are assessing all risks carefully and encouraging applications from those firms and businesses that are seen as our core market. This work will assist us in meeting the approach we outlined in our response to the comments from the statutory consultees, which was submitted to the Legal Services Board in early 2018.

In addition, with the opportunity for firms to switch regulators, the Strategic Risk Committee will help develop the risk framework to assess that particular risks that will now need to be considered for established firms.

CILEx Regulation will involve the Strategic Risk Committee in assessing a new AML risk matrix and proposing any other changes prior to adoption of the approach to proactive supervision of those falling under the Money Laundering Regulations 2017.

It is proposed that the framework will be programmed into the new CRM so that a risk rating can be applied to entities and individual practitioners which will enable a more differentiated approach to be taken to the supervision of entities and individuals.

Again it is proposed that the risk matrix and framework will come under the terms of reference of the Strategic Risk Committee and as risk intelligence develops, there will be opportunities to review the risk ratings applied to the matrix and framework.

It is proposed that the Strategic Risk Committee formally have the opportunity to review authorised applications annually to provide a quality assessment review and ensure that the risk frameworks are being applied correctly.

The Strategic Risk Committee will be involved in the work on new rules to aid consumer transparency, particularly in looking at how CILEx Regulation can achieve a balance between supporting firms with these new requirements and addressing risks connected with those firms that are not early adopters.

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Conclusion

We expect the work of the Strategic Risk Committee in 2018 to continue to be mainly focused on guiding the development of our policy on risk relating to individuals and firms. However, as the work of the Strategic Risk Committee develops, we anticipate a more statistics based report demonstrating the detail of the Committees work will be introduced in future years.

In 2018, it is intended to commence the work of the Strategic Risk Committee in advising CILEx Regulation in its development of a strategy to deliver pro-active supervision of regulated individuals regulated. This will consider how the existing individual supervision requirements can be better targeted at those individuals who pose the greatest risk.

Working with the SRC, CILEx Regulation will continue to develop its risk frameworks, which underpin the authorisation and supervision of entities, including those newer areas such as Anti Money Laundering and Consumer Transparency.

Working with the SRC, CILEx Regulation will review and develop its risk frameworks to incorporate the additional risks posed by ABS licensing and firms switching regulators.

