FOIL Update 7th August 2026

Legal Services Regulation

Once again, the legal services regulatory landscape is facing change on various fronts. This update summarises the latest developments and identifies key areas where further reform may follow:

1. Public Bodies Review of the Legal Services Board (LSB)

We now have Richard Lloyd's critical report on the LSB which acknowledges that a series of serious regulatory failures have occurred across the system and that these have had adverse consequences for consumers. The report recommends (1) a wholescale LSB reset within the existing statutory framework; (2) a strategic focus on the proportionate, risk-based supervisory oversight of frontline regulators in the interests of consumers and (3) practical steps to bring about a more integrated, collective approach to legal services regulation. The LSB has accepted the need for a reset/improvement and has already announced action to address some of the recommendations in the report. The review did not address whether the LSB itself should continue to exist, nor the most effective design for the legal regulatory framework.

2. The final word on Mazur? The LSB Final Report: Regulatory review of advice and guidance provided to the profession on the conduct of litigation by approved regulators and regulatory bodies

This report addresses the background, fallout and regulatory responses to the *Mazur* saga. The LSB identifies various knowledge gaps regarding the conduct of litigation from 2022 onwards and prior to the High Court decision in *Mazur.* Critically, the LSB concludes that these '*regulatory knowledge gaps …have inhibited the regulatory bodies' ability to proactively identify risks to the regulatory objectives*' (para 170). Paragraph 203 of the report identifies those matters and actions that still need to be addressed by the regulators, reinforcing FOIL's position that greater regulatory collaboration is still warranted.

3. SRA Consultation, Proposals to strengthen continuing competence requirements

The key area of contention in this consultation concerns the SRA's proposal to require all solicitors to participate annually in discussions where they will work through ethical dilemmas and scenarios with other solicitors. This appears to be a direct response to the recent LSB policy statement on ethical duties. Whilst the intention to develop learning around professional ethics is a laudable one, FOIL is concerned by the scope and potential resourcing implications of this proposal. Further, the most effective learning environments are those ones where the learner has some opportunity to tailor the mode/form/pacing of the learning process. The SRA does not sufficiently cater for flexible learning with a mandated single form of engagement.

4. Legal Ombudsman, Consultation on changes to scheme rules, case fees, and publication of ombudsman decisions

The key proposal in this consultation is to introduce revised case fee arrangements, aimed at limiting the number of complaints to the Legal Ombudsman, encouraging early dispute resolution and specifically targeting legal providers generating the greatest demand for complaint resolution services. Whilst FOIL agrees that it is appropriate for LeO to take **reasonable steps** to reduce **avoidable** demand for their services, there are some underlying concerns about the proposals as currently framed:

a) There is some evidence that the number of complaints being made have increased because of the use of AI systems or agents, which makes it easier to compile and formulate complaints. Any uptick in the number of complaints related to AI is not necessarily linked to poor service by providers or avoidable demand.
b) It is logical for legal providers that generate the most demand due to their poor service should pay a bigger share of LeO's operating costs. However, FOIL does not support the proposal that the mere generation of a demand for services is a sufficient criterion for allocating the cost burden without any assessment of merit. For example, if ten complaints against a firm are dismissed and found to be unmeritorious over a defined period, why should that firm have the same fee burden as a firm where all ten complaints are upheld over the same period?
c) Around 30% of the cases LeO investigates are not upheld. It is essential that strategic steps are taken by LeO to address this tranche of complaints as well. One option is to levy fees upon unmeritorious complaints. FOIL refutes the argument that the LeO service will be undermined if fees are levied on unmeritorious complaints. The Legal Ombudsman should not confuse the costs associated with access to a service with the subsequent cost of dispute/complaint resolution. For example, if an initial investigation decides that a complaint is unmeritorious, it would be possible to give the complainant an off ramp without a case fee penalty. However, continued pursuit of the complaint to a final ombudsman's decision could then result in a case fee related consequence for the unmeritorious complainant. Such an arrangement would not create a disproportionate hurdle to access to justice. Access to justice warrants fairness for all the parties to a dispute – not just the interests of complainants.
d) The proposed fee for an ombudsman's final decision (£1500) is too high and has no direct bearing on the sums and/or issues in dispute. As such the proposals fail on their own terms

in respect of proportionality. In some cases, the proposed incentives will amount to punitive action if implemented.

e) FOIL does not understand the logic for not publishing the identity of unmeritorious complainants. Indeed, justice should be seen to be done for all the parties to a dispute or complaint.

This consultation closes on 2 September 2026. There is still time to feed into FOIL's response.

5. SRA Consultation, Client money in legal services: Notifying the SRA of changes to help identify and act on risks

This consultation concerns the notification of certain prescribed events (including acquisitions and mergers) to the SRA. FOIL's provisional position is relatively straightforward. The SRA already has adequate regulatory powers to request information although no objection is taken to the ex-post notification proposal regarding client money. There is also concern that the SRA's proposed approach may lead to regulatory creep with incremental additions to the list of prescribed events over time. There is also some important detail that is missing from the consultation proposal. The consultation is unclear about which party the SRA wants to impose the notification obligation upon: is it intended to impose the obligation on the acquiring or target firm or both parties? How will the SRA respond in the event of partial notification by the parties to a merger or acquisition? What guarantees and protections are the SRA going to put in place in respect of confidential information and for the commercial sensitivities that may be involved in a merger or acquisition? The consultation closes on 17 August 2026.

6. SRA Consultation, Changing our requirements on first-tier complaints

Yet another SRA consultation on complaints. This one does not revisit the issues raised in an earlier (2025) consultation. Instead, it is proposed that when a complaint is first notified, clients are to be provided with a timeline for resolution of their complaint and thereafter given regular updates on the progress of their complaint. The SRA also seek feedback on their draft Complaints Handling Requirements Statement and views on the areas covered in the new complaints handling guidance. The consultation closes on 1 September 2026.

7. SRA Consultation, Protecting consumers when solicitors and law firms use and/or arrange third-party litigation funding for consumer claims

Finally, the SRA are consulting on proposals to strengthen the regulatory obligations that apply when solicitors and law firms use and/or arrange third-party litigation funding for consumer claims. This consultation closes on 17 September 2026. Please send any comments through to shirley@denyer.biz.

8. Other potential areas for reform

The Ministry of Justice is still reviewing their plans for an Interest on Lawyers' Client Accounts Scheme.

The Civil Justice Council has an ongoing review of the Solicitors Act 1974, and the Legal Services Board has made a commitment to review the reserved activities in the Legal Services Act 2007.

We are still waiting for greater detail about the FCA's future oversight role in respect of money laundering and corporate terrorist financing.

There is also the ongoing enforcement action being taken by the LSB against the SRA.

FOIL will continue to contribute to the growing regulatory discourse. As always, it would be helpful to have members' input. If you have any views or further feedback on any of these policy areas, please email jeffrey.wale@foil.org.uk. Many thanks.

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