



Law firm mergers are all the rage at the moment as the industry shrinks in the face of deregulation and increased competition.

At McBrides we have been assisting with two such mergers in recent months.

The first involves two clients who we introduced to each other a few years ago. The larger was a general practice firm, very well respected in their geographical area but with a couple of areas of law which they were looking to strengthen.

The other, one of the very first law firms to be granted Alternative Business Structure (ABS) status, specialised in those two areas of law and was located some 9 miles away from the larger practice.

Our introduction enabled both firms to cross refer work over a period of time to strengthen their offerings to clients and allowed a good working relationship to develop.

When the founders of the smaller firm decided it was time to hang up their legal boots it was obvious that they should talk to the larger practice. Conversations developed and the terms of a merger were agreed. Our role was to structure the merger to meet ownership objectives and generate the best tax outcome for both parties.

Given they were both clients of McBrides we were very conscious of the potential for a conflict of interests. However, all parties were aware of this and, with constant evaluation of the issue, and the careful use of 'Chinese Walls', we were able to assist both firms through the tax, structural and accountancy

issues to effect a very satisfactory merger.

The combined firm now has greater technical depth and better coverage in a number of legal disciplines and an increased geographical reach and reputation within which to grow and expand its delivery of services. The greater critical mass of the combined firm creates other opportunities too.

The other merger which is ongoing involves a niche law firm client of ours which has agreed terms to merge with another much larger firm looking to consolidate and expand their service offering in that particular niche, and to enter a completely new geographical location.

We are assisting the main Principal of our client and have helped him consider the merger offer, agree heads of terms, and are currently working with him and his solicitor to finalise a Share Purchase Agreement and work through the due diligence program instigated by the larger firm's advisers. All parties are confident of success as the commercial rationale for the merger is very strong and everyone is of a mindset to make it happen. The benefit for our client of the support and extensive infrastructure of the larger firm is a major factor in his thinking.

These two circumstances illustrate a variety of benefits that mergers can offer. A prerequisite, is the right commercial circumstances, where firms in a position of strength combine to gain greater critical mass, secure the interest of their stakeholders and provide an appropriate exit route for retiring partners.

Our clients tell us that having the right advisers around to assist with these things, and even to make the initial

## INSIDE

- 2** SRA regulations shake up
- 3** McBrides supports biggest night of the year for Kent lawyers
- Solicitors be mindful - you are not a bank
- 4** Important dates reminder
- ILFM Training

Continued from front page: introduction, helps enormously to get the best results. Even where skills within the firms exist, an experienced and independent outsider can work sensitively

and efficiently through the required processes to achieve a mutually successful outcome. If you are considering sale, merger or acquisition of a practice do please get in touch.

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## SRA regulations shake up

After extensive consultation on new regulations last year, the SRA published its decisions and consultation response documents on 13th June 2017. The changes will be incorporated into a new 'slimline' SRA Handbook, which is due for implementation in Autumn 2018 at the earliest.

There will be two new Codes of Conduct – one for individuals and one for practices and a new set of 'SRA Principles' to guide behaviours. More controversially, solicitors will in the future be able to offer non-reserved legal services outside of firms regulated by the SRA or another legal services regulator, a measure which has not been widely welcomed by the profession.

Revised and streamlined Accounts Rules received a warmer welcome. The SRA reversed its position on the possible redefinition of client money and made some additional changes to the proposed rules.

### **New Accounts Rules**



#### **Client money**

It had been proposed that 'money paid to firms for fees in advance and payments for which the firm is liable' should not be client money. The responses to the consultation opposed this change for many reasons including reduced consumer protection, VAT implications, as well as the cost and administrative burdens of changing current accounting processes. That change has been dropped, so the current position remains i.e. money received in advance for the payment of fees and disbursements will continue to be client money and should be held in the client account until the point at which bills are raised.

However, the Rules do include an exemption for operating a client account, where the only client money held is in relation to fees and disbursements for expenses incurred on a client's

behalf. In this instance, the client must be informed in advance of where and how the money will be held.

Some of the very detailed requirements such as imposing deadlines to deal with a process have been removed and, as expected, the 14-day rule for transferring client money to office will be rescinded. This will be a welcome revision for many practices which find it difficult and impractical to comply with this Rule. In the main, firms will be able to carry on with current processes and in some cases, adapt them to be more relevant to the practice, in line with the increased flexibility of the new Rules.

#### **Accountant's Report**

Currently a final Accountant's Report must be delivered when a practice ceases to hold client money. This has created additional burdens where there is seen to be little or no risk to the consumer, such as on transition from a partnership to an LLP. Under the new rules the SRA is only looking for a 'cease to hold report' where a firm shuts down, to ensure all client money is dealt with appropriately; or if the SRA specifically requests one.

#### **Legal Aid**

Further changes are also seen in respect of Legal Aid payments where all monies will now be included in the office account, including that for unpaid disbursements.

#### **Third party managed accounts**

As expected, the new Rules will allow the use of a third party managed accounts to hold client money provided that reasonable steps are taken to ensure the client is aware and understands the arrangements and client money is not received by the practice as a consequence.

The new version of the Accounts Rules contain 13 Rules and the draft version can be reviewed at [www.sra.org.uk/documents/sra/consultations/accounts-rules-annex1-draft-accounts-rules.pdf](http://www.sra.org.uk/documents/sra/consultations/accounts-rules-annex1-draft-accounts-rules.pdf)

# McBrides supports biggest night of the year for Kent lawyers

McBrides were delighted to sponsor the awards at the Kent Law Society annual dinner on Friday 12 May.

Nick Paterno was asked to judge and present the awards in front of representatives from other overseas law societies and 220 members of the Kent Law Society which serves solicitors, their staff and trainees and law students in the County of Kent.

The award for Junior Lawyer of the Year went to Melanie Christadoulou of Furley Page LLP, and the award for Outstanding Achievement was given to Blair Gulland of Gullands Solicitors.

Nick said "McBrides have been involved in judging and sponsoring these awards since their inception in 2014 and the quality of those shortlisted for the awards this year was exceptional. The judges had an extremely difficult task in differentiating between candidates, but in the end there was unanimous agreement that Melanie and Blair thoroughly deserved to win. Our congratulations go to them both."



Edward Lewis, President of the Kent Law Society said "We were delighted that Nick was able to present the awards and thank McBrides for their continued support."

The dinner was attended by George Jessel the High Sheriff of Kent as well as Her Honour Judge Adele Williams – a Deputy Lieutenant for Kent.

2018 will mark the 200th anniversary of the Kent Law Society and we are very much looking forward to working with the Society on creating a very special evening and dinner to mark the occasion.

## Solicitors be mindful - you are not a bank!

The SAR Rule (14.5) preventing a firm's client account being used as a banking facility has made the news over the last couple of months with a spate of recent disciplinary tribunals and court judgements against solicitors.

The SAR Rule is explicit and states that there must be a legal transaction underpinning the movement of client money.

Solicitors trying to accommodate a client, however innocently, have been caught out and fined. And while a client may have



a multitude of reasons for wanting to move money through solicitors rather than their bank (ease, lack of charges, trust etc), the Solicitors Regulatory Authority (SRA) would view this as 'doing the bidding' of a client - something that the rules were designed to prevent.

Since 1998, guidance note (ix) to Rule 15 of the Solicitors Accounts Rules 1998 has warned solicitors of the need to exercise caution if asked to provide banking facilities through a client account and in 2004 the note was amended to state 

Continued from page three: expressly that solicitors "should not provide banking facilities through a client account". In 2011, the guidance note was elevated to an Accounts Rule (Rule 14.5 of the SAR Accounts Rules 2011).

The SRA believe that no specialist knowledge is required to understand this Rule and will prosecute if they believe a solicitor is moving money or holding client money without a legal transaction attached to it.

The SRA has seen an increase in reports of client bank

accounts being used improperly as banking facilities, with the attendant risks of involvement in financial crime or non compliant insolvency processes.

Note: Rule 14.5 states you must not provide banking facilities through a client account. Payments into, and transfers or withdrawals from, a client account must be in respect of instructions relating to an underlying transaction (and the funds arising therefrom) or to a service forming part of your normal regulated activities.

# 10% discount on ILFM training

The Institute of Legal and Financial Management runs a range of one day or half day training seminars around the country on topics close to our hearts such as the SRA Accounts Rules, COFA responsibilities and Practice Management. McBrides' clients and contacts can obtain a 10% discount on ILFM one day training seminars. To obtain the discount you must book four weeks in advance of the seminar date and quote 'McBrides' when booking. For more information regarding the training days please look at their website, [www.ilfm.org.uk](http://www.ilfm.org.uk).

Tuesday 12 September	SRA Accounts Rules
Wednesday 13 September	Cybercrime
Tuesday 26 September	Financial Management
Monday 9 October	VAT
Tuesday 10 October	SRA Account Rules
Tuesday 21 November	SRA Account Rules
Thursday 23 November	The Fundamentals of Legal Cashiering
Tuesday 5 December	SRA Accounts Rules
Monday 11 December	Credit Management

## Important dates

## reminder

**31 July** is the next dead- line for tax payments on account. (Don't forget to elect to reduce these 'POAs' if possible!)

**30 September** is the deadline for practices with a 31 March year end to have their Accountants' SAR Report completed.

**31 October** is the deadline for practices with a 30 April year end to have their Accountants' SAR Report completed.

**31 December** is the deadline for practices with a 30 June year end to have their Accountants' SAR Report completed.

**31 January** is the next deadline for tax balancing payments for 2016/17 and the first payment on account for 2017/18. (Don't forget to elect to reduce these 'POAs' if possible!)



**McBrides Legal Services Team**  
Left to right:  
Nick Luck, Andrew Fuller, Tanya Hamilton, Nick Paterno, Hannah Wilson and Terry Baldwin

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