



**Ministry of Justice
Interest on Lawyers' Client
Accounts Scheme
Consultation**

UK Finance response

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Friday 27 February 2026

About UK Finance

UK Finance is the collective voice for the banking and finance industry. Representing more than 300 firms across the industry, we act to enhance competitiveness, support customers and facilitate innovation.

This consultation response reflects feedback from our Commercial membership, which includes the major high street lenders, as well as challenger and smaller banks. These organisations provide finance and other essential services to businesses, including the provision of Client Deposit Accounts (CDAs) for law firm customers.

If you have any questions relating to this response, please contact James Jeffrey, Principal, Commercial Finance, at james.jeffreys@ukfinance.org.uk.

Overview

1. We welcome the opportunity to respond to the Ministry of Justice's (MoJ) consultation on an Interest on Lawyers' Client Accounts (ILCA) Scheme. We recognise the Government's objective of securing sustainable funding for the legal system, which plays a vital role not only in facilitating access to justice but also in supporting the economy and providing companies with the confidence to do business.
2. However, across our membership, there is significant concern about the principle, design, and operational feasibility of the proposed scheme. While supportive of the goal of strengthening funding for the legal system, UK Finance and our members do not support the scheme in its current form and have significant concerns about the very principle of such a policy.
3. There is broad agreement that the proposed scheme risks introducing material operational, financial, and competitive distortions across both the legal and financial services industries. The scheme as designed would require fundamental changes to account structures, product design, tracking mechanisms, reporting processes, and reconciliation activities. These changes would result in substantial systems investment and ongoing administrative burden for banks and CDA providers, without a clear or equitable mechanism for cost recovery.
4. Importantly, banks are subject to the FCA's Consumer Duty, which requires them to deliver fair value and good outcomes. The scheme risks undermining these outcomes by imposing substantial new costs and operational burdens on banks, which would ultimately be passed on to law firms and end-customers. Smaller and regional SME law firms – often serving local businesses and vulnerable consumers – are likely to be disproportionately affected, increasing the risk of market exit and reducing access to justice.

5. The proposals also create legal and regulatory uncertainty, particularly around the treatment and beneficial ownership of interest redirected to the scheme. They risk distorting competition, incentivising law firms to alter long-established account practices or to seek providers outside the mainstream banking system, generating further instability and unintended consequences across the market.
6. From the client perspective, the scheme may undermine clarity, fairness, and expectations. Clients typically anticipate that interest on their funds is either returned to them or handled in accordance with established rules. Redirecting interest centrally may create confusion, require additional client communications or consents, and impose burdensome administrative processes on law firms.
7. A further concern is the lack of clarity around cost allocation. Without a clear funding model, the financial and operational burden is highly likely to cascade through the system – affecting banks, legal service providers, and ultimately end-users.
8. The timing of these proposals is particularly challenging. At a time when the Government is working with the financial services sector to unlock economic growth and is making a number of policy changes to help facilitate this, the introduction of an ILCA scheme would impose a substantial additional drain on financial and operational resources for our members. Likewise, these proposals risk being overtaken by technological and other regulatory developments and initiatives – such as the Government’s [proposals](#) to increase the speed and efficiency of the home conveyancing process – which could reduce the amount of time client money could be held by law firms and so undermining the rationale for this proposed scheme.
9. Given these issues, we strongly encourage the MoJ to reconsider the design and underlying assumptions of the proposed scheme. Alternative, more proportionate mechanisms for supporting funding of the justice system should be explored. At a minimum, the scheme requires a full assessment of the costs and operational impacts on all affected stakeholders – particularly client account providers – before it can progress.
10. In addition to our overarching comments, we have responded to the relevant consultation questions below. We would be very happy to discuss our response further with MoJ officials in due course.

Questions

1. Do you have any views on the proposed scope of the scheme?

11. Should the MoJ proceed with the scheme in spite of the concerns expressed, we recommend limiting its scope to GBP-denominated CDAs and excluding non-GBP accounts. Including foreign currency accounts would materially increase operational complexity, introduce FX valuation and settlement risk, and raise legal and conduct uncertainties for marginal incremental benefit. Non-GBP balances typically represent a small proportion of total client money holdings, and the additional cost and risk is unlikely to be proportionate.

12. Separately, where a law firm is subject to a Solicitors Regulation Authority (SRA) intervention, banks are usually required to remit funds held in accounts for the relevant law firm to the SRA, including funds held in CDAs. Consideration would therefore need to be given to how the proposed scheme would operate in the context of an SRA intervention to avoid any conflict between the SRA requirements and the scheme.
13. Our members are also concerned that the consultation does not address the interaction between the proposed scheme and existing tax and statutory interest reporting obligations. Interest on CDAs is currently reportable by banks to HMRC under the Bank and Building Society Interest (BBSI) regime. Introducing automatic interest remittance raises fundamental questions about whether ILCA scheme amounts are pre- or post-tax, who the interest is attributable to for tax purposes, and how banks should reflect this in statutory reporting and customer disclosures.
14. Any change to interest attribution or payment flows would require material changes to tax reporting systems and reconciliation processes, creating additional operational risk and compliance costs that are not currently reflected in the consultation document.
15. Indeed, the consultation document focuses primarily on the burden for legal service providers and gives very little consideration to the operational and financial implications of new system build-outs that would fall on banks and other CDA providers.
16. This is a material omission as the scheme would be hugely dependent on account providers' ability to operationalise interest capture, diversion and remittance. If firms are left to individually design the required product and not all can meet the MoJ's specifications, the approach becomes anti-competitive – favouring larger incumbents with greater technological capacity and pushing smaller providers out of the CDA market. As a result, some law firms may be forced to re-platform or re-bank, reducing market choice and undermining the Government's own aims of supporting competition in financial services. Reduced provider diversity also increases costs for law firms, with this burden ultimately falling on consumers and SMEs.
17. The proposals also risk further harming competition by effectively forcing standardisation of product offerings to in order to comply with the MoJ's plans. Banks are subject to strict competition rules and must determine their own risk appetite. Members have also expressed concerns about reputational damage if the industry is perceived as facilitating what could be seen as a mechanism to "tax" the legal sector through CDAs.
18. Finally, given the scheme's limited geographic scope, there is a possibility that some affected law firms – particularly those operating across both England & Wales and Scotland – may explore whether alternative arrangements could enable them to avoid the scheme's impact. Although such workarounds may ultimately prove unviable, the possibility of firms considering them is a foreseeable outcome of the incentives created by the policy.

2. Aside from reserved legal activities, is there other work undertaken by legal service providers that includes holding client money? Should this be in or out of scope of the scheme?

19. N/A

3. Are there other account types used for holding client money that should be in scope of the scheme?

20. N/A

4. Are there any types of individual account used for holding client money that should not be included in scope of an ILCA scheme? And why?

21. Some members have noted that they operate a mix of individual and business accounts for Court of Protection (COP) purposes, where SRA-regulated individuals or firms act as the Court-Appointed Deputy and manage bank accounts on behalf of private individuals. Although these funds are not believed to meet the definition of client money, members have suggested that the Government should expressly exclude them from the scope of the scheme.

22. Current industry practice is for law firms undertaking COP work to establish a separate trust corporation as a limited company – often SRA-regulated in its own right – which then operates COP accounts using business CDAs. Because these COP accounts are closely connected to the law firm's broader operations, financial institutions would find it extremely difficult to distinguish COP CDAs from other CDAs held by the same firm for the purposes of determining scheme eligibility.

5. We propose that the scheme retains a higher proportion of interest generated on pooled client accounts (75–100 percent), and a lower rate of 50 percent of interest on individual client accounts. Do you have any comments on these rates?

23. The research commissioned by the MoJ to support the consultation reported that 23% of law firm respondents use the interest earned from client accounts to cover costs. For those firms, restricting access to some or all of this interest would result in a direct reduction in income. This is likely to create financial pressure that may be passed on to consumers through higher legal fees and reduced (legal aid) service availability.

24. Notably, it disproportionately affects smaller and regional law firms which operate with tighter margins and have limited power to set price; as price takers they are less capable of absorbing cost and less effective in managing revenue erosion than larger national or international firms. The proposed scheme risks taking away a source of income that supports the former in sustaining their business, and as it disproportionately threatens the viability of smaller firms, this would potentially accelerate market consolidation and reduce consumer choice. These are outcomes that run counter to the Government's objectives on competition, access to justice, and regional economic growth.

25. In addition, the consultation appears to omit consideration of varying interest rates on the viability of the scheme. While interest rates are currently relatively high, they are

inherently cyclical. In a low-rate environment, the total interest available for remittance to the scheme could fall significantly, raising questions about whether the scheme would remain economically proportionate or 'value for money' over time, given that the ongoing administrative and operational costs of running the scheme for law firms, and banks, such as those relating to controls, reconciliation, dispute handling, and governance, would be largely fixed. This amounts to a fatal flaw in the proposed scheme and requires further consideration should the MoJ decide to pursue to the proposals following this consultation.

26. We note that some law firms may seek to mitigate the impact of the scheme by proactively moving from a pooled to an individual client account approach. For example, a firm with thousands of clients managed in a pooled account may wish to open an equivalent number of individual CDAs to reduce the interest proportion paid to 50%. This would have significant operational and cost challenges for financial services providers where there is no provision for the automated/bulk opening of very large number of bank accounts. This mitigation strategy could significantly increase complexity and costs for the MoJ in reconciling significantly larger volumes of client accounts than currently exist and a reduction in the proportion of interest received.

27. Alternatively, some law firms may determine that by continuing to account to their clients with a fair sum of interest and remitting much of the remaining interest under the scheme, that it is no longer cost-effective or practical to operate and administer the banking of client accounts in-house and look to outsource their client account requirements/balances to third party managed accounts (TPMA) providers. At scale, this would have significant liquidity implications for traditional client account providers. If an impact of the scheme is that law firms are less willing to hold client funds due to the administrative burden it places on them, this is likely to negatively impact the operation of a wide range of transactions across the UK economy.

6. Do you foresee any difficulties with keeping in place the existing rules on client interest, for the interest not secured by the scheme?

28. Yes. Mandating banks to operationalise the scheme would increase the cost to serve as it would require lenders to produce separate interest statements for both the MoJ and clients. It would also introduce additional complexity into BBSI tax reporting and other regulatory reporting processes, heightening the risk of errors, increasing reconciliation requirements, and potentially leading to negative client outcomes, such as inaccuracies affecting credit scores.

7. For legal work undertaken on your behalf as a client, have you received (or are you expecting to receive) interest on your funds?

29. N/A

8. If yes to the previous question, how much interest have you received/are expecting to receive?

30. N/A

9. Are there any impacts of the proposed scheme on clients that we have not considered?

31. We encourage the MoJ not to overlook the negative impacts on competition and the growth of the professional and financial services industries the scheme could create, which have been noted throughout this response.

10. For legal service providers: how easy or difficult do you find it currently to open pooled or individual client accounts?

32. N/A

11. For client account providers (including Third Party Managed Account providers): are there any benefits or challenges foreseen with introducing banking products with the specified criteria proposed?

12. For client account providers: Would you be able to offer client accounts that could automatically transfer the appropriate amount of interest to the scheme? How would they work?

33. For a number of our members, including several major lenders, interest remittance would need to be carried out manually because not all institutions have the necessary automation capability. As noted earlier, introducing automated remittance would require substantial financial and operational investment – an investment our members do not support, as it would divert resources from their core business activities and broader efforts to support economic growth.

34. Implementing periodic, automated remittance would also be far from cost-neutral. It would necessitate changes to product design, terms and conditions, interest-calculation and transfer processes, operational controls, reconciliation and dispute-handling procedures, and potentially new onboarding and servicing arrangements for administrator accounts. Delivering such complex infrastructure comes with significant cost implications.

13. By what process should a “comparable rate” of interest on client accounts be determined?

35. Banks manage their balance sheets by raising funds with differing characteristics – such as duration, type, and regulatory treatment – which means each source of funding carries a different value. The interest rate offered on client accounts is one of the tools used to manage these balance sheet requirements. CDAs are already treated individually for these purposes and would become even more differentiated if additional operational processes or new product structures were required to support interest diversion under the scheme. Pricing is ultimately a commercial decision for each bank, and the concept of a “comparable rate” does not naturally align with balance-sheet management practices. To date, competitive market dynamics have been a key driver of interest rates, and this competitive influence may diminish should the scheme be implemented on a “comparable rate” of interest basis.

14. We propose that interest is credited to client accounts, and collected by the scheme, periodically (such as monthly or quarterly). What should that frequency be?

36. Notwithstanding our comments in response to earlier questions, remittance made on an annual basis would be the most proportionate if the scheme proceeds. This approach would at least align with existing annual tax and regulatory reporting cycles, mirroring the frequency with which interest is typically assessed and reported to HMRC. This would reduce, although not resolve, the operational burden, and avoid unnecessary payment and monitoring complexity that would arise from more frequent remittance.

15. Are there other account criteria for the accounts that would be recommended to make the scheme work as intended?

37. N/A

16. Do you foresee any practical difficulties with the proposed process for legal service providers?

38. N/A

17. Do you have any suggestions for changes that could improve how the model works for legal service providers?

39. N/A

18. Do you have any other thoughts on the intended scheme process for legal service providers?

40. N/A

19. At your firm, how much interest is typically generated on a single client's funds including:

- a. On one client's funds in a pooled client account; and
- b. On one client's funds in an individual client account.

41. N/A

20. What proportion of your firm's turnover is client account interest?

42. N/A

21. What does your firm currently do with client account interest?

43. N/A

22. How would the scheme, as proposed, affect your firm?

44. N/A

23. What indirect/administrative costs may the scheme place on your firm and how can we limit them?

45. The scheme would impose material new operational and systems requirements on banks and other account providers, which incur high set-up and ongoing operational costs. In terms of set-up, this would include changes to interest calculation and automated remittance, and ongoing costs for reconciliation, reporting, and hosting scheme administrator accounts.
46. As highlighted in response to earlier questions, these costs and risks are not adequately assessed in the consultation, which focuses primarily on administrative impacts for legal service providers. In practice, these requirements create obligations on banks to invest in complex infrastructure or exit the market for client accounts, reducing choice and innovation. If unmanaged, these costs risk discouraging CDA market participation, reduce competition and consumer choice, hindering access to justice as well as growth for SMEs and the economy more generally.
47. One member has made a specific suggestion that in order to minimise these costs should the scheme proceed, the MoJ should work with the SRA to determine interest due from law firms based on SRA Accounts Rule 12 reporting, with law firms remitting the required amounts directly to the scheme administrator (more details are set out in response to Q27). Banks should remain responsible only for standard interest accrual and account reporting, not for interest allocation or remittance.

24. Does your firm conduct legal aid work?

48. N/A

25. If yes to the previous question:

- a. **What proportion of your firm's turnover is derived from legal aid work?**
- b. **Would the proposed scheme impact your provision of legal aid services, and to what extent?**

49. N/A

26. Do you envisage circumstances in which you would need the scheme administrator to assist you?

50. N/A

27. For client account providers: what are your views on the two proposed models for managing scheme interest: multiple administrator accounts across institutions versus a single central account?

51. UK Finance members do not support either proposed administration model, as both impose disproportionate operational and compliance burdens on banks by requiring new account structures and interest remittance functionality that extend beyond standard services.
52. As we set out in response to Q23, one member has noted that, under SRA Accounts Rule 12, law firms must obtain an independent accountant's report each year covering their client accounts, including interest earned. This established regulatory framework already provides a reliable basis for calculating the interest that would be due under

the scheme, without requiring banks to undertake any interest calculation or remittance activities.

53. A more proportionate approach should the Government proceed with the scheme, would therefore be for the MoJ to work with the SRA to determine each firm's liability using the existing Rule 12 reporting, with law firms then sending the relevant amounts directly to the scheme administrator. Banks should remain responsible only for accruing standard interest and providing normal account reporting – not for allocating or transferring interest on behalf of firms. Placing remittance responsibilities on CDA providers would be inappropriate and creates unnecessary risk, particularly where funds are paid into client accounts in error and could lead to incorrect transfers to the administrator. It should naturally be for law firms to determine the correct interest due under any ILCA model.

54. Banks should only become involved where there is non-compliance and a statutory enforcement mechanism is triggered – similar to HMRC's Direct Recovery of Debts process – rather than as part of routine scheme operations. They should not be responsible for ongoing interest administration. Using existing regulatory structures avoids unnecessary cost, reduces operational risk, and helps maintain competition among CDA and TPMA providers by not imposing additional obligations on account providers.

28. We propose that the Ministry of Justice initially administers the scheme. Do you think there is a more suitable organisation to take on this role in future, and why?

55. If the scheme is to proceed, we believe that a co-administration model between the MoJ and the SRA would be a more appropriate way of administering the scheme. As elaborated above, the SRA already supervises client money compliance under the SRA Accounts Rules, providing established audit assurance and enforcement mechanisms. Leveraging this framework avoids duplication and removes the need for banks to perform interest calculation or remittance functions.

56. Under a co-administration model, the SRA could validate firm-level reporting and compliance, while the MoJ could retain responsibility for scheme governance and funding allocation. This approach reduces operational burden and cost for banks, aligns accountability with regulated entities, and supports competition and market participation.

29. Do you have any other comments on the proposed roles of the scheme administrator?

57. N/A

30. What reporting activity do you already undertake on client accounts and client account interest?

58. Approaches may vary between CDA providers, but typically banks will present the monthly interest paid to GBP CDA holders in the customers' bank statement each month. The day in the month that interest is posted will vary by account, but it would typically be the day the account was opened.

59. As we set out earlier in this response, banks report interest earned by CDAs via BBSI returns. If the scheme gives rise to any changes in the treatment of credit interest (e.g. tax payment to HMRC and interest remittance to MoJ), this needs to be reflected in the BBSI scheme to ensure that tax liability is clearly and accurately reported and there is no mismatch of interest treatment.

60. Any change to interest attribution or payment flows would require material changes to tax reporting systems and reconciliation processes, creating additional operational risk and compliance cost that are not reflected in the consultation document.

31. How might we ensure that an approach to monitoring and enforcement is proportional and effective?

61. As we have set out earlier in this response, enforcement risk and cost of non-compliance should not be borne by banks or CDA providers nor should banks be placed in the position of controlling client money administration and remittance to the scheme administrator.

62. Non-compliance should be addressed through regulatory and statutory enforcement mechanisms applied to law firms, not through operational obligations imposed on account providers.

32. What do you consider to be the proposed ILCA scheme's equalities impacts on individuals with protected characteristics (if any)?

63. N/A

33. Is there further evidence (including data, or case studies in other jurisdictions) you can share that could inform our equality analysis for the proposed scheme?

64. N/A

34. Are there forms of mitigation in relation to equality impacts that we should consider?

65. N/A