

BUSINESS STRATEGY

Combination act

A change in the law governing the ownership of law firms came into effect this year which could offer IFA firms opportunities to expand their businesses.

A change that was first announced in the Legal Services Act 2007 came into effect in January this year and last month saw the Solicitors Regulation Authority announce it had licensed the first three law firms to operate as alternative business structures.

Alternative business structures are firms where a non-lawyer is a manager or has an ownership interest in the company. It means that for the first time non-lawyers can own and invest in law firms.

So far, the SRA has received 130 applications for ABSs. Solicitors Regulation Authority chief executive Antony Townsend said: "This is a huge milestone. ABSs introduce more competition into the marketplace, delivering competitive pricing, higher standards and more choice for the consumer."

ABSs mean opportunities for IFAs. Attracting investment from a broader range of markets, being able to offer a wider range of services and the freedom to realise existing synergies with legal firms have all been cited as reasons IFAs should be excited about the implementation of LSA 2007.

Informed Choice managing director Martin Bamford says: "This is something we have considered as a growth option, although we have not actively pursued it yet. I can see the attraction as the typical law firm has potential IFA clients, particularly in areas such as divorce and trusts. Solicitors can learn a lot from IFAs and vice versa."

IFA firm The Portal Group has submitted its formal application for the SRA for the licensing of a legal plus financial ABS with Goodwin Knight Law LLP. The ABS will have one solicitor owner and five IFAs.

The Portal Group partner Andrew Moore says: "Our group's core skill set of marketing and providing specialist client services can be replicated within an SRA-regulated ABS structure. The IFA business and the SRA-regulated business will be run separately.

"We foresee no conflict of interest because each business is run separately under different management teams. None of our core businesses will get involved in any legal work and the SRA-regulated businesses would offer

Do changes to the ownership rules of law firms offer opportunities for IFAs or could joint ventures become a regulation nightmare? Rachael Adams reports

Ian Muirhead
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specialist legal services."

Solicitors Independent Financial Advice legal affairs director Stuart Bushell says: "Traditionally, the main problem between solicitor and IFA relations conducted at arm's length has been that the solicitors have not referred the volume of clients IFAs hoped for. I have seen many a joint venture founder because of that.

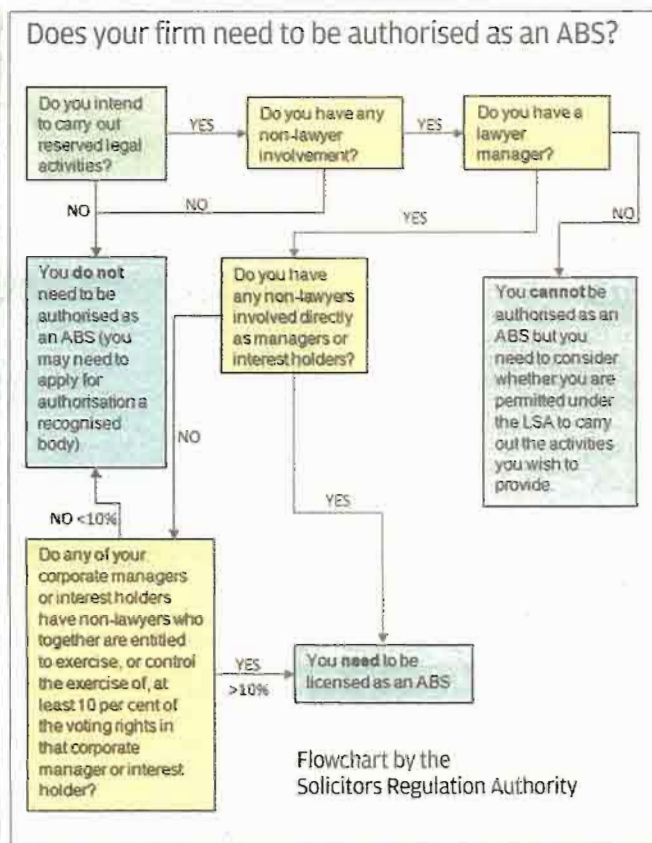
"The IFAs who want to take advantage of what the LSA brings are thinking, 'Wouldn't it be wonderful to have a solicitor firm with a wide private client range and yet we could actually control what they referred to us?' Control and money are the appeal for IFAs."

The Law Society lists a number of other benefits of becoming an ABS. It says: "The ability to diversify the range of legal services provided by the practice either through:

- becoming a one-stop shop or
- consolidating a specialism in a particular area of the market."

Some parts of the industry have said the appeal of becoming a one-stop shop will increase once the RDR comes in and financial services becomes viewed in a more professional light. This will mean that lawyers and IFAs will be placed on a more equal footing, making collaboration more likely.

Sifa managing director Ian Muirhead says: "There's widespread evidence of solicitors being keener than ever to establish links with IFAs. The RDR is not a major consideration for solicitors because they are preoccupied with the threat of competition arising from LSA 2007. However, the fact that solicitors are now subject to FSA-



style regulation provides valuable common ground and IFAs have much to teach solicitors."

Aurora Financial Planning adviser Aj Somal says: "I would not be surprised if we see tie-ups between adviser and law firms after the RDR. ABSs are very appealing as they provide potential opportunities to expand our businesses by tapping into legal firms' client databases."

However, Bushell believes the benefits of LSA 2007 are appealing to IFAs in theory but are less workable in practice. "When you get into the technicalities of it, I am not sure it remains quite as appealing. When the LSA was first being considered, people thought multi-disciplinary practices were the way forward but it will be a little distance from that," he says.

The bureaucracy involved in becoming an ABS is one of the biggest hurdles for IFA and legal firms wanting to make the change. Issues such as the new company's risk status, boundaries and which parts are regulated by the FSA or the SRA and complex compliance considerations for firms that accept external investment are just some of these problems.

The SRA has said that conflicts of interest between

lawyers and advisers are something it has considered and spokesperson says: "Our new outcome-focused regulation regime compels all firms to look at emerging risks involving conflict of interest and take steps to avoid them. We would want any organisation applying for ABS status to have identified such risks."

The Law Society highlights in its practice notes the question of how ABSs are regulated in its practice notes.

It says: "Will becoming an ABS change the firm's perceived risk profile? The SRA does not believe that ABSs are inherently more risky but changes to your firm may still alter the perceived risk. This may alter the way a firm is regulated by the SRA under its new system of risk-based regulation."

Bushell says: "The SRA is very keen that clients understand at all times when they are being advised by the firm of solicitors and when they are being advised by the IFA.

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people to know when it has left its protection."

The question of dual regulation is another potential downside, says Muirhead. "An ABS that provides both legal and financial services would need to be dual-authorized. For technical reasons, this would present difficulties for an ABS whose primary offering was legal services.

"However, such issues could be avoided by making the IFA firm a corporate partner in the law firm but retaining its separate identity for conducting FSA-regulated activity," he says.

The common opinion seems to be that the technicalities of becoming an ABS could be prohibitive for many IFA firms. Muirhead says: "Legal plus financial ABSs are likely to be less popular than joint ventures between legal and IFA firms, because they avoid the problems of integration."

Joint ventures look set to represent the future of professional connections more than ABSs for the majority of advisers, says Bushell.

"IFAs of a certain type and income will be interested in becoming owners of solicitor firms but what you will not get is the same firm doing financial and legal services," he says.

"What you will probably have is a group of companies under one holding roof. It remains attractive for IFAs to have a captive firm of solicitors but in a lot of cases you will have mirror companies where a firm of solicitors and IFAs share directors but are separate legal entities. Regulation is so expensive these days that it is bad enough being regulated by the FSA or the SRA. The idea of coming under both is nightmarish."