



Alternative Business Structures: Fact Sheet 2

OWNERSHIP AND MANAGEMENT OF ALTERNATIVE BUSINESS STRUCTURES

What are the major changes to ownership and management of legal firms?

Alternative Business Structures (ABS) will be allowed to adopt much more flexible management and ownership structures than traditional firms. Up until March 2009, non-lawyers were not allowed to own or manage a law firm. Some limited reform of this arrangement has now started and 'Legal Disciplinary Practices' (LDPs) have been permitted. In LDPs, lawyers from different backgrounds can practise together and non-lawyers can be managers, providing they remain in a minority.

LDPs can be owned by different types of lawyer and/or up to 25% of non-lawyers. It is a first step towards ABS and there are now just over 100 LDPs. ABS will take this management and ownership flexibility a lot further by allowing a greater proportion of individual non-lawyers in a firm, as well as external ownership or part ownership of law firms. This will enable firms to provide innovative blends of legal and non-legal services.

Who will benefit from these new ownership and management structures?

Those giving legal advice and consumers will benefit from the changes. Legal service providers will benefit because of the removal of restrictions on management structures. The availability of additional financing options through flexible ownership should enable opportunities for more efficient and managed firms to grow and prosper. For example, a solicitor's practice in a small town might establish a joint practice with the local accountant or adviser. This might allow them to make savings on overheads and offer new services to clients.

The new management structures may also provide more career opportunities - for example to non-lawyers with finance, IT and management skills. Lawyers who want to focus solely on practicing law will be able to do so, while non-lawyers can focus on the management and development of the firm. They can bring many essential skills to help make a firm more competitive and dynamic, such as strategic leadership, human resources, finance, IT and marketing. All these will be important in helping to make a law firm successful.

I want to start an ABS – what do I do?

ABS will need to have a licence authorising them to practise. We anticipate that firms will be able to apply for a licence in the first half of 2011, with ABS “going live” around mid-2011. Licences will be granted by Licensing Authorities; these must be Approved Regulators (eg the Solicitors’ Regulation Authority and the Council for Licensed Conveyancers). The LSB will decide who becomes a Licensing Authority. Licensing Authorities will enforce compliance with the licence requirements.

The Legal Services Act 2007 sets out some statutory requirements for ABS licences. These include having a legally qualified Head of Legal Practice who will be responsible for ensuring compliance with the licence requirements. There must also be a Head of Finance and Administration who ensures that accounts rules are followed. All owners and managers will have to pass a fit and proper test to find out whether they have a criminal record or have been disqualified.

We want the way ABS are regulated to take a different approach to the traditional rules that tend to be used by regulators now. Although strict rules may be necessary for some aspects of how a firm needs to operate, using them for everything can unnecessarily restrict the way in which services are provided. So we want regulation to be centred on outcomes and principles. This doesn't mean “light touch” regulation – important safeguards such as the professional principles (for example acting with independence and integrity, duty to the court and acting in clients’ best interests) will remain.