

**Direction 113 issued under Part 3 of Schedule 4 to the Legal Services Act 2007 to the Institute of Chartered Accountants in England and Wales (ICAEW)**

1. This is a direction issued pursuant to paragraph 19(3) of Schedule 4 to the Legal Services Act 2007 (the Act).
2. Unless stated otherwise, words in this direction are used as they are defined in the Act.
3. In accordance with paragraph 19(3) of Schedule 4 to the Act, the Board has directed that the following alterations by ICAEW to its regulatory arrangements be treated as exempt alterations for the purposes of paragraph 19(2)(c) of Schedule 4:

*ICAEW Professional Indemnity Insurance (PII) Regulations - run-off cover on cessation of practice*

***Proposed changes***

4. ICAEW-accredited probate firms are required to comply with the PII Regulations and hold a minimum limit of indemnity of £500k per claim for 'authorised work' (i.e. probate and estate administration). PII regulations 2.7 and 2.8 currently provide that the terms and extent of any run-off cover should be equivalent to the firm's previous qualifying insurance. As a consequence, members and firms which cease practice are required to maintain run-off cover at the level it was prior to cessation of practice.
5. It is proposed that this requirement would be better framed as a recommendation and moved into guidance. The rationale for this, according to the application, is that this is more in keeping with the better regulation principle of proportionality, since it will give firms the freedom to determine the run-off cover that is appropriate, provided it complies with the minimum requirements the ICAEW regulations. ICAEW recommends in the guidance that the terms and extent of any run-off cover be equivalent to that provided by the firm's previous qualifying insurance. At a minimum, run-off cover will need to comply with the limits of cover required by regulations 3.2 - 3.5. The guidance makes clear that firms must bear in mind that these limits may not be sufficient depending on circumstances.
6. The ICAEW also propose the following main changes:
  - PII regulations 1.6, 2.5 and 5.2 have also been amended along with the guidance at section 6 and elsewhere to remove/update references to a 'certificate of compliance'. In accordance with current procedure, the regulations now refer to the requirement on firms to complete a 'return'.
  - PII regulations 4.1 – 4.5 amended to reflect the procedure concerning firms' entry into the ARP and the terms of the contract which firms must sign for entry to the pool.
  - PII regulation 5.3(d) amended to clarify the basis on which the PII Committee may consider an application for dispensation for policies which either:

- do not comply fully with the requirements of the minimum wording; or
- are issued by non-participating insurers.

***Reason for exemption direction***

7. The changes do not represent a major shift in ICAEW's regulatory approach or policy to PII. Firms will still need to hold qualifying insurance with a participating insurer, which complies with ICAEW's minimum approved wording for a minimum of 2 years. In addition, ICAEW-accredited probate firms will still be required to comply with PII regulation 3.5 and hold a minimum limit of run-off cover of £500k per claim.
8. The ICAEW also submitted alterations to guidance supporting the PII regulations which the LSB is not required to approve.
9. A copy of the alteration was submitted to the Board on 4 April 2017.
10. This direction is to be deemed made on and to be effective from 27 April 2017.

**For and on behalf of the Legal Services Board**  
**27 April 2017**