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Law Society: General

CIRCULAR 16-511 (SD)

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AMENDMENTS TO SOLICITORS' ACCOUNTS RULES ACCOUNTANT'S REPORT RULES SOLICITORS (PROFESSIONAL INDEMNITY) RULES SOLICITORS' PRACTICE RULES FOREIGN LAWYERS PRACTICE RULES MANUAL ON SOLICITORS' ACCOUNTING

1. Amendments to the Solicitors' Accounts Rules ("SA Rules"), incidental amendments to the Accountant's Report Rules, Solicitors (Professional Indemnity) Rules, Solicitors' Practice Rules and Foreign Lawyers Practice Rules and the new Manual on Solicitors' Accounting ("the Manual") came into effect on 1 July 2016.
2. The major amendments to the SA Rules are summarized as follows:-
 - (a) A new rule is inserted to list out the principles which must be observed by a solicitor in relation to handling client's money, for example, the solicitor must use the client's money for that client's matters only; the solicitor must keep proper accounting records to show accurately the position with regard to the money held for each client and each trust.
 - (b) The reference to "a bank" in the definition of "client account" is clarified to refer to a bank located and licensed in Hong Kong. It removes any ambiguity as to whether a client account can be maintained with an overseas branch of a bank licensed in Hong Kong. A provision is inserted to empower the Council to waive this requirement upon a prior written application being made by a law firm.
 - (c) A solicitor may receive a cheque or draft that includes partly client's money. Rule 5 provides that if the solicitor decides not to split the cheque or draft, he has to pay it into a client account. Rule 5(b) is amended to provide expressly what a solicitor has to do with the part of a payment that is not client's money when he decides not to split the cheque or draft. Under the amendment, if the solicitor does not split the payment, he can pay the entire sum into the client account provided he shall transfer all office money out of the client account within 14 days of receipt.

- (d) The existing Practice Direction J on payment of interest on a client account is incorporated into rule 6A of the SA Rules with the amendment that a solicitor will only be required to account to a client the interest earned in accordance with the circumstances set out in the Schedule to the SA Rules and only if the amount of interest accrued exceeds HK\$500.

The Council resolved that in view of the prevailing low interests and the costs associated with the administration of rule 6A, the operation of this rule 6A be suspended with effect from 1 July 2016 until further notice.

- (e) Rule 7A allows different categories of people to authorize the drawing of money from a firm's client account. Those categories include, for instance, a certified public accountant (practising) who can be unrelated to the firm. Rule 7A is amended to require the authorization to be countersigned by a solicitor of the firm in whose name the client account is kept or by any solicitor, partner, consultant or foreign lawyer of the firm where the client account is kept in the name of the firm.
- (f) Rule 9(2) sets out the exceptions to the requirement that a solicitor shall pay client's money held or received by him into client account. One of the exceptions deals with the payment of an agreed fee. Rule 9(2)(c) is amended to clarify that if a bill for the agreed fee has been delivered to the client, the agreed fee shall be paid into the office account.
- (g) A new rule 9(2A) is added to cover the situations where a payment received by a solicitor consists of costs and disbursements which may further be divided into disbursements, incurred but not yet paid or anticipated but not yet incurred. The new rule provides that payment for disbursements that are incurred but not yet paid should be placed in a client account. Alternatively, it can be deposited into the office account provided that settlement of the relevant disbursements is made no later than the fourth working day following receipt from the client failing which the payment should be made into the client account not later than the fifth working day following the receipt. Regarding payment for disbursements that are anticipated but not yet incurred, the payment should be placed in the client account.
- (h) Rule 10(5) is amended to include reference to computerized system of book-keeping which has become a common form of book-keeping in law firms. Further, to address the concern of possible loss of data in a computerized accounting system, a new rule 10(5A) is inserted to impose a requirement for computer back-up capability.
- (i) Management accounts including monthly profit and loss accounts are added to the list of documents which the Council is empowered, under rule 11, to require a solicitor to produce for inspection.

3. The Manual consists of 7 Chapters.

(a) Chapter 1 – Solicitors’ Accounting

This Chapter reiterates that every principal of a firm is jointly and severally responsible for complying with the rules and requirements relating to solicitors’ accounting. Every firm should maintain proper books of account. It is the responsibility of the principal to supervise the work of the accounting staff. This Chapter clarifies the meaning of “Books of Account”. It also provides the guidelines on preservation of accounts and accounting records.

(b) Chapter 2 – Writing up Books of Accounts

This Chapter explains:-

- (i) the form, contents and issue of client receipts;
- (ii) the proper procedures for payment into and drawings from client account;
- (iii) different types of clients’ cash book;
- (iv) the proper procedures for transfer of money in client accounts;
- (v) clients’ ledgers; and
- (vi) client account reconciliation.

Samples of client receipt, payment voucher, clients’ cash receipt book, clients’ cash payment books, transfer voucher, clients’ ledgers and client account reconciliation statement are provided.

(c) Chapter 3 – Bills and Disbursements

This Chapter explains what kind of information should be included in a bill and the bill should distinguish profit costs and disbursements. It also explains different types of disbursements and proper procedures for handling disbursements. Samples of a bill, clients’ ledgers and accounting journals, bill register, photocopying register, fax and IDD registers are provided.

(d) Chapter 4 – Record Keeping Method

This Chapter explains the manual system and computer system for record keeping.

(e) Chapter 5 – Other Areas of Concern

This Chapter deals with:-

- (i) interest on client account;
- (ii) opening of client account and account holding clients' money or trust money;
- (iii) use of ATM and cheque / cash deposit machine when handling clients' money or trust money;
- (iv) unclaimed money in client account;
- (v) office cash book and ledgers; and
- (vi) trial balance.

(f) Chapter 6 – Powers of Council

This Chapter explains what kind of documents a solicitor may be required to produce to the Law Society for inspection.

(g) Chapter 7 – Procedural Reference

This Chapter sets out the proper accounting procedures for closing files or transferring files between firms.

(h) Appendices 1 and 2 are samples of trial balance and management accounts.

4. Practice Direction J, circulars 04-4, 00-180 and 87-21 were superseded with effect from 1 July 2016.
5. Please click the following links for new rules and Manual **effective from 1 July 2016**.

[Solicitors' Accounts Rules](#)

[Accountant's Report Rules](#)

[Solicitors \(Professional Indemnity\) Rules](#)

[Solicitors' Practice Rules](#)

[Foreign Lawyers Practice Rules](#)

[Manual on Solicitors' Accounting](#)