

Client assets

Keeping your clients' assets safe



CASS – still in the spotlight

Over the last decade there has been a greater focus on client assets, including the implementation of PS14/09 and increased controls to improve compliance.

Firms holding client assets must be compliant with Principle 10 and the CASS Sourcebook. Our experts can provide the necessary insight and detailed knowledge to provide assurance on all your firm's CASS needs.

Why did the regime change?

The application of the Client Assets (CASS) regime became a matter of significant contention following the collapse of Lehman Brothers International Europe (LBIE) around the time of the financial crash. The ensuing legal case exposed the inadequacies of the CASS regime and accountability for non-compliance. This was a critical milestone in reshaping the rules under the FCA's Policy Statement 14/09.

Regulatory developments

CASS continues to be an area of regulatory interest and scrutiny, particularly in light of the Financial Reporting Council's (FRC) new Assurance Standard for annual CASS audits. Meanwhile, other key regulatory developments have important implications to firms' CASS arrangements.

MiFID II

The upcoming implementation of MiFID II, coming into effect from January 2018, will bring new challenges such as:

- Title Transfer Collateral Arrangements (TTCAs) are prohibited with retail clients. TTCAs with other clients will need to be subject to appropriateness and risk disclosure requirements.
- Firms must ensure that their sub-custodians also comply with certain requirements on delegating custody to third parties. This may have implications to firms' monitoring of third parties and contractual agreements.
- A new proportionality exemption exists from the restriction against holding more than 20% of client money with a group entity.

Senior Managers and Certification Regime (SMCR)

The FCA's Consultation Paper 17/25 sets out proposals for extending the SMCR to all FCA firms. This includes the potential interaction of roles and responsibilities between the 'CASS Prescribed Responsibility' and the 'CASS Oversight Function' (in the Certification Regime). Firms, particularly larger organisations, will need to consider how these proposals may affect their governance arrangements, including the allocation of CASS responsibilities, given the scope for greater flexibility.



We understand the challenges you face

We know that navigating the changing CASS landscape can be challenging for many companies. In our work following PS14/09, and in respect of MiFID II, we have noted the following challenges for firms:

Your key challenges



Increased regulatory pressures

Many firms are seeing more short notice FCA visits and greater evidentiary expectation.



Reconciliation and methodology

Firms are now required to follow more prescriptive reconciliation methodologies for all cash and assets held.



Trust letters

Organisations must adhere to prescribed formats for acknowledgement of trust letters with specific indicators to reduce ambiguity.



Insufficient Management Information (MI)

Poor CASS MI affects management's decision making process, reduces audit effectiveness and can lead to ambiguity in the case of insolvency.



Oversight of third party administration

CASS firms need clearly defined responsibilities with third parties, including tracking of how, and when, they protect client assets.



Management and governance

Many firms struggle to enforce the controls they have in place, including senior management responsibilities and embedding CASS awareness into the organisation's culture.



Diversification of client money

Firms must make provision for the 20% limit on accounts holding client money.



Re-hypothecation and Title Transfer Collateral Agreements (TTCA)

Should a client require TTCA assets to be given CASS protection, firms must fully document the request and response noting the commencement date.

Our service lines

Whether your organisation is new to client assets, or if you have been working with them for some time, our CASS specialists can support you at each stage of the process.



Internal audit

Our internal audit team can offer assurance that your controls are working as expected and that you are compliant with Principle 10 and the CASS Handbook.



Advisory

Our advisory teams can help clarify the sourcebook, undertake CASS health checks and recommend best practice.



External audit

Our external audit team can help you meet your regulatory requirements under the Supervision Manual, in line with the FRC's Client Asset Assurance Standard.



How we can help: internal audit

Our internal audit team can undertake regular CASS reviews to ensure client assets are always protected and your business is compliant with regulatory requirements.

Key areas where we can help include:



Training and awareness workshops explore key principles to effectively embed CASS awareness into the culture of your organisation.



Help firms compile their resolution pack or undertake a gap analysis on existing packs for effectiveness in the case of insolvency.



Educate clients on CASS responsibilities, supporting the extension of this to their third party operations, through contract and performance reviews with clear client asset tracking.



Map client controls against the regulatory requirements to ensure they continue to correspond to the CASS sourcebook both now and in the future.

CASS audit for an actuarial consultancy firm

- We conducted a full CASS audit to offer assurance on the control environment against the FCA's requirements
- Our audit assessed Senior Management oversight and reporting, firm classification, breaches and FCA notifications, FCA Client Money and Assets Return and the CASS Resolution Pack
- We found an adequate control framework with a positive culture towards client asset control and associated compliance monitoring. All findings were reported to senior management, including any issues, to further enhance the control environment

Regulatory review of the Risk Remediation Process

- Following an external CASS audit, we provided internal audit co-sourced subject matter experts and auditors for an international wealth management client
- We undertook a regulatory review on our client's Risk Remediation Process (RRP) and reported our findings to the regulator

How we can help: advisory

Our advisory team can support you through clarifying ambiguities in the sourcebook and helping you find best practice.

Key areas where we can advise your team include:



Pre-s166 reports, s166 reviews or advise on remediation plans following a section 166 report.



Advise on the specific indicators required to reduce any ambiguity to protect your clients' assets.



CASS rules mapping and structuring second and third line monitoring arrangements.



Production of accurate and robust MI, enabling you to make more informed decisions about your business.



Senior management responsibilities and oversight arrangements.



Developing your reconciliation methodology, ensuring it meets regulatory requirements and is fit for purpose.



Governance arrangements including the development of an internal process manual.

FRC rules mapping and CASS attestations

- We were engaged to assist our wealth management client with the FRC Client Asset Assurance Standard and attestations to the FCA regarding CASS compliance – covering both the firm and their outsourced provider
- Resources were provided to the CF10a, to assess adequacy of design and effectiveness of controls operated by the Third Party Administrator (TPA)
- We recommended changes to the CASS governance structure, with suitable monitoring of the TPA and improved MI to demonstrate adequate oversight

Second line monitoring

- We undertook a second line CASS monitoring review for a large investment management and unit trust firm
- Our team reviewed CASS compliance of several operating units, governance, compliance with CMAR reporting, assessment of CASS resolution packs (including test invocations) and detailed testing of CASS procedures
- One of the outputs was to ensure that the firm's second line monitoring team was adequately equipped to undertake future CASS monitoring

How we can help: external audit

Our external audit team can support you by meeting your regulatory client assets audit requirement under the Supervision Manual, in line with the FRC Client Asset Assurance Standard.



The FRC Client Assurance Standard

The FRC published a standard in November 2015, for providing assurance on client assets. The standard establishes requirements and provides guidance for auditors to evaluate and report on the regulated firm's compliance with CASS rules.



The key objectives of the CASS Standard are to:

- Improve the quality of CASS audits and assurance engagements
- Define the nature and scope of the work required for reasonable and limited assurance engagements
- Manage the expectations of the management of firms holding client assets and third party administrators
- Support the effectiveness of FRC's enforcement and disciplinary activities relating to CASS assurance engagements and applicable CASS rules
- Improved oversight of outsourcing arrangements



For regulated firms this means:

- Greater involvement across all three lines of defence
- Requirement for better documented processes and controls
- Requirement to map control activities against each applicable CASS rule
- Improved oversight of outsourcing arrangements

Our external audit team can:

- Undertake controls based CASS audits in line with the standard, to meet your regulatory requirements
- Involve specialists to address specific areas of concern
- Assess CASS culture and governance
- Provide insights into industry and regulatory developments through our involvement in working parties charged with developing regulations and providing guidance for CASS auditors

Contact us

For information on our CASS services, please contact our team below.

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