

Stand out for the right reasons

The new CASS rules present specific challenges for asset management firms. We have outlined some of the main issues below.

Protecting Client Assets Asset Managers

Client money rule changes

Authorised fund managers must review their **settlement processes**. The FCA has not removed the collective investment scheme delivery versus payment (DvP) window entirely but has reduced the window to one business day for redemptions. The window starts on the day the firm receives redemption proceeds from the fund, but the FCA has added a new requirement for cheques to be drawn against client money bank accounts. This means that authorised fund managers will need to either rely on alternative payment mechanisms or set up client money payment accounts. Clients will also need to consent to the firm's use of the DvP exemption, so agreements will need to be repapered by 1 June 2015.

Additional clarification on the transfer of client money to third parties for transactions has been provided, with changes also made to both the rules for acknowledgement letters, and the

reconciliations for any non-margined transactions on **client transaction accounts**. This now includes any intermediate brokers or settlement agents.

Firms acting as trustees, such as SIPP trustees, must segregate trust money from other client money at all times, due to the differing insolvency treatment of the funds. Trust money will be distributed based on the trust deed rather than the distribution rules which may pose operational challenges for firms that use one client money collection account.

The use of **unbreakable term deposits** has been restricted to those with terms of 30 days or less, with effect from 1 July 2014. The FCA has confirmed that SIPP trustees are not subject to this restriction (due to the different insolvency treatment), and has consulted in CP 14/9 on removing the restriction for ISA managers.

Most asset management firms will continue to have the choice of calculating their client money requirement through the use of either the individual client balance method or the negative add-back method. This may benefit firms that segment their business lines or outsource certain parts of their business, as they can calculate a number of individual client balances for each client along separate business lines.

Custody rule changes

Many asset managers have a single record for custody, so will welcome the '**internal system evaluation method**'. Firms can adopt this from 1 July 2014, which may help to demonstrate compliance with a previously difficult rule. As the auditor letter requirement has been dropped, this change should prove to be straightforward for most firms.

Firms that hold 'float' assets as part of their **box management** processes will need to consider this approach due to the restriction on registering the firm's legal title in the same way as clients' custody assets. Changes must be made by 1 June 2015.

Firms must now **reconcile to third parties** holding records of entitlement, with the FCA confirming that firms must maintain their own internal records and not

rely solely upon third party records. Firms which offer wrapped products in one legal entity but use units issued by another - for example, ISA managers and ACDs - commonly share a single record within the group, which must change. Firms that rely heavily on third party administrators, particularly those that play a dual role as custodian, may also need to review their internal record keeping systems in order to comply with the new rules.

The custody asset reconciliation rules now provide detail on how to **segregate the cash equivalent for a custody asset shortfall**, and these have been reflected in the corresponding client money reconciliation rules.

Changes that affect both client money and custody rules

Asset managers must review their **commercial settlement system processes** to ensure they align with the revised DvP exemptions, for both custody assets and client money. This may include repapering customer agreements to obtain client consent to the use of the exemption. Firms will welcome the relaxation of the

'immediate segregation' requirements, allowing the receipt of sale proceeds into their own settlement bank account, provided this is segregated within one business day. However, other rule changes and clarifications could have an impact on the way firms settle trades.

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