

Stand out for the right reasons

Getting your approach to CASS right

*Our dedicated CASS
Advisory team can help
you with all your client
asset needs.*



The CASS challenges

The Financial Conduct Authority (FCA) continues to focus on ensuring that firms appropriately protect client money and custody assets. It has used its influence, regulatory powers and sanctions repeatedly over the past few years to remind the industry that it takes CASS rule breaches seriously. Since the Lehman Brothers and MF Global insolvencies, clients are also scrutinising more closely how firms look after their client money and custody assets.

Falling foul of the FCA requirements can lead firms to incur large punitive fines or other serious disciplinary actions, as well as suffering from reputational damage. Increasingly firms are having to respond to private FCA correspondence and commission shadow skilled person reviews at the firm's own expense.

At the same time, the FCA's new CASS rules require firms to make significant operational changes to the way they handle client money and custody assets. Firms need to address these changes, and ensure that they have fully assessed

their CASS risks and are in compliance with the FCA's new rules to meet the expectations of the FCA their clients and their investors.

Our dedicated CASS Advisory team offers specialised expert advice and support to banks, brokers, asset managers and insurance intermediaries. We can help you assess and manage your CASS risks by providing a wide range of CASS advice and support including:

- Designing, implementing and managing change programmes to integrate CASS changes
- Implementing or upgrading risk management frameworks and governance arrangements
- Delivering skilled person reports in line with FCA's Section 166 requirement notices and performing shadow skilled person reviews as may be required by firms
- Providing third party assurance on CASS
- Preparing for regulatory visits

- Remediating CASS breaches
- Carrying out CASS health checks (including CASS governance arrangements)
- Testing CASS resolution pack robustness
- Helping internal audit teams review CASS compliance
- Fulfilling reporting requirements, including CMAR preparation
- Providing classroom and e-learning training for staff on CASS.

Through our extensive CASS audit and advisory work, our CASS Advisory team has developed a deep understanding of the challenges firms face in ensuring that their clients' assets are adequately protected. We can bring this experience to bear to help you assess and manage your CASS risks to improve your compliance and adapt to the changing environment in an efficient and cost-effective way.

Our CASS Advisory team

James Steele-Perkins, a Director with significant experience of delivering CASS advisory assignments, leads our CASS Advisory team. James is supported by a team of CASS experts who have in-depth understanding of the FCA's approach to CASS and the application of CASS rules to firms' different business models. Our team has extensive experience gained from working on advisory assignments,

providing specialist advice to our audit teams on CASS audits, dealing with the identification and return of client money and custody assets in the Lehman Brothers insolvency, carrying out CASS compliance roles in industry and working for the FCA.



Designing, implementing and managing change programmes to integrate CASS changes

The FCA's new CASS rules introduce significant changes to the client assets protection regime. Regulated firms need to adapt their operations, processes and policies to integrate these changes, as well as ensuring staff stay current on these developments.

We can help you analyse the impact that the new CASS rules and recent enforcement notices have on your firm's current processes and controls.

Organisational changes can also create CASS risk for firms. Some of the biggest fines on CASS to date related to breaches that arose when firms were going through periods of change. Changes in banking arrangements have led to a breakdown of segregation or a failure to identify the need for acknowledgement letters. The FCA handed down another substantial fine where a firm implemented a new reconciliation system that was not fit for purpose. The FCA has found situations where firms didn't manage staffing levels and system integration well during post-acquisition integration programmes.

At times of change, pressure on management to deliver on time and within budget means that external assurance and implementation advice may be helpful. We can help to identify the changes that you need to make, to assess objectively, the CASS implications of operational changes and to get assurance that those changes have been implemented effectively.

Section 166 skilled person's reporting and support

Many firms find the Section 166 (s.166) process particularly intimidating. Increasingly, we have also seen the FCA encouraging firms to commission their own pre-s.166 reports (sometimes referred to as shadow s.166 reports). We have extensive experience in delivering CASS s.166 reports and shadow s.166 reviews.

We regularly work with firms to help them identify and assess issues that could lead to a s.166 review. We can review any issues that the FCA has raised with you through a supervisory or thematic visit and help you plan a pro-active remediation approach.

If we are appointed to act as a skilled person on a s.166 for your firm, we will discuss the scope of the review with you and the regulator, at an early stage. This process enables all parties to refine the focus and identify any areas that require clarification, which can help you to reduce unnecessary effort and help manage costs. Because of our wide ranging CASS experience, we are able to focus quickly on any problem areas, testing and reporting on them effectively.

We can also assist with implementing remediation plans following a s.166 performed by a different skilled person. This exercise can prove particularly cost-effective for our clients when it is combined with the standard annual CASS audit.



Third party assurance (over design and operating effectiveness)

We are seeing heightened scrutiny by firms' clients wishing to seek further clarity over the security and segregation of their assets. Firms are frequently seeking third party assurance on CASS compliance to satisfy their clients and for their own peace of mind. ISAE 3402 controls assurance reports do not give the type of assurance clients are looking for on CASS. Some firms supplement this work by obtaining a dedicated

CASS third party assurance report prepared under ISAE 3000. Such reports also assist the firm in demonstrating how it has assessed the completeness (total capture) of their CASS compliance.

We have extensive experience delivering such controls reports which include assessing the design effectiveness and, if requested, the

operating effectiveness of CASS controls. This work starts with mapping all CASS processes and controls for all relevant products, services and support functions that make up the firm's CASS universe. We can work with you to support you in identifying the appropriate CASS controls and control objectives for inclusion in the report.

Preparing for regulatory visits

The FCA intends to build on the intrusive and interventionist approach to regulatory supervision and enforcement that the FCA Client Assets Unit has pioneered over recent years.

FCA visits can create a burden on your firm's regular business activities. If your firm is preparing for a standard FCA

CASS supervisory or thematic visit, our team can help prepare your key personnel to answer the regulator's questions clearly and confidently. Being appropriately prepared for a regulator's visit can help ensure a more collaborative approach resulting in a better outcome.

Our team can conduct mock interviews with your key staff to identify any potential knowledge or process gaps and identify training needs. We can also provide training tailored to your firm to help you prepare for regulatory visits.

CASS health checks

We can help assess a range of CASS areas for a firm, including:

- Existing CASS systems and controls
- Documentation of client money and asset flows
- Current reconciliation processes
- Existing policy and procedure documentation

- Third party administration arrangements
- Existing due diligence processes for selection and appointment of third parties
- Governance and oversight framework.

We carry out a gap analysis against the CASS rules and best practice, providing you with a written report detailing our findings and our recommendations on how you can improve your approach to CASS.

CASS resolution packs

There's no de minimis threshold for the CASS resolution pack (RP): all investment firms holding client money and assets need one. The CASS RP should ensure that, if a firm becomes insolvent, there is sufficient documentation available to the insolvency practitioner so that client money and assets can be returned quickly. The FCA has ramped up the number of short notice visits focused on testing firms' compliance with the CASS RP requirements.

We have worked with a wide variety of firms to help them prepare and test their CASS RPs by:

- Conducting mock regulatory visits or insolvency scenarios to determine whether your CASS RP is fit for purpose and meets the data retrievability requirements
- Data gathering and analysis whether the data is fit for purpose
- Carrying out a health check or gap analysis to gauge whether their CASS RP meets the CASS RP requirements
- Advising on the implementation of appropriate governance and reporting frameworks.

We can help provide the firm's CF10a and the Board with the comfort that your CASS RP arrangements are fit for purpose.

Internal audit

We provide flexible, scalable, outsourced and co-sourced internal audit solutions to many firms across the financial services industry. As the FCA raises the bar on CASS, internal audit teams are focusing more attention on assessing CASS risk management

frameworks and compliance procedures. We have found that the highly technical and complex nature of the client asset rules can pose a challenge to many internal audit functions when assessing their firm's compliance with regulations.

To help firms address this challenge we can bring an integrated approach, combining our technical expertise on CASS with internal audit solutions to assist firms in achieving the desired objectives.

CASS training

We provide a wide range of individual, classroom and e-learning training solutions for all levels of staff ranging from board members and senior management to the staff performing specific functions, such as reconciliations. These training solutions can be made bespoke and include:

- General CASS awareness
- How to conduct standard internal reconciliations of client money and custody assets
- Modular client money and custody assets e-learning for investment firms
- Key CASS concepts, to provide your senior staff with the confidence to face questions from the FCA, a skilled person or other reviewer
- CF10a training and preparation for FCA interviews



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