

# Demonstrating CASS Compliance

The webinar will begin shortly.

Your hosts for today are:



**Priscilla Gaudoin**

Priscilla is our Head of Client Regulation and has held senior management roles as Chief Compliance Officer and MLRO as well as run her own compliance consultancy.

Priscilla has advised upon and implemented various projects including: MiFID II; SM&CR and risk management frameworks.



**Matthew Bruce**

Matthew is our Head of Product and leads the development roadmap for the Ruleguard platform.

He has fifteen years' experience in software development and has worked on Ruleguard since launch.



# Demonstrating CASS Compliance

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March 2022

- CASS requirements
- Oversight of third-party arrangements
- Regulatory expectations
- CASS breaches
- Ruleguard's approach
- Q&A



# Agenda



# Background

- Financial Crisis
- Principle 10
- Oversight
- CASS Firm Type
- Segregation

# CASS Requirements

- Disclose how the firm intends to hold and protect safe custody assets and client money.
- Usually in client agreements, in which clients can grant their consent where necessary.

Client  
Agreements:  
CASS disclosures

Auditor's Report

- Must appoint a qualified auditor to provide the FCA with a client assets report.
- Follow required standard (set out in the Financial Reporting Council (FRC) client assets audit standard)
- Submit an assurance report to the FCA annually, within four months of the period end.

Client Money &  
Assets Report

Resolution Pack

- Medium and large CASS firms must submit a CMAR to the FCA each calendar month, within 15 business days of month end.
- Submitted by the director/senior manager responsible for CASS oversight,
- Provides the FCA with a month-end snapshot of information about the client money and client assets it holds.



# CASS Requirements

CASS rules ensure the segregation of custody assets and client money from a firm's own assets and money.

- If a firm becomes insolvent, administrators can easily distinguish the client assets and money to be protected from the firm's creditors, and ensure that it is returned to the clients promptly.
- CASS rules require that custody assets and money are registered in a prescribed way that reflects their client status.

## Statutory Trust

- Legally, client money is held by a regulated firm within a 'statutory trust'
- CASS 7 includes instructions to the firm (which acts as 'trustee' to the client money trust).





# CASS Requirements

## Acknowledgement letters

- ✓ Your firm must ensure that all client money bank and transaction accounts have an acknowledgement letter, in line with the relevant requirements.
- ✓ The letter must make it clear that the balances held in credit in those accounts are held for the benefit of the firm's clients.

If your firm holds client money, you should maintain adequate arrangements to assure itself of the completeness and accuracy of the acknowledgement letters, conducting reviews where necessary.





# CASS Requirements

## CASS Resolution Pack

A firm must ensure that it:

- ✓ Maintains a complete and up to date CASS Resolution Pack, in line with the relevant requirements.
- ✓ Aids insolvency practitioners understanding the firm's client assets arrangements
- ✓ Facilitate recovery and return of client assets.





# CASS Requirements

- Firms must maintain a CASS Resolution Pack if it is a firm to which either or both of CASS 6 (the custody rules) and CASS 7 (the client money rules) apply by virtue of their client assets holdings.
- Firms must maintain a CASS RP for the whole period they hold client assets and they should ensure that they have a CASS RP in place from the moment they begin to hold client assets.

Prepare and  
Maintain an  
RP

48 hour rule

Immediately  
retrievable

Inaccuracies &  
Corrections

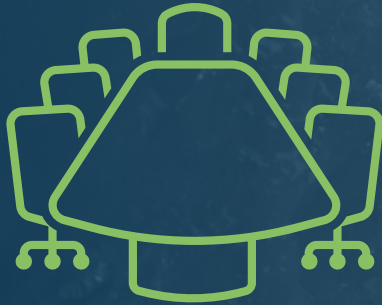
Impacts of  
outsourcing  
& technology



# CASS Requirements

Governance and oversight to enable identification of material risks:

- senior management oversight
- regular monitoring (both internal & external)



- Oversight of third-parties – including periodic due diligence, consider any impacts on the risk levels
- Ensure controls are effective and particular attention to be paid to insolvency events:
  - Recordkeeping and reconciliations
  - Acknowledgement letters for all client money accounts
  - Accurate and up-to-date CASS Resolution pack



# CASS Oversight

- Small CASS firm must allocate CASS Oversight to a senior manager

Responsibilities include:

- Overseeing the firm's operational compliance with the CASS rules
- Reporting on that oversight to the firm's governing body (ie, its board of directors).

Under the SM&CR, Senior Management Responsibility for CASS – referred to as prescribed responsibility (z).

- All CASS medium or CASS large firms must allocate to a senior manager
- Responsibilities include:
  - Oversight of the operational effectiveness of that firm's systems and controls that are designed to achieve compliance with CASS.
  - Reporting to the firm's governing body in respect of that oversight.
  - Completing and submitting a client money and assets return (CMAR) to the FCA.
  - Annual report to the governing body on the status of compliance with the Chapter 10 rules – CASS resolution pack.



# CASS Oversight

As memories of the financial crisis and bank collapses start to fade, it is vital that firms remain focused on their CASS responsibilities so that clients, shareholders and the regulator can be confident that client assets held by UK investment firms are secure.

## Impact of the COVID-19 pandemic

FCA raised a series of issues which firms need to consider including:

- Implementing procedures for handling cheques which arrive at unmanned offices
- Reviewing any changes to firms' CASS categorisations.
- Ensuring that new working arrangements still allow them to meet all of the CASS requirements



# Third-Party Oversight



# Third-Party Oversight

## Understand Risks

Due  
diligence

Ongoing  
monitoring

Regular  
reporting

Data sharing

Early  
identification  
& Escalation  
of issues

Accurate and  
updated  
records



# Third-Party Oversight

## Implement procedures to demonstrate:

- Adequate governance to identify material risks to your client assets arrangements and ensure monitoring of those arrangements
- Appropriate oversight by the senior manager with responsibility for client assets
- Regular monitoring and testing by Compliance and/or Internal Audit where relevant, or using external resource as needed, aligned to the risks identified within the business

Common for a firm holding client assets to appoint a specialist sub-custodian in a particular market, and the rules give guidance for when a firm chooses one.

- The firm must exercise all due skill, care and diligence in the selection, appointment and periodic review of a sub-custodian, and must take into account its expertise and market reputation.
- The firm must also ensure that any client's safe custody assets deposited with a sub-custodian are identifiable separately from assets belonging to the firm, and from assets belonging to the sub-custodian.



# Third-Party Oversight

## Custody arrangements:

- Tripartite arrangements where custody assets are held by another party providing services to your client (or where your firm is providing custody services to a client of another firm), your firm must ensure that the contractual arrangements are robust and clear on the respective responsibilities
- Ensure that the tripartite agreement clearly set out the respective responsibilities of your firm and the other firm in relation to holding the custody assets, so that the client is not in any doubt



# Third-Party Oversight

## Outsourcing arrangements:

- Functions outsourced to Third-Party Administrators (TPAs) - a firm remains responsible for discharging its regulatory responsibilities
- Including compliance with the relevant client assets rules
- Must ensure they have oversight arrangements in place to manage the risks and ensure the TPAs processes are compliant with the relevant rules



# Third-Party Oversight

## Oversight of Appointed Representatives

- Adequate systems and controls to monitor the activities carried out by Appointed Representatives on its behalf
- Ensure that any client money which arises from the Appointed Representatives' activity is received directly into a client bank account of the firm and no client money is held in the name of Appointed Representatives



# Third-Party Oversight

## Records and reconciliations

- Accuracy of recordkeeping
- Client money held with third-parties



# CASS Breaches

## Breach of Principle 3

2.2. During the Relevant Period the Firms breached Principle 3, and a number of CASS and SYSC Rules, by failing to take reasonable care to ensure that they established and implemented adequate controls over the Third Party Administrators ("TPAs") to which they had outsourced the administration of client money and external reconciliations in relation to custody assets. In particular, the Firms:

- (1) failed to put in place adequate organisational arrangements for the safeguarding of client money and safe custody assets or to ensure effective oversight of outsourced CASS functions (CASS 6.2.2R, CASS 7.12.2R (formerly CASS 7.3.2R) and SYSC 8.1.8R);
- (2) failed to dedicate sufficient resource and technical expertise to enable them to implement effective CASS oversight arrangements; and
- (3) failed to prioritise sufficiently CASS compliance, resulting in inadequate oversight of the outsourced CASS functions and their delayed detection and rectification of CASS risks and compliance issues.

## Breach of Principle 10

2.3. During the Relevant Period the Firms also breached Principle 10, and a number of CASS and SUP Rules, by failing to arrange adequate protection for client money and safe custody assets for which they were responsible. In particular, the Firms:

- (1) failed to identify and promptly rectify certain issues within their internal client money reconciliation process which were subsequently identified and/or confirmed by the Authority, the Skilled Person and the Firms' external CASS auditors. These issues included the Firms' under-segregation of client money, which during the period from 10 February 2014 to 9 February 2015 peaked at £74.4m;
- (2) mislabelled transactions within the Firms' client money calculations (CASS 7.6.2R and CASS 7.15.3R);
- (3) failed to submit accurate Client Money and Asset Returns ("CMARs") (SUP 16.14.3(R)(1));

2

Source: Aviva: Final Notice

- (4) failed to ensure the adequate and accurate segregation of client money; and
- (5) held inadequate CASS resolution packs ("CASS RPs") (CASS 10.1.3R).



# CASS Breaches

**2015: Bank of New York Mellon fined £126,000,000**

Fined in April 2015 for failing to comply with FCA Client Assets Sourcebook (CASS).

**2014: Barclays fined £38,000,000**

Fined in September 2014 for failing to properly protect £16.5 Billion of clients' assets, The regulator found significant weaknesses in the systems and controls of the banks' investment business banking division between 2007 and 2012.

**2013: Aberdeen Asset Managers fined £7,200,000**

Fined in September 2013 for failing to protect client money that had been placed in money market deposits with third-party banks.

**2010: JP Morgan Securities fined £33,320,000**

Fined in May 2010 for failing to segregate billions of dollars of client money held by JP Morgan Chase Bank between 2002 and 2009. Had they become insolvent at the time, this money could have been lost.

**2012: BlackRock Investment Management fined £9,533,100**

Fined in September 2012 for failing to protect client money adequately between 2006 and 2010.

**2011: Barclays Capital fined £1,127,559**

Fined in January 2011 for failing to protect and segregate client money held in sterling money market deposits for over eight years.



# CASS Breaches

Firm or individual fined	Date	Amount	Reasoning
<a href="#"><u>Charles Schwab UK Limited</u></a>	21/12/2020	£8,963,200	This Final Notice refers to breaches of PRIN 10 and 11, CASS and Section 20 FSMA related to failing to be open and co-operative, client money/assets and failing to operate in accordance with permission in the Wealth Management and Private Banking sector. We imposed a financial penalty.

Firm or individual fined	Date	Amount	Reason
<a href="#"><u>Barclays Bank plc</u></a>	28/02/2022	£783,800	This Final Notice (Barclays Bank plc) refers to breaches of PRIN 2 related to financial crime in the corporate banking sector. We imposed a financial penalty.



# Ruleguard for CASS

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Matthew Bruce, Head of Product



# History

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## A CASS tool first:

- Arising from the challenges first placed on firms in PS 14/9
- Use case identified around CASS Resolution Pack and developed from there
- Evidential requirements for good CASS governance
- Compliance vision built upon CASS scenarios
- CASS firms (using Ruleguard for CASS!) represent most of our customer base



# Why CASS?

Certain features of CASS make using a technology tool necessary:

- High volume of regulation
- High complexity
- Low specificity
- Time-sensitive
- Applicability varies widely by business model
- Subject to mandatory audit
- Operationally entrenched in the firm's core activities
- High risk of customer / market harm
- Heavily scrutinised / enforced
- High **effort to comply** doesn't leave much capacity to **evidence compliance**








# Ruleguard for CASS

- Full sourcebook structure and rules
- Automatic updates
- Line-by-line rules mapping
- Control environment documentation
- CASS RP automation
- Attestations and evidence
- Third party access to information



# Rules and topics structure

 CASS 7.15 Records, accounts and reconciliations 14 ✓ ... TOPIC	
 Records, accounts and reconciliations CASS 7.15.1 - 7.15.4 ... TOPIC	
 Record keeping CASS 7.15.5 - 7.15.7 ... TOPIC	
 Policies and procedures CASS 7.15.8 ... TOPIC	
 Receipts of client money CASS 7.15.10 - 7.15.9 ... TOPIC	

- Rules organised in sections matching the sourcebook
- Mapping can be organised by rule and by topic
- Mapping by topic allows for faster / broader documentation of controls
- MI and reporting can be driven by both rules and topics



# Rules matrix gives the complete picture

Rules Mapping > Mapping ▾ Risks Controls Processes Topics Rules ▾

Column filters (1) Rule Name ×

Advanced filters 1 Download Columns (4 / 12)

Rule Name ×	Process name ×	Control name ×	Risk name ×
<input type="text" value="cass 7"/>	<input type="text" value="Select"/>	<input type="text" value="Select"/>	<input type="text" value="Select"/>
CASS 7.15.4	<ul style="list-style-type: none"> <li>(47) Finance Systems Build - Frontier - User Profile</li> <li>(6) Reconciliations &amp; Financial Reporting - FAST</li> <li>(47) Finance Systems Build - Frontier - User Profile (Shared by Demo TPO)</li> <li>(6) Reconciliations &amp; - FAST (Shared by Demo TPO)</li> <li>Policy document</li> <li>(30) Finance Systems Build - Frontier - Standing Data (Shared by Demo TPO)</li> <li>Cheque receipts (Shared by Demo TPO)</li> <li>AP1.2</li> </ul>	<ul style="list-style-type: none"> <li>Initial Due Diligence</li> <li>Target Control A</li> <li>(47) Finance Systems Build - Frontier - User Profile 4 (Shared by Demo TPO)</li> <li>(30) Finance Systems Build - Frontier - Standing Data 8 (Shared by Demo TPO)</li> <li>(30) Finance Systems Build - Frontier - Standing Data 3 (Shared by Demo TPO)</li> </ul>	<ul style="list-style-type: none"> <li>Target Risk A</li> <li>Fraud risk</li> <li>risk 1</li> <li>Bribery &amp; corruption risk</li> <li>Money laundering risk</li> <li>Change</li> <li>risk 2</li> <li>Failure to provide investors with information on client money holdings (Shared by Demo TPO)</li> </ul>
CASS 7.15.5	<ul style="list-style-type: none"> <li>Processes</li> <li>(47) Finance Systems Build - Frontier - User Profile</li> <li>(6) Reconciliations &amp; Financial Reporting - FAST</li> <li>(47) Finance Systems Build - Frontier - User Profile (Shared by Demo TPO)</li> <li>(6) Reconciliations &amp; - FAST (Shared by Demo TPO)</li> <li>(30) Finance Systems Build - Frontier - Standing Data (Shared by Demo TPO)</li> </ul>	<ul style="list-style-type: none"> <li>(47) Finance Systems Build - Frontier - User Profile 4 (Shared by Demo TPO)</li> <li>(30) Finance Systems Build - Frontier - Standing Data 8 (Shared by Demo TPO)</li> <li>(30) Finance Systems Build - Frontier - Standing Data 3 (Shared by Demo TPO)</li> </ul>	<ul style="list-style-type: none"> <li>Failure to provide investors with information on client money holdings (Shared by Demo TPO)</li> </ul>
CASS 7.15.6	<ul style="list-style-type: none"> <li>Processes</li> <li>(47) Finance Systems Build - Frontier - User Profile</li> <li>(6) Reconciliations &amp; Financial Reporting - FAST</li> <li>(47) Finance Systems Build - Frontier - User Profile (Shared by Demo TPO)</li> <li>(6) Reconciliations &amp; - FAST (Shared by Demo TPO)</li> <li>(30) Finance Systems Build - Frontier - Standing Data (Shared by Demo TPO)</li> </ul>	<ul style="list-style-type: none"> <li>(47) Finance Systems Build - Frontier - User Profile 4 (Shared by Demo TPO)</li> <li>(30) Finance Systems Build - Frontier - Standing Data 8 (Shared by Demo TPO)</li> <li>(30) Finance Systems Build - Frontier - Standing Data 3 (Shared by Demo TPO)</li> </ul>	<ul style="list-style-type: none"> <li>Failure to provide investors with information on client money holdings (Shared by Demo TPO)</li> </ul>



# Resolution pack management

## CASS RP: Acme Wealth

Version	Draft
Created on	01 March 2022 16:27
Created by	Janet Ludsdale
Layout	Narrative

## Contents

- 1. CASS RP
  - 1.1 CASS RP introduction
  - 1.2 CASS RP information retrieval
  - 1.3 Client money institutions and accounts
  - 1.4 Custody institutions and accounts
  - 1.5 Client money agreements
  - 1.6 Custody agreements
  - 1.7 Client money reconciliations and balances
  - 1.8 Custody reconciliations and balances
  - 1.9 Senior managers and CASS personnel
  - 1.10 Policies and procedures
  - 1.11 Due diligence
  - 1.12 Nominee companies
  - 1.13 Outsourcing arrangements
  - 1.14 Appointed reps and agents
  - 1.15 Use of assets
  - 1.16 Client categorisation and agreements

## 1.8 Custody reconciliations and balances

### External custody reconciliations (CASS RP)

(P37)

Copies of external custody reconciliations are held in a dedicated network folder, a link to which is provided here.

Access to the folder may also be obtained through the contacts provided below.

Records:

- External custody recons folder (R95)
  - [copy] [//Wealth management operations/recons/external custody recons/HSBC](#)
  - [copy] [//Wealth management operations/recons/external custody recons/Mellon](#)
  - [copy] [//Wealth management operations/recons/external custody recons/Funds](#)
- Reconciliations contacts (R99)





### Contacts

Joan Collins, Reconciliations Manager, Wealth Management Operations, Wealth Management Limited

Email: [JoanCollins@WM.co.uk](mailto:JoanCollins@WM.co.uk)

John Williams, Operations Director, Wealth Management Operations, Wealth Management Limited

Email: [JWilliams@WM.co.uk](mailto:JWilliams@WM.co.uk)

Version no		Type	Date	Attestation	Notes
22		Custom	27 Jan 2022	Request	
21		Custom	18 Jan 2021	Request	



# Attestation and evidence

Attestation Event

Event for 'Quarterly Administration Report'

Summary

Completed on 20 Oct 2021 at 10:29 by Amit Sawlani

Result: Pass

Occurs Quarterly

Event owners: Amit Sawlani

Monthly Contributions Reconciliations

TASK LIST

[Open details](#)
[Previous attestations](#)

Details

Tasks due on 27 Jul 2021

Task	Due	Owners	Status	Completed by
Monthly Contributions Reconciliations	27 Jul 2021	Trustees (Renata Bevanda, Ramona Iosip, Nikita Patel)	Completed	Nikita Patel, 27 Jul 2021 at 10:47

Issues

None



# Auditability of the control environment

<div> Show all Column filters (1) Attestation events in period Advanced filters Download Columns (13 / 21) </div>						
Control Name	Description	Type	Related Reminders	Attestation events in period	Attestation events completed	Attestation passes
		Filter by		> 1	>	>
Control Activity 1 - VFM	1.1 The approach to conducting a VFM assessment is considered in advance with standard headings approved by the Trustee	Control - Preventative	<ul style="list-style-type: none"> <li>Trustees' VFM Report Review</li> <li>Trustees' VFM Report Review</li> </ul>	7	2	1
Sample Control Activity (TPA Administration Report)	Each quarter the TPA confirms via the Quarterly Administration Report that the following have been completed in accordance with documented procedures: <ul style="list-style-type: none"> <li>- Contribution Reconciliations (monthly)</li> <li>- Bank account Reconciliations (daily)</li> <li>- Investment and Member Unitisation Reconciliations (monthly)</li> </ul> The Report confirms if there have been any significant changes to the procedures and/or controls currently in place.	Control - Detective	<ul style="list-style-type: none"> <li>Bank account Reconciliations</li> <li>Contribution Reconciliations</li> <li>Quarterly Administration Report</li> </ul>	4	4	2
AP1.2	Qualified, and sufficiently insured external professionals are engaged to perform property due diligence on the structure, ownership and condition of the building. The Fund Manager reviews the Environmental Survey, Building Survey, and Lawyers' Review of Legal Title as part of the due diligence before an acquisition is made. The Investment Committee then reviews the deal as a whole, following email submission of the acquisition recommendation by the Fund Manager. The Investment Committee then evidence their approval via email or meeting minutes.	Control - Preventative	<ul style="list-style-type: none"> <li>AUDITING</li> <li>Control Testing</li> </ul>	2	1	1

# Third parties





# Questions and Answers

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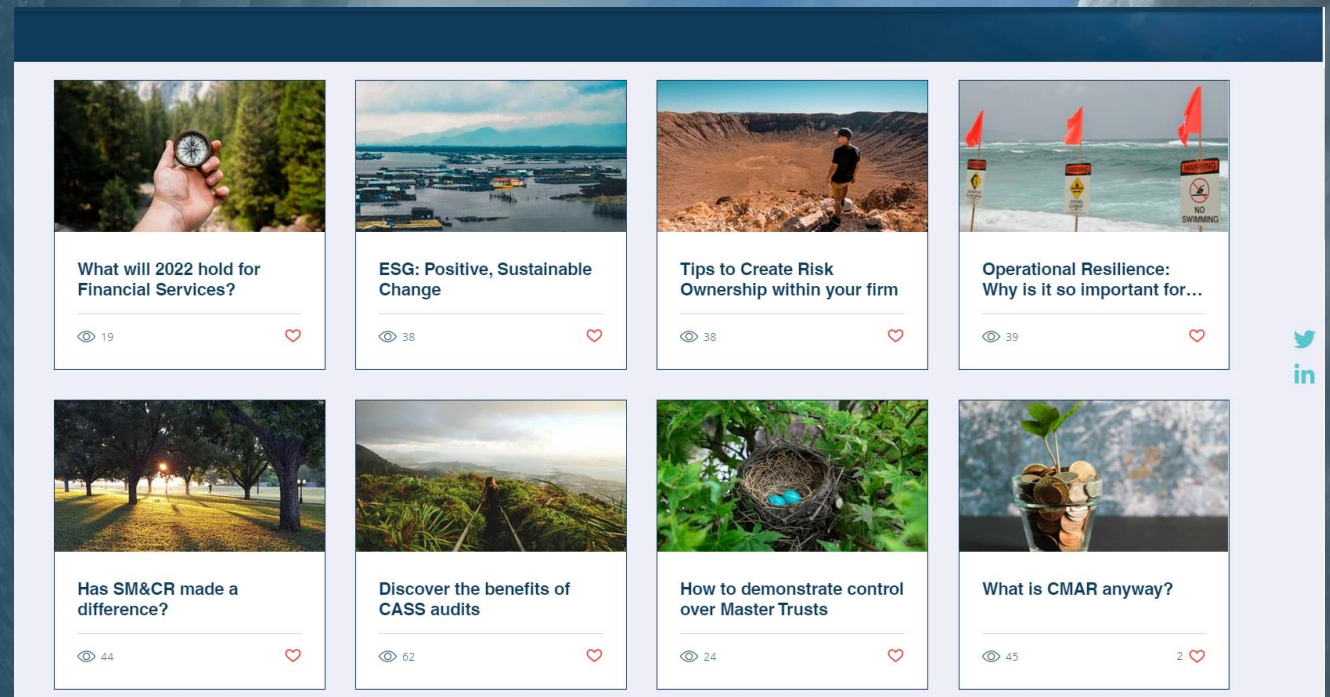


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# Thank you

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