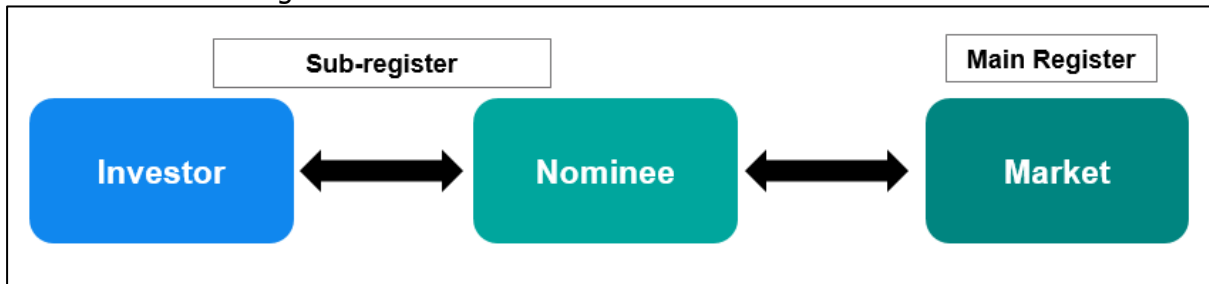


## Principles and activities covered within CASS 6, CASS 7, CASS 8 and CASS 9 and their impact upon transfer agencies

**CASS 6** outlines the rules and guidance that should be followed to ensure that any applicable investor assets are segregated from those held by the firm. CASS 6 applies where a firm is safeguarding assets on behalf of its investors by using a custodian and as such the register maintained by the TA is known as the sub-register and the custodian holds the main register.

The Investment Trust product as described below, is an example of a sub-register where CASS 6 could apply. The investor contracts with the firm and any market dealing is then performed under the firm's "nominee" with the Custodian, which will show on the main register. The TA will maintain the underlying investor transactions within the books and records of the sub-register



The books and records are used to support the reconciliations which are performed & retained within TA

An internal custody record check, which must be performed at least monthly, by one of two methods;

- Internal custody reconciliation – if the investor and nominee records are separately maintained
- Internal system evaluation method – is a process that evaluates the accuracy of the internal systems and controls to ensure the data held is accurate

External custody reconciliation which compares the records maintained by the TA against the holdings provided by the external party and is performed at least monthly

Physical asset reconciliations compare the records maintained by TA against the physical asset or certificates held at least every 6 months.

**CASS 7** details the rules and guidance that should be followed to ensure that cash held for investors is protected and kept segregated from any cash held by the firm.

There are two approaches to segregating client money, the 'normal approach' and 'alternative approach'.

The normal approach requires investor cash to be paid into a client money bank account, unless utilising an exemption, and should be held until fiduciary duty has been discharged e.g. the investor has received cleared funds or monies are due and payable to the firm.

The alternative approach permits investor cash to flow through the firms bank accounts and is not a common method adopted by TA within the UK. Any firm looking to adopt the alternative approach must outline its rationale and inform the FCA of its intention 3 months prior to implementing.

Where a normal approach is adopted a firm will arrange to open a client money bank account to segregate the assets from those held by the firm. The bank account will include "client money" in the title and must have an acknowledgement letter which is a legal document prescribed by the FCA between the firm and the Bank and ensures that the Bank cannot have any claim to the monies held in the account to settle a firm's debt. The TA should ensure that the acknowledgement letter is in place prior to transacting across the client money bank account.

All transactions executed across a client money bank account must be recorded within the books and records that the TA maintain without undue delay and must provide sufficient information to identify the underlying investor.

The books and records are used to support the client money reconciliations which are performed & retained within TA

- A daily internal reconciliation of the firm's own records of client money
- A regular (i.e. at least monthly) external reconciliation between the firm's own records and those of the third parties holding the money (e.g. against bank statements) – it is typical that a TA would complete this daily after the internal reconciliation.

**CASS 8** rules are applicable to firms that receive and retain authority from an investor that enables the firm to transact on assets held by the investor, this is referred to as a "mandate". Within TA this is primarily linked to direct debit instructions that permits the firm to collect proceeds from an investor's bank account for investment or payment of fees. All CASS 8 mandates should be included in an up to date list which outlines

- The nature of the mandate eg Direct Debit
- The purpose of the mandate eg Investment
- How the mandate was obtained eg Post, Digital
- The name of the investor
- The date the mandate was held

TA are responsible for ensuring the mandate conditions are executed accurately, recording all transactions that have been entered under each mandate and maintaining a record of any amendments or corrections which should be retained and made available for supporting audits.

Where a firm holds client money for an investor as outlined in CASS 7, and or safe custody assets as outlined in CASS 6, it must provide a statement under CASS 9. Statements should be issued at least annually, and the TA must have the ability to produce a reprinted statement within 5 business days of request from the investor and must also have the ability to produce an adhoc statement.



### **Important Information**

This document has been compiled for the use of TA Forum members only and is for guidance purposes. This document has been written from the view point of TA's and the administration activities that they perform for regulated firms. Where any firms require further clarification of the rules, guidance should be sought from the FCA.

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