



THE TA FORUM

CASS Seminar

PS 14/9: One Year On!

Agenda

- ▶ FCA update - Jane Moore and Lisa Sturley
- ▶ Audit observations
 - Richard Andrews KPMG & Chair of ICAEW Working Group
 - Frazer Watkins IFDS
- ▶ A firm's oversight requirements - CF10A - Steven Latto - Aberdeen
- ▶ Managing CASS oversight - Frazer Watkins
- ▶ Questions and Answers Panel (comprising Richard Andrews (KPMG), Jane Moore & Lisa Sturley (FCA), Andrew Henderson (Eversheds), Steven Latto (Aberdeen), Frazer Watkins (IFDS) & Paul Mitchell (BNYM))
- ▶ TA Forum - Andrew Lelliott

TA Forum – CASS Working Party

Work in progress...

- ▶ 7A Special Administration Regime DP - published Q2
- ▶ Oversight observations and impact to TPA services (Q2)
- ▶ Continued analysis of audit observations (Q3)
- ▶ Revision to TA Forum CASS Best Practice (Q3)
- ▶ Associated CASS regulations (Q3)



Client Assets Department

May 2016

Jane Moore – Policy Manager
Lisa Sturley – Supervision Manager



Agenda

- CASS Policy Overview
- CASS Supervision Overview

Policy Overview

- PS 14/9
- Client Assets Policy focus for the coming year

PS 14/9

- Implementation
- Year ending 2015 and future CASS Audits

Policy focus - FIRM FAILURE

- Bloxham Review
- Special Administration Regime and CASS 7A
 - Discussion paper
 - Consultation Paper
- Firm failures

Policy focus – European initiatives

- MiFID II
- MIFIR, EMIR and EMIR RTS
- UCITS V
- SFTR

CASS Supervision

- Information we receive
 - CMARs
 - CASS audits
 - Breach notifications
 - Queries from contact centre/authorisations
 - Whistleblowers/complaints
 - Supervisory information
 - Firm notifications
- How do we use this information?

Current Types of CASS Visit

- Full Scope
- CASS 10

What to expect from a visit

Pre visit

pre visit information request
meeting schedule

During the visit

meetings
testing
Further information requests
closing meeting/initial feedback

Post visit

quality assurance
Report/letter

Supervisory focus

Amongst other themes, we expect to be looking at:

- Outsourcing
- Governance and oversight

Risks / common themes

- Acknowledgement letters
- Oversight arrangements
- Training
- Non-standard approaches
- Shortfalls

Helpful resources

CASS Conference Material:

www.fca.org.uk/firms/markets/client-assets

Contact us:

For all CASS policy queries please contact:

cass.queries@fca.org.uk

For other queries please contact:

cassgeneral@fca.org.uk

For breach notifications please contact:

cassrisk@fca.org.uk

Audit observations

**Richard Andrews KPMG & Chair of
ICAEW CASS Working Group**



THE TA FORUM

PS 14/9: industry approach & readiness

- ▶ Some firms (and industry sectors) better prepared than others
- ▶ Some firms missed key rule changes
- ▶ Industry discussions on certain key areas (e.g. delegation of depositary function) has led to:
 - ‘Holding patterns’ being adopted
 - FCA guidance being provided informally
 - Firms, consultants and auditors interpreting rules in different ways

Audit approach and general findings: CASS 7

- ▶ Segregation: getting it right operationally...
 - Timing of transfers from house account
 - Leaving firm's money in client money account
- ▶ Basic mistakes on acknowledgment letters
- ▶ Using external data in internal reconciliations
- ▶ Prescriptive requirements of CASS 7.16
 - *'What would an insolvency practitioner do?'*



Audit approach and general findings: CASS 6

- ▶ ISEM
 - Showing how specific error types detected
 - Evidencing monthly evaluation of system integrity
- ▶ Documenting rationale behind frequency
- ▶ Documenting treatment of shortfalls



Audit approach and general findings: CASS 8

- ▶ Mandate rule changes have caught many firms out
 - Contents of an 'up to date list of mandates'
 - One-off debit card transactions

Overall message from this year's audits:

- ▶ Increased level of walkthroughs and work to understand detailed flows - timing key
- ▶ PS14/9 significant impact - still bedding down and numbers of fixes



Preparing for the CASS assurance standard

- ▶ Impact upon CASS auditors:
 - Develop new procedures and update work plans for new methodology.
 - Increased effort to perform additional procedures.
 - More senior staff involved to review areas of subjectivity.
- ▶ Impact upon firms:
 - Being prepared for the review of additional in-scope areas.
 - Greater breadth of people directly involved in the audit and increased time commitment.
 - Increased cost.

Preparing for the CASS assurance standard cont...

- ▶ Planning, preparation and timing key
 - CASS footprint
 - Analysis of process and controls
 - Timing of fieldwork - through the year and year end
- ▶ Governance & Culture
- ▶ Compliance and Internal Audit



Audit observations

Frazer Watkins IFDS & TA Forum CASS Working Group



THE TA FORUM

What has changed?

- ▶ CASS Regulation
 - CASS 7 significantly revised
 - CASS 6 revisions
 - Plus many other changes
- ▶ Financial Reporting Council revised standard for auditors providing assurance on client assets
- ▶ FCA focus on firms' oversight of outsourced service providers



Resulting challenges

- ▶ For periods ending May 2015 through to May 2016, auditors face the challenge of reviewing split models
- ▶ Adding to the complexity, some firms may have adopted elements of PS14/9 in a phased manner in advance of June 2015
- ▶ Some elements of PS14/9 implemented with effect from July 2014 and December 2014, adding to the complexity of review



Resulting challenges cont...

- ▶ Interpretation of requirements continues to develop and raises its own challenges
- ▶ Permitted early adoption and the FCA's focus on oversight has resulted in firms experiencing increased scrutiny from their auditors
- ▶ Plus CRD IV has resulted in a number of firms reviewing and combining separate plan managers, with related changes to models



CASS audits are certainly more intensive

- ▶ Detailed explanations of the review and implementation of the new rules
- ▶ Review and challenge of implementation
- ▶ Walkthroughs of processes
- ▶ Increased sample testing - both in volume and in breadth
- ▶ Subsidiary questions
- ▶ Firms themselves are ever-more engaged in the audit process

CASS audits are certainly more intensive cont...

- ▶ Higher incidence of on-site visits - at both the service provider and the firm
- ▶ Interpretation challenges
- ▶ Comparison of services performed to the firm's policies
- ▶ Increased demand on time / resource of key Subject Matter Experts and senior management at the firm and the service provider - consequential impacts on BAU



Conclusion - firm's considerations

- ▶ Complex change with competing interpretations
- ▶ Growing intrusiveness of audit
- ▶ Increased requirement for firm engagement, both with service provider and through audit process
- ▶ Cost implications
- ▶ First opportunity for feedback from auditors of implementation and operation of new rules



A firm's oversight requirements

Steven Latto

**Head of Investor Services – EMEA
Aberdeen Asset Management (CF10a)**



THE TA FORUM

Objectives

- ▶ Key considerations at appointment stage
- ▶ Understanding TA processes
- ▶ Testing and on site visits
- ▶ Skillsets and knowledge
- ▶ The governance link
- ▶ Other considerations

Key considerations at appointment stage

Due diligence

- ▶ Recognise benefits of outsourcing (cost saving not the primary driver)
- ▶ Approach to assessing TA appropriateness
- ▶ CASS elements should be part of a broader assessment

Business model

- ▶ Are business requirements ‘standard’?
- ▶ Will the TA need to develop bespoke processes?



Key considerations at appointment stage cont...

Contracts and service level agreements

- ▶ Ensure in line with the firm's needs
 - Is scope fully understood?
- ▶ Access to CRMs and key stakeholders at the TA
- ▶ Clauses giving right to visit on a regular basis
- ▶ Reconciliation and breach reporting processes (inc. root cause)
- ▶ Regular KPI provision and service reviews
- ▶ Agreements should be reviewed on a regular basis

Understanding TA processes

Responsibilities

- ▶ Regulatory viewpoint - these are the firm's processes
- ▶ The FCA will direct questions to the firm (not the TA)

Understanding TA processes

- ▶ Regular reviews of procedures and related documents
- ▶ Cash and asset process flows documented
 - Include within firm's risk and control framework
 - Rationale for CASS compliance documented

Looking beyond the processes

- ▶ TA staff knowledge and training arrangements
- ▶ CASS governance arrangements and culture at the TA

Testing and on site visits #1

Approach to assessing compliance

- ▶ Substantive testing and controls based testing

BAU monitoring and oversight

- ▶ Daily reconciliation reviews (inc. breaks)
- ▶ Daily breach reviews (inc. root cause)
- ▶ Reviews of key cashflows (e.g. shortfalls)

Onsite and remote testing

- ▶ Consider mix of onsite and remote testing
- ▶ Remote testing - limited by system access?



Testing and on site visits #2

Recognising risks and hot topics

- ▶ Ability to produce evidence (e.g. timings)
- ▶ Ongoing assessment of need for deep-dives
- ▶ Try to predict rather than react

Documentation of testing

- ▶ Clear scope - findings fully documented
- ▶ Follow up action confirmed and evaluated

Access to TA monitoring reports?

- ▶ Output from reviews from TA's compliance team
- ▶ Will need to be built into contract with the TA

Skillsets and knowledge

Understanding processes and CASS implications

- ▶ Detailed knowledge required of TA processes
- ▶ Balance between first line and second line

Developing and maintaining knowledge

- ▶ Information from the regulator
- ▶ Attendance at industry forums (inc. TA organised forums)
- ▶ Close liaison with auditors
- ▶ Contact with peer group firms

The governance link

TA oversight part of CASS governance arrangements

- ▶ Regular reports with clear communication channels

CF10a awareness and knowledge

- ▶ Regular reviews of processes, rationales etc.

CASS Resolution Pack

- ▶ Consider implications of outsourcing on CASS RP
- ▶ What controls are in place to ensure it is up-to-date?

External audit processes

- ▶ How will the TA support external CASS audit process?
- ▶ Understand the purpose behind the questions



Other considerations

ISEM (CASS 6) support

- ▶ What support is required from the TA re ISEM assessment
- ▶ ISEM assessment responsibility remains with the firm

New CASS audit standard

- ▶ Understanding implications for auditors approach
- ▶ Linking rule requirements to process and controls
- ▶ Keep on the front foot - avoid having to react

Avoid blinkers

- ▶ Avoid too narrow an approach
- ▶ Consider other processes (potential CASS implications?)



Managing CASS Oversight

**Frazer Watkins IFDS
& TA Forum CASS Working Group**



THE TA FORUM

Expectations

- ▶ Principle 10 requires that - *A firm must arrange adequate protection for client's assets when it is responsible for them*
- ▶ SYSC talks of 'avoiding undue additional operational risk' when outsourcing
- ▶ FCA have made it clear that oversight of CASS outsourcing is a priority
 - Your approach should be no less comprehensive than if you did the work yourself
- ▶ But how far do you go with oversight of outsourcing?
 - Too far and you might as well do it yourself
 - Too little and the regulator will be taking an interest

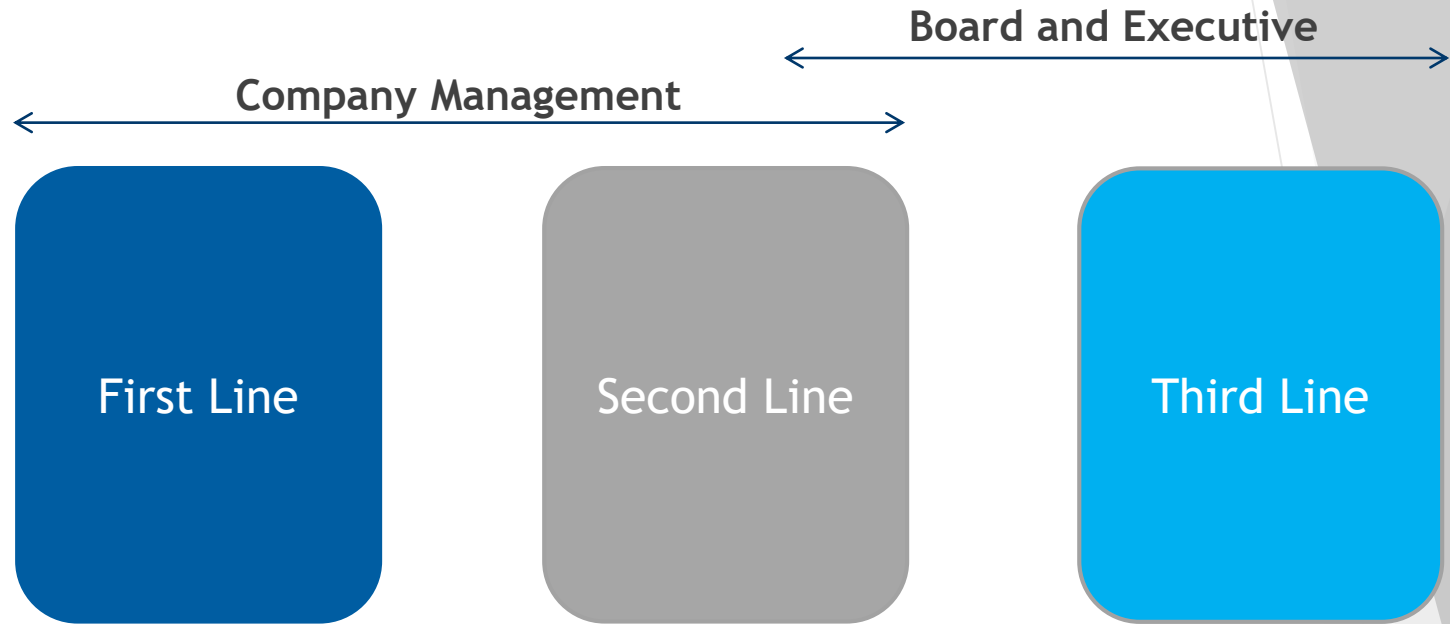
Framework



Organisational arrangements

- ▶ A senior individual with appropriate responsibility and authority should be appointed as the CF10a for medium and large firms
- ▶ A dedicated CASS committee should be in place
- ▶ Oversight of an outsource provider should be comprehensive
- ▶ Appropriate documentation should be in place with outsource providers
 - Rights of access - FCA expectation to access all areas e.g. Operational area or Cloud services

Three lines of defence



Internally sourced activities

Management in business responsible for risk and internal control

Risk and compliance responsible for policies and monitoring standards

Internal audit provide independent assurance

Outsourced activities

+ TPA oversight
+ outsourced vendors compliance



Evidencing

- ▶ Document periodic reviews and testing data
- ▶ Remediation of issues e.g. breaches, trend analysis etc...
- ▶ FCA breach reporting
- ▶ Policies e.g. Pru Seg, materiality etc..,
- ▶ Reconciliation - which method? how often?
- ▶ Training & competence assessment
- ▶ Sign off process/change management
- ▶ Governance/board minutes
- ▶ **No evidence - it didn't happen....**

It's your CASS process not your TPA's

- ▶ Business model driven - translate your business model into TPA processes
- ▶ All products are catered for - some may have different characteristics in CASS
- ▶ Are YOUR requirements catered for, there may be a cost of compliance for your expectations?
- ▶ Where is process undertaken - outsourcing includes offshoring e.g. India, Poland, etc...
- ▶ Does your provider understand the CASS rules and principles, not just the process, and can they explain it?
- ▶ Is training sufficient and appropriate, robust T&C scheme?
- ▶ Do you understand the control framework at your provider?

Operational oversight and testing

- ▶ Access to procedures and documentation - reviewed and approved
- ▶ Knowledge and culture - policies and content of training
- ▶ Identify risks with clarity; the controls then tend to be easier to implement
- ▶ Controls e.g.
 - Detective: reconciliations and breach reporting - do you see sample copies/review
 - Preventative/mitigative: account controls, limit intra day issues or flows of money e.g. netting
 - Understanding the impact of reconciliation exceptions - what are they telling you (e.g. autopsy?)



Inspect what you expect

- ▶ Process flows and mapping - identify the control issues and points of weakness
- ▶ ‘Follow the money’ testing of process
- ▶ Site visits/periodic review
- ▶ Your providers ability/infrastructure to alert or flag issues
- ▶ Commitment to improvement
- ▶ Access and evidence of senior management support and engagement

Information and insight

- ▶ Root cause analysis - each CASS incident reported to each firm individually
- ▶ Oversight committee of breaches - totality of incidents and significant issues
- ▶ Prevention - better than cure
- ▶ Prevention 'fails' - is right data available e.g. RRP/DR
- ▶ Deep dives on specific issues/topics
- ▶ Benchmarking quantitative data - provide KPI pack e.g. Error rates, value in shortfall/unprotected



Common issues

- ▶ Reliance on ‘after the event’ tools - can be useful, but cannot be relied on
- ▶ Auditor reasonable assurance report - a tool not a solution
- ▶ Herd instinct - careful what you step in when following the herd
- ▶ Evidencing
- ▶ Retained knowledge and skills
- ▶ Inability to explain or describe TPA process
- ▶ Senior management or Board interest
- ▶ Translation - your business model into TPA administration

‘the wise man is wise before the event, not after it’

Andrew Lelliott

**Northern Trust
& Deputy Chairman of The TA Forum**



THE TA FORUM

Objectives of The TA Forum

Our key aims are to: -

- ▶ Support and influence change where operational efficiencies can be improved across the UK investment management industry;
- ▶ Maintain and enhance the reputation and standing of the industry; and
- ▶ Provide a centre of excellence for the development of knowledge and understanding of the TA industry.



THE TA FORUM

Working Groups

In addition to the CASS working group, The TA Forum have also formalised the following subgroups to focus on specific areas, gain consensus, review and enhance processes, consult on regulatory and/or industry change initiatives and agree best practice standards:-

- ▶ AML
- ▶ CRS
- ▶ Registration
- ▶ Settlements

AML Working Group

4th EU Money Laundering Directive

- ▶ Domestic and Foreign PEPs and Enhanced Due Diligence requirements, including Source of Funds/Source of Wealth checks
- ▶ Introduction of UK registers of beneficial owners
- ▶ Other impacts raised by members

Online Account Opening and KYC

- ▶ New technologies/providers in use and/or being planned
- ▶ Member experiences in what has went well or not
- ▶ Improve efficiency for servicing ManCos and improve end customer experience

AML Working Group cont...

Data Protection and Information Sharing

- ▶ Consistency of Servicing of requests from Law Enforcement and other agencies
- ▶ Fraud Alerts and mechanisms to disseminate both generic fraud trends/typologies and specific intelligence
- ▶ Consider framework in context of 4th EU MLD and ManCo ownership of customer data



CRS Working Group

- ▶ Interpretation of CRS guidance notes
- ▶ Enforcing the industry standard self-certification CRS forms
- ▶ Continue to monitor best practise adoption for FATCA/CRS and action any topics as appropriate including:-
 - On Boarding of new Investors and securing the required documentation
 - Due Diligence - High and Low value accounts (commonalities/differences between CRS and FATCA)
 - CRS reporting and the overlap with EUSD that is being phased out
 - CD/OT transitional reporting from FATCA to CRS for 2017
 - Customer notification - disclosure opportunities

Registration Working Group

- ▶ Bereavements - treatment of 'Small Estates' (thresholds, documentary requirements etc)
- ▶ Signature Checking (value, method, when, how, jurisdictional differences)
- ▶ Recording Pensions/Trusts (document shared, suggestion of adopting 'preferred name' field in addition to registered holder names)
- ▶ Acceptability of Third Party Payments Executors, court orders, trustees etc)
- ▶ Coveralls / Paperless renunciation
- ▶ Resolution of 'gone away' investors
- ▶ Register data validation / improvement / mining



Settlements Working Group

- ▶ Review of cheque clearance 'change of practise' rules
- ▶ Assessment of all outgoing payment methods with objective to recommend industry standard(s)
- ▶ Standardising BACs Narratives
- ▶ European referendum & impact assessment
- ▶ Abolishment of Cheques
- ▶ Impact of reduced settlement to T2
- ▶ Review and assess impact of UK ring fencing legislation



Important Information

This document has been compiled for the use of TA Forum members and their clients only and is for guidance purposes.

The best practice statements referred to within this presentation have 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. It is the regulated firm's responsibility to comply with the client money rules.



THE TA FORUM



THE TA FORUM

Thank You

www.thetaforum.co.uk