

Discover the benefits of CASS audits

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Whilst it is not the regulator's objective to prevent firms from failing, where a firm does fail, the aim is to manage this in an orderly manner. Hence the basic capital resources requirement for all regulated firms.

The regulator aims to avoid disorderly failure, thereby minimising harm to the public and the UK financial system. The Client Assets (CASS) sourcebook contains rules to protect client assets and client monies. In this way, CASS supports the regulator to meet its objectives.



CASS Rules are important because:

- CASS **protects** consumers' assets and money when a firm fails
- CASS enhances the **integrity** of the financial system by giving participants confidence that their money is protected upon insolvency; and
- the CASS rules set a minimum standard of protection that allows for a **competitive market** in investment and custodial services – not competing on levels of protection but on cost and the quality of services provided

[David Lawton, Director of Markets, CASS Compliance – the bigger picture, 2014]

Today, CASS continues to be high on the regulatory agenda. During the COVID pandemic, whilst offices were empty, regulatory supervision didn't come to a standstill. The FCA issued various reminders to CASS firms with the emphasis upon firms continuing to protect client assets.



We will continue to conduct assessments of firms' client assets arrangements, and review the annual independent external auditors' client assets reports. If we contact your firm in the future, we will expect you to be prepared to explain the actions taken in response to this letter.

Regulatory Penalties:

In 2020, Charles Schwab UK Limited was fined £8.9million (a reduced figure) following its failure to protect client money and client assets. The Final [Notice](#) explains the various shortcomings of the firm's ability to fulfil its obligations. One of the failings noted by the FCA was the firm's reliance upon US rules for setting the processes and controls to safeguard clients' assets. The failure was worsened by regular audits against US standards instead of the UK CASS requirements, which gave false assurance to the firm.

2.8 CSUK relied on the systems and controls operated by CS&C under US rules to ensure the safety of its customers' client money and assets. As CSUK was aware, CS&C's compliance with those rules was regularly audited. However, this reliance was insufficient as CASS requirements were not the same as US rules and in some respects provided a higher standard of protection than US rules for CSUK customers. CSUK was responsible for holding client money and assets in accordance with Principle 10 and the rules in CASS, rather than the different requirements of the US system.

Final Notice Charles Schwab UK Ltd 2020 1

What is the CASS audit?

CASS audit refers to the assets report required by the FCA. The report provides assurance to the FCA on how CASS firms handle or protect the client assets. Regardless of location, UK regulated firms reliant on group or third-parties for services must ensure that those parties work to the UK CASS standards.

Where applicable, this means the auditor needs access to the firm's data and that of third-parties, perhaps even fourth and fifth parties (sub-contractors).

The auditor should provide notification to the FCA of any significant matters arising from the review. For this reason, it's important that the firm and any third-parties (as well as sub-contractors too) provide sufficient information to the auditor to fulfil their duties.

CASS Audit Benefits:

The CASS audit is another means of demonstrating effective controls. For example, during the assessments, the auditors undertake several tasks, which may include:

- understanding how the firm operates, its structure and reliance on third-parties, use of technology as well as which CASS rules apply to the business
- understanding controls to identify and manage the risk of non-compliance with the CASS rules
- reviewing the reports from compliance and internal audit as well as follow-up actions
- assessing the consistency of CMAR submissions during the period
- testing reconciliations

The above serves as a reminder of the volume of data to be provided and reviewed. In this way, firms need to obtain data from multiple sources and provide it to the auditors for assessment. Tracking this data can be a mammoth task for the person collating the material. Firms will want to track what

information is being shared and with whom. In addition, firms need confirmation that data is shared securely and is available within appropriate timescales to avoid any delays in the process.

The process of collating information provides businesses with an opportunity to verify information provided. Where information is provided by multiple sources, what information is provided and how? Is there consistency in content and detail? How can that reporting be improved? These may be matters that don't specifically impact the CASS audit, but can enhance the Board oversight.

In addition, the auditors will need to meet with senior management, including the chief compliance officer and any third parties. This enables the auditors to assess the level of risk posed and likelihood of a significant breach. This allows the auditors to understand the governance structure of the business and its oversight of any third-parties and sub-contractors. Inviting the auditor to meet with the Board to discuss their review and observations can be helpful. The Board can use this opportunity to gain reassurance regarding CASS controls. Such opportunities should encourage challenge and debate of findings, but also help demonstrate Board engagement.

How Ruleguard can help you:

Ruleguard is an industry-leading software platform designed to help regulated firms manage the burden of evidencing and monitoring compliance. It has a range of tools to help firms fulfil their obligations across the UK, Europe and APAC regions. We offer practical line-by-line mapping for client asset compliance in custody, client money, mandates and resolution packs, as well as automation of CMAR returns.

<https://www.ruleguard.com/cass>

Get in touch with the Ruleguard team to learn more on: 020 3965 2166 or hello@ruleguard.com

Webinars:

Ruleguard hosts monthly webinars, to register your interest or review past events please [click here](#).

Further resources:

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