

CP11/4^{★★}

Financial Services Authority

The Client Money and Asset Return (CMAR): Operational Implementation

February 2011

Contents

	Acronyms used in this paper	3
1	Overview	5
2	Implementing CMAR on GABRIEL for CASS medium and large firms	7
3	CASS small firm reporting arrangements	10
Annex 1:	Cost-benefit analysis and compatibility statement	
Annex 2:	List of questions	
Annex 3:	Summary of consultation proposals	
Appendix 1:	Draft Handbook text in relation to Chapter 2 (Supervision Manual and Client Assets Sourcebook (Client Assets Reporting) (Amendment) Instrument 2011)	
Appendix 2:	Draft Handbook text in relation to Chapter 3 (Supervision Manual (Client Assets Reporting) (Amendment) Instrument 2011)	

The Financial Services Authority (FSA) invites comments on this Consultation Paper.

1. Comments on Chapter 2 should reach us by 10 April 2011.
2. Comments on Chapter 3 should reach us by 10 March 2011.

Comments may be sent by electronic submission using the form on the FSA's website.
www.fsa.gov.uk/Pages/Library/Policy/CP/2009/cp11_04_response.shtml.

Alternatively, please send comments in writing to:

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It is the FSA's policy to make all responses to formal consultation available for public inspection unless the respondent requests otherwise. A standard confidentiality statement in an email message will not be regarded as a request for non-disclosure.

A confidential response may be requested from us under the Freedom of Information Act 2000. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by the Information Commissioner and the Information Tribunal.

Copies of this Consultation Paper are available to download from our website – www.fsa.gov.uk. Alternatively, paper copies can be obtained by calling the FSA order line: 0845 608 2372.

Acronyms used in this paper

CASS	Client Assets sourcebook
CBA	Cost-benefit analysis
CMA	Client Money and Asset Positions
CMAR	Client Money and Asset Return
GABRIEL	GATHERing Better Regulatory Information ELelectronically
IT	Information Technology
IRR	Integrated Regulatory Reporting

1

Overview

Introduction

- 1.1 Our increased focus on the protection of client money and assets has been well publicised¹ and in 2010 we introduced a number of enhancements to the Client Assets sourcebook (CASS). One of the key policies we introduced in PS10/16 *Client Assets Sourcebook (Enhancements) Instrument 2010* was the Client Money and Asset Return (CMAR), which will allow us to monitor CASS firms' client money and asset positions (CMA) in relation to investment business on a regular basis.
- 1.2 We propose to implement the CMAR through GABRIEL, our online information gathering system. We believe that this represents the best overall approach for both regulated firms and the FSA. GABRIEL is our online regulatory reporting system for the collection, validation and storage of regulatory data. The proposed approach will allow us to achieve greater efficiencies when collecting and analysing data on firms' CMA. Regulated firms will benefit by being able to report their CMA using the same information technology (IT) solution that they use for their prudential and other financial returns.
- 1.3 In addition, we have concluded that it would be most efficient from an operational perspective to adopt a phased approach to implementing the CMAR through GABRIEL. We propose requiring CASS medium and large firms² (approximately 400 firms) to complete the CMAR in line with the timetable for implementation set out in PS10/16. Whilst GABRIEL is already established as a reporting mechanism, a phased approach will enable us to introduce the detailed operational processes of data collection and analysis received from the higher impact firms holding the largest CMA, which will be reported on a monthly basis. Once these processes are fully in place, we intend to extend the GABRIEL-based reporting system to the CASS small firms (approximately 1,200 firms). In line with PS10/16, reporting would be on a half-yearly basis.
- 1.4 To ensure that we have a degree of oversight of CASS small firms, we propose to introduce a notification requirement as an interim measure. CASS small firms will be required to notify us of their highest client money balances and highest safe custody assets value in the

¹ www.fsa.gov.uk/pages/About/Who/Management/Teams_1/cass/cab/index.shtml

² For further information on the CASS stratification of firms please see CASS 1A.2.7R

previous reporting period on a half-yearly basis. This notification requirement will provide us with oversight of these firms, and build on the data gathered from the CMAR, ensuring we have oversight of the whole sector. We will present proposals to extend the GABRIEL reporting system for CMAR to the CASS small firms at a later stage.

Structure of the paper and next steps

- 1.5 There are two consultations contained within this paper. Chapter 2 (Implementing the CMAR on GABRIEL for CASS medium and large firms) is a two-month consultation. We intend to publish a Policy Statement on this consultation in May 2011 and the rules will enter into force on 1 June 2011.
- 1.6 Chapter 3 (CASS small firm reporting requirements) is a one-month consultation. We will publish a Handbook Notice in relation to this consultation in April 2011.

Who should read this CP?

- 1.7 This paper will be of interest to:
- all CASS firms;
 - consumers; and
 - individuals who may have senior management responsibilities in relation to a regulated firm's client money and assets.
- 1.8 The proposals in this paper do not apply to General Insurance Intermediaries who only hold client money in accordance with CASS 5.

CONSUMERS

1. Our proposals on CASS small firms will reduce the amount of CMA data reported by these firms compared with what we originally envisioned in PS10/16, *The Client Assets Sourcebook (Enhancements) Instrument 2010*. This may result in a lower level of consumer protection. We propose to mitigate the impact of this change by introducing a notification requirement that will ensure that CASS small firms provide us with high-level data about their CMA. This will enable us to identify CASS small firms holding the highest CMA and allow us to undertake firm-specific and thematic reviews. The CASS small firm notification requirement therefore supports our consumer protection and market confidence objectives.
 2. Our proposals for CASS medium and large firms implement policies already introduced in what we believe to be the most cost-effective manner.
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2

Implementing CMAR on GABRIEL for CASS medium and large firms

- 2.1 In PS10/16, *Client Assets Sourcebook (Enhancements) Instrument 2010*, we introduced the Client Money and Asset Return (CMAR) as part of a framework of rules designed to enhance the consumer protection regime for client money and assets.
- 2.2 We are proposing to implement the CMAR on GABRIEL for CASS medium and large firms. GABRIEL is our online information gathering system. We were planning on introducing reporting requirements for all firms at the same time, however, we now think it will be more efficient to do this on a phased basis, and to defer, for the time being, CMAR implementation for CASS small firms.
- 2.3 We believe that the implementation of the CMAR on GABRIEL represents the best solution for both regulated firms and the FSA. It will deliver economies of scale for us when collecting and analysing data on firms' CMA and it is consistent with our reporting policy. Regulated firms will benefit by being able to report their CMA using the same information technology (IT) solution that they use for their prudential and other financial returns. We also plan to introduce guidance notes designed to help firms complete the CMAR by clarifying our expectations of the data required. The draft guidance notes will form part of SUP 16 Annex 29AG and follow the usual format for guidance on GABRIEL-based returns. We invite feedback on the usefulness of the proposed guidance notes.
- 2.4 We have concluded that it would be most efficient from an operational perspective to adopt a phased approach to implementing the CMAR through GABRIEL. We propose requiring CASS medium and large firms³ (approximately 400 firms) to complete the CMAR in line with the timetable for implementation set out in PS10/16. CASS medium and large firms will therefore have to complete and submit the first CMAR for June 2011 within 15

3 For further information on the CASS stratification of firms please see CASS 1A.2.7R

business days of the end of June, i.e. Thursday 21 July 2011. While GABRIEL is already established as a reporting mechanism, a phased approach will enable us to introduce the detailed operational processes of data collection and analysis received from the higher impact firms holding the largest CMA, which will be reported on a monthly basis. Once these processes are fully in place, we intend to extend the GABRIEL-based reporting system to the CASS small firm population (approximately 1,200 firms). In line with PS10/16, reporting would be on a half-yearly basis.

- 2.5 The individual within a CASS medium or large firm responsible for CASS operational oversight will be required to complete and submit the CMAR between 1 June 2011 and 30 September 2011. From 1 October 2011, the individual at a medium or large CASS firm who holds the CASS operational oversight controlled function (CF10a) will be required to take responsibility for completing and submitting the CMAR on behalf of the firm. This may or may not be the same individual recorded as the firm's Principal User for GABRIEL reporting purposes.

Consultation period

- 2.6 We are consulting on these proposals for two months; any comments should reach us by 10 April 2011. We plan to issue a related Policy Statement in May 2011, with the final rules coming into force on 1 June 2011. While we try to give respondents three months to reply to 2** consultations, to meet the implementation timetable we have decided in this instance to consult for a two month period only.

CMAR amendments

- 2.7 To implement the CMAR for CASS medium and large firms through GABRIEL we need to make a small number of very minor amendments to the CMAR in order to make the format and presentation consistent with GABRIEL. We have also taken account of feedback received from approximately 26 'early adopter' firms which participated in a pilot exercise, and have made a small number of changes designed to make the return easier to use. While the structure and wording of questions has been modified, the data required by each data element has not been amended. We do not consider the cost-benefit analysis to be materially affected.
- 2.8 As part of the operational implementation of the CMAR on GABRIEL we propose to:
- I. amend the relevant provisions in SUP 16.14 to clarify that firms should use GABRIEL as the reporting medium for the CMAR;
 - II. make minor amendments to the CMAR form itself (to correct typographical mistakes and to clarify our expectations); and
 - III. provide guidance notes and technical business validation rules.

- Q1:** Do you agree that we should implement the CMAR for CASS medium and large firms through GABRIEL? If not, please state your reasons why and provide supporting evidence.
- Q2:** Do you agree that minor amendments should be made to the CMAR to implement it through GABRIEL?
- Q3:** Do you have any comments on the guidance notes or the technical business validation rules?

3

CASS small firm reporting arrangements

- 3.1 In PS10/16, *Client Assets Sourcebook (Enhancements) Instrument 2010*, we published rules implementing a requirement for CASS small firms to submit a CMAR on a half-yearly basis, in respect of reporting periods ending on 30 June and 31 December. As noted, we have proposed implementing the CMAR for CASS medium and large firms in June 2011 and postponing implementation of the CMAR for CASS small firms until the processes have been established. Accordingly, we are now consulting on a proposal to remove the CMAR requirements for CASS small firms. We will bring forward proposals to extend the CMAR reporting requirement to CASS small firms at a later date. To avoid doubt, we intend to introduce the CMAR for CASS small firms as soon as it is practicable.
- 3.2 As an interim measure, to ensure that we have adequate oversight of CASS small firms, we propose to introduce a notification requirement under which CASS small firms will be required in July 2011 to notify us of their highest client money balances and highest safe custody assets value in the previous six months.
- 3.3 Similar to the January data collection exercise, in early July 2011 we will contact all CASS small firms requesting this information and these firms will have until the end of July 2011 to respond.

Consultation period

- 3.4 We are consulting on these proposals for one month, in order to give CASS small firms sufficient notice of the proposed changes.
- 3.5 Whilst we try to give respondents three months to reply to 2** consultations, to meet the implementation timetable we have decided in this instance to consult for a one-month period only.

- 3.6 Any comments should reach us by 10 March 2011. We plan to issue a related Handbook Notice in April 2011, with the final rules coming into force on 1 June 2011.

Removing the CMAR requirement for CASS small firms

- 3.7 Whilst GABRIEL is already established as a reporting mechanism, a phased approach will enable us to introduce the detailed operational processes of data collection and analysis received from the higher impact firms holding the largest CMA, which will be reported on a monthly basis. Accordingly, we are consulting on removing the CMAR requirement for CASS small firms at the present time. Proposals to implement the CMAR on a half-yearly basis for this wider population of firms will be introduced at a later date.

Q4: Do you agree that the CMAR requirement for CASS small firms be postponed?

Q5: Do you agree that we should still introduce the CMAR for small firms as soon as it is practicable to do so?

CASS small firms notification requirement

- 3.8 In our view, we need to receive timely information about CASS small firms' CMA in 2011. For example, we would want to be made aware of situations where a firm's CMA increases sharply during the year as this might in some cases require a supervisory response.

- 3.9 We are therefore consulting on a proposal that CASS small firms should be required to provide us with their highest CMA for the period 1 January to 30 June, notifiable in July 2011, in addition to the annual notification obligation placed upon all firms to report in January.

- 3.10 A consequence of this proposal is that CASS small firms would have to complete a notification of their CMA by the end of July 2011. Likewise, in January 2012, it will be required to notify us of its highest CMA for the period January to December 2011. During calendar year 2011, we expect to present proposals to extend the requirement to submit the CMAR to CASS small firms, and we will consult on these in the usual way.

Q6: Do you agree that we should introduce a CASS small firm notification requirement to enable the FSA to monitor the CMA of smaller firms before CMAR implementation?

Q7: Do you agree that it remains appropriate for CASS small firms to provide the required notification on a half-yearly basis?

Annex 1:

Cost-benefit analysis and compatibility statement

1. When proposing new rules, we are obliged (under section 155 of the Financial Services and Markets Act 2000 (FSMA)) to publish a cost-benefit analysis (CBA), unless we expect there to be no costs or only a minimal increase. As a matter of policy, we also provide a CBA for significant proposed guidance relating to rules. The CBA is an estimate of the costs and an analysis of the benefits of the proposals. It is a statement of the differences between the baseline (broadly speaking, the current position) and the position that will arise if we implement the proposals.

Implementing the CMAR through GABRIEL for CASS medium and large firms

2. The CBA for CASS medium and large firms, as described in CP10/9 *Enhancing the Client Assets Sourcebook*, still applies; in particular, please see paragraphs 54 and 55 of Annex 1.¹
3. In our view, implementing the CMAR using GABRIEL is the most efficient and economic way for firms to complete their regulatory returns, including the minor amendments we have made to the CMAR. The Supervision Manual and the draft guidance notes should make it easier for firms to comply with the rules. For example, it will be clear from a firm's reporting schedule when it next needs to submit a CMAR, whereas a bespoke interim solution would have required firms to maintain two reporting systems.
4. To assist firms in completing the CMAR, we have drafted guidance notes for the CMAR (please see Appendix 2, Annex B). The guidance notes clarify the exact data required when firms fill in the form, and will ensure that firms report on a broadly consistent basis. They will make it easier for firms to fill in the CMAR and for the FSA to evaluate the data. We do not expect the guidance notes to impose more than minimal costs, if any. Any costs

¹ www.fsa.gov.uk/pubs/cp/cp10_09.pdf

associated with providing the data to the FSA have already been included in the CBA of the original policy proposal in CP10/9.

CASS small firm reporting arrangements

5. The CBA for CASS small firms, as described in CP10/9, no longer applies in full to the CASS small firms notification requirement.
6. We had estimated (and received no contrary consultation feedback) that the CMAR would cost a CASS small firm approximately £160 a year (or four man hours to complete). For all affected CASS small firms, the total cost was estimated at £320,000. Given that we are now proposing to ask CASS small firms to answer two questions (rather than approximately 30 in the CMAR), the costs will be reduced. As it is unlikely to take firms more than an hour to complete the CASS small firms notification, we estimate that the costs to CASS small firms of the notification would be about £48 a year or approximately £58,000 for all CASS small firms.² We consider the benefits of the CASS small firms' notification proposal to outweigh the costs as it will ensure that we have sufficient information to supervise CASS small firms effectively.

Q8: Do you agree with the amended cost-benefit analysis?

7. Please note that the consultation period in relation to this question closes on 10 March 2011.

Compatibility statement

8. We consider that the compatibility statement in CP10/9 needs the following amendments in relation to the proposals for CASS small firms.

Compatibility with our statutory objectives

Consumer protection

9. We plan to defer CMAR implementation for CASS small firms. Because this will result in the FSA receiving less detailed data about these firms' CMA, it may lead to a reduction in consumer protection compared with the rules set out in PS10/16. However, we believe we have mitigated this risk effectively by proposing a CASS small firm notification requirement. In the interim, before we can implement the CMAR for CASS small firms, the notification will give us high-level information on the CASS small firm population, as well as notify us which CASS small firms hold the most client money and assets (informing our risk-based approach to supervision). The data will allow us to make timely firm-specific regulatory interventions and give us an aggregate view of the UK market to perform thematic reviews.

² In CP10/9, we estimated that there were 2,000 small firms, whereas now we expect there to be approximately 1,200 CASS small firms. The number of CASS firms has reduced following a review of firms' client money and assets permissions.

Compatibility with the need to consider the principles of good regulation

The need to use our resources in the most efficient and economic way

10. Given the potential cost to firms and the FSA of introducing the new requirement for all firms at once, we believe the proposals strike the optimal balance between mitigating risks to our objectives and using our resources efficiently. In particular, it will ensure that the operational implementation of the CMAR on GABRIEL for CASS medium and large firms is a success before rolling it out to the CASS small firms population.

Proportionality

11. Deferring CMAR implementation for CASS small firms could result in some reduction in benefits to consumers and market confidence relative to the original scope of the proposals. However, we believe we have mitigated this risk by introducing a notification requirement for CASS small firms. The proposals will also reduce the costs to firms and the FSA.
12. We believe that the proposals in this consultation paper best achieve our objectives.

Annex 2

List of questions

- Q1:** Do you agree that we should implement the CMAR for CASS medium and large firms through GABRIEL? If not, please state your reasons why and provide supporting evidence.
- Q2:** Do you agree that minor amendments should be made to the CMAR to implement it through GABRIEL?
- Q3:** Do you have any comments on the guidance notes or the technical business validation rules?
- Q4:** Do you agree that the CMAR requirement for CASS small firms be postponed?
- Q5:** Do you agree that we should still introduce the CMAR for small firms as soon as it is practicable to do so?
- Q6:** Do you agree that we should introduce a CASS small firm notification requirement to enable the FSA to monitor the CMA of smaller firms before CMAR implementation?
- Q7:** Do you agree that it remains appropriate for CASS small firms to provide the required notification on a half-yearly basis?
- Q8:** Do you agree with the amended cost-benefit analysis?

Annex 3

Summary of consultation proposals

CASS firm type	Proposal	Consultation close	Commencement date of new rules	First reporting period
CASS medium and large firms	Monthly CMAR reporting through GABRIEL	10 April	1 June 2011	CMAR due 21 July 2011 for June 2011 data
CASS small firms	Half-yearly notification of highest CMA	10 March	1 June 2011	CASS notification due 31 July 2011 for 1 January – 30 June 2011 highest CMA

Appendix 1

Draft Handbook text
in relation to Chapter 2
(Supervision Manual and
Client Assets Sourcebook
(Client Assets Reporting)
(Amendment)
Instrument 2011)

SUPERVISION MANUAL AND CLIENT ASSETS SOURCEBOOK (CLIENT ASSETS REPORTING) (AMENDMENT) INSTRUMENT 2011

Powers exercised

- A. The Financial Services Authority makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
- (1) section 138 (General rule-making power);
 - (2) section 139 (Miscellaneous ancillary matters;
 - (3) section 156 (General supplementary powers); and
 - (4) section 157 (Guidance).
- B. The rule-making powers listed above are specified for the purpose of section 153(2) (Rule-making instruments) of the Act.

Commencement

- C. This instrument comes into force on 1 June 2011.

Amendments to the Handbook

- D. (1) The Client Assets sourcebook (CASS) is amended in accordance with Annex A to this instrument.
- (2) The Supervision manual (SUP) is amended in accordance with Annex B to this instrument.
- (3) The Supervision Manual (Client Assets Reporting) (Amendment) Instrument 2011 is amended in accordance with Annex C to this instrument.
- (4) Part 1 of Annex C to the Client Assets Sourcebook (Enhancement) Instrument 2010 (FSA 2010/52) (which amends the Supervision manual (SUP)) is amended in accordance with Annex D to this instrument.

Citation

- E. This instrument may be cited as the Supervision Manual and Client Assets Sourcebook (Client Assets Reporting) (Amendment) Instrument 2011.

By order of the Board
[] May 2011

Annex A

Amendments to the Client Assets sourcebook (CASS)

In this Annex, underlining indicates new text.

1A CASS firm classification and operational oversight

...

1A.2 CASS firm classification

...

1A.2.8A R In addition, in relation to the calendar year ending on 31 December 2011, a CASS small firm must by 31 July 2011 notify the FSA in writing of:

- (1) the highest total amount of client money and the highest total value of safe custody assets held during the period between 1 January 2011 and 30 June 2011; or
- (2) if it did not hold client money or safe custody assets in that period, the highest total amount of client money and the highest total value of safe custody assets that the firm projects, as at the date of its notification to the FSA under this rule, it will hold between 1 July 2011 and 31 December 2011.

Annex B

Amendments to the Supervision manual (SUP)

In this Annex, all the text is new and is not underlined.

After SUP 16 Annex 29R insert the following new annex. The text is not underlined.

16 Annex 29AG Guidance notes for the data item in SUP 16 Annex 29R

This annex consists only of Guidance notes for the *data item* in SUP 16 Annex 29R.

Client Money and Assets Return (CMAR)

This note contains *guidance* on the *CMAR* and is therefore addressed only to a *firm* which is subject to SUP 16.14.

General

Terms used in the *CMAR* bear the meaning ascribed to those terms in the *Glossary*, even though they do not appear in italicised form on the face of the *data item*, unless a contrary indication is given in this *guidance*.

A *firm* is reminded that the effect of SUP 16.14.4R is that in relation to a *firm* to which CASS 5 (Client money: insurance mediation activity) and CASS 7 (Client money rules) apply, that *firm* should not report in this *data item* any *client money* that it holds in accordance with CASS 5.

Valuation

Where this *data item* asks for a *firm* to report the value of *safe custody assets* that it holds on any given *day*, that *firm* should:

- (a) if it has the previous *day*'s mark to market value of the *safe custody asset* in question, use that value; or
- (b) if it does not have the previous *day*'s mark to market value, calculate the value of that asset using the most recent mark to market value that it does have; and
- (c) in either case, apply a consistent mark to market methodology that reflects its normal accounting practice.

Currency

The reporting currency for this *data item* should be GBP (sterling). For the purpose of calculating the value of the total amounts of *client money* and *safe custody assets* that it holds on any given *day* during a reporting period, a *firm* should in relation to *client money* or *safe custody assets* denominated in a currency other than sterling, translate the value of that *money* or that *safe custody asset* into sterling at the previous *day's* closing spot exchange rate.

Section 1 Firm information

1 Name of CASS audit firm

A *firm* should report the name of the auditor that provides its client assets report (see *SUP* 3.10). If the auditor is not listed on the menu, where available, a *firm* should choose 'Other'.

2 Name of CASS audit firm (if 'Other' was selected above)

If a *firm* selects 'Other' in (1), it should enter the name of its auditor.

In relation to data fields 3 to 7 a *firm* should state "Yes" or "No".

3 Does the firm hold client money?

4 Does the firm safeguard and administer safe custody assets?

5 Is the firm subject to a CFTC Part 30 exemption order?

Handbook provisions dealing with the CFTC Part 30 exemption are set out *CASS* 7.4.32G to *CASS* 7.4.35R.

6 Does the firm operate the alternative approach?

Handbook provisions dealing with the alternative approach are set out in *CASS* 7.4.14G to *CASS* 7.4.19G.

7 Has the alternative approach been signed off by the firm's auditor?

CASS 7.4.15R provides that a *firm* that does not operate the normal approach must first send a written confirmation to the *FSA* from the *firm's* auditor that the *firm* has in place systems and controls which are adequate to enable it to operate another approach effectively.

8A Type of business activity

A *firm* should identify in this data field the investment activities or services in the course of which it holds *client money* or *safe custody assets* belonging to a *client*.

8B Number of clients

In relation to each of the investment activities or services identified, a *firm* should report in this data field the number of *clients* for whom it holds *client money* or *safe custody assets* in respect of the activity or service in question.

8C Balance of *client money* as at reporting period end date

In relation to each of the investment activities or services identified, a *firm* should report in this data field the total amount of *client money* that it holds belonging to *clients* in respect of the activity or service in question.

8D Value of *safe custody assets* as at reporting period end date

In relation to each of the investment activities or services identified, a *firm* should report in this data field the total value of *safe custody assets* that it holds belonging to *clients* in respect of the activity or service in question.

Section 2 Balances

9 Highest client money balance during the reporting period

A *firm* should report the highest total amount of *client money* that it held at any point during the reporting period.

10 Lowest client money balance during the reporting period

A *firm* should report the lowest total amount of *client money* that it held at any point during the reporting period.

11 Highest value of safe custody assets held during the reporting period

A *firm* should report the highest total value of *safe custody assets* that it held at any point during the reporting period.

12 Lowest value of safe custody assets held during the reporting period

A *firm* should report the lowest total value of *safe custody assets* that it held at any point during the reporting period.

In relation to data fields 9 to 12, a *firm* should ensure that it includes in the amount or value reported any *client money* or *safe custody assets* that has or have been placed with a sub-custodian, either by a custodian with which that *firm* has deposited that *money* or those assets, or by that *firm* if it is a custodian.

In relation to data fields 9 to 12, a *firm* should determine the lowest and highest figures by reference to the data that it has recorded from internal reconciliations over the reporting period in question.

Other than in relation to a *CMAR* submitted in January and in circumstances in which a *CMAR* has been submitted on time in each of the preceding eleven months, submission of a *CMAR* will not have an effect on a *firm's* categorisation as either a *CASS large firm* or as a

CASS medium firm. As CASS 1A.2.2R indicates, a *firm's* obligation to determine its categorisation arises once each year in January of the year in question.

Section 3 Segregation of client money

13A Type

A *firm* should identify the types of institution with which it has placed *client money*. CASS 7.4.1R identifies the type of institution with which a *firm* must promptly place into one or more accounts *client money* that it receives. CASS 7.5.2R identifies a limited number of circumstances in which a *firm* may allow another *person*, such as an exchange, a *clearing house* or an *intermediate broker*, to hold or control *client money*.

13B Institution where client money held

A *firm* should report the full name of the individual legal entity with which it has placed *client money*.

13C Client money balances

A *firm* should report the total amount of *client money* which it has placed with each institution identified in 13B.

13D Country of incorporation of the institution

A *firm* should report the name of the country in which each institution with which it places *client money* is incorporated using the appropriate two letter ISO code.

13E Group entity

A *firm* should indicate in this data field whether each institution with which it has placed *client money* is or is not a relevant group entity within the meaning of CASS 7.4.9BR. A *firm* should note that the definition in CASS 7.4.9BR is specific to CASS and the entities which comprise it may not be the same as those which comprise the *firm's group*.

Section 4 Client money requirement and resource

14 Client money requirement

In relation to a *firm* that follows the *standard method of internal client money reconciliation*, that *firm* should report its *client money* requirement, calculated in accordance with CASS 7 Annex 1G paragraph 6.

Included in the *client money* requirement is allocated but unclaimed *money* which a *firm* continues to treat as *client money*; for example, *client money* balances held in respect of *clients* whom the *firm* is no longer able to contact.

15 Unallocated to individual clients but identified as client money

A *firm* should report the amount of unallocated *client money* that it holds. A *firm* may be unable to allocate *client money* to an individual *client* on initial receipt of that *money* because of differences in trading hours, late journal adjustments or a failure by a third party to mark *money* (such as a dividend payment) that it sends to the *firm* as being for the account of the *client* in question.

16 Unidentified client money in client money bank accounts

A *firm* should report the amount of *money* other than *client money* that is held in that *firm's* *client bank accounts* and *client transaction accounts* which is the subject of enquiry by that *firm* to determine whether that *money* is *client money*.

17 Uncleared payments e.g. unpresented cheques sent to clients

A *firm* should report the amount of *client money* accounted for by as yet uncleared payments to that *firm's* *clients* drawn on a *client bank account* of the *firm*. In this data field a *firm* should therefore include cheques and other payable orders, including electronic bank payments, in favour of a *client* but which have not been paid by the bank.

18 Excess cash in segregated accounts

In relation to a *firm* that follows the *standard method of internal client money reconciliation*, that *firm* should report the amount of *client money* that it holds in *client bank accounts* and *client transaction accounts* which exceeds the amount reported in data field 14. CASS 7.4.21R explains when such an excess might arise.

19 Client money resource

In relation to a *firm* that follows the *standard method of internal client money reconciliation*, that *firm* should report the amount of its *client money* resource, as defined in CASS 7 Annex 1G paragraph 1 in respect of a *firm* that adopts the normal approach and as defined in paragraph 2 of that Annex in respect of a *firm* that adopts the alternative approach.

20 Surplus (+)/ deficit (-) of client money resource against client money requirement

A *firm* should report in this data field the amount by which its *client money* resource exceeds its *client money* requirement (to be reported in the *data item* as a positive amount), or as the case may be, the amount by which its *client money* requirement exceeds its *client money* resource (to be reported in the *data item* as a negative amount).

21 Adjustments made to withdraw an excess or rectify a deficit identified as a result of an internal reconciliation.

In relation to a *firm* whose *client money* resource and *client money* requirement were shown in the penultimate internal reconciliation carried out in the reporting period to be unequal, that *firm* should report the amount of *money* that it added to correct a *shortfall* or, as the case may be, that it withdrew reflecting an excess.

In relation to data fields 14 to 20, a *firm* should report by reference to the results of its internal reconciliations carried out on the reporting period end date, or if that date is not a

business day, by reference to those carried out on the *business day* nearest to the reporting period end date.

Section 5 Client money reconciliations

22 Client money internal reconciliation

A *firm* should identify in this data field the frequency with which it performs internal reconciliations.

23 Client money external reconciliation

A *firm* should identify in this data field the frequency with which it performs external reconciliations.

24 Client money unreconciled items

A *firm* should identify in this data field the number of unreconciled *client money* items and allocate each item to one of the specified time bands according to the length of time for which it has remained unreconciled. For the purpose of this data field, a *firm* should calculate the unreconciled period as the length of time between receipt of the item and the reporting period end date.

Section 6 Segregation of safe custody assets

25A Where and how held

A *firm* should identify in this data field:

- (a) *safe custody assets* which it holds in its physical possession;
- (b) *safe custody assets* the legal title to which is registered and recorded in the name of a *nominee company*;
- (c) *safe custody assets* which it has deposited with a third party custodian;
- (d) *safe custody assets* which, if the *firm* is a custodian, it has deposited with a sub-custodian; and
- (e) *safe custody assets* which it has deposited with any other third party.

25B Name of institution

A *firm* should report, as relevant, the identity of the *nominee company* to which is registered and recorded the legal title to the *safe custody assets* in question, or the identity of the third party institution with which it has deposited the *safe custody assets*. In relation to *safe custody assets* which it holds in its physical possession, a *firm* should enter its own name in the data field.

In identifying any *nominee company* or third party institution in this data field, a *firm* should ensure that it specifies the full name of the individual legal entity with which the *safe custody assets* have been deposited.

25C Number of lines of stock

In relation to each *nominee company* or third party institution identified in 25B, a *firm* should report the total number of lines of stock being *safe custody assets* to which in the case of a *nominee company* legal title has been registered and recorded in its name and in any other case which it has deposited with a third party institution. As a *firm* is only being asked to enter the total number of lines of stock in relation to each identified institution, it is not expected to identify separately *safe custody assets* belonging to an individual *client*.

For the purpose of this data field, a *firm* should treat as a line of stock one which bears its own CUSIP or ISIN number.

25D Value of custody assets as at reporting period end date

As at the reporting period end date, a *firm* should calculate the total value of the *safe custody assets* held by each institution identified in 25B and enter that value in the data field.

25E Country of incorporation of the institution

In relation to each institution identified in 25B, a *firm* should report the name of the country in which that institution is incorporated using the appropriate two letter ISO code.

25F Group entity

A *firm* should indicate in this data field whether each institution with which it has placed *safe custody assets* is or is not a member of that *firm's group*.

Section 7 Safe Custody Assets Reconciliations

26 Safe custody assets unreconciled items

A *firm* should identify in this data field the number of unreconciled *safe custody assets* items and allocate each item to one of the specified time bands according to the length of time for which it has remained unreconciled. For the purpose of this data field, a *firm* should calculate the unreconciled period as the length of time between receipt of the item and the reporting period end date.

27A Method

In relation to each type of *safe custody asset* identified in 27C, a *firm* should report the method of internal reconciliation that it applies to that type of asset. CASS 6.5.2R to CASS 6.5.5R set out *rules* and *guidance* in relation to internal reconciliation methods.

27B Frequency

In relation to each method identified in 27A, a *firm* should report the frequency with which it conducts internal reconciliations using that method.

27C Type of safe custody asset

A *firm* should report the different types of *safe custody asset* that it holds.

Section 8 Record keeping and breaches

31 Has the firm complied with the requirements in CASS 6.5.1R, CASS 6.5.2R and CASS 6.5.6R?

A *firm* should indicate whether it has complied in all material respects with the requirements set out in CASS 6.5.1R, CASS 6.5.2R and CASS 6.5.6R.

32 Following reconciliation, is the firm unable, in any material respect, to comply with CASS 6.5.10R?

If a *firm*, having carried out a reconciliation, has not complied with or is unable in any material respect to comply with CASS 6.5.10R, it should record that fact in this data field. CASS 6.5.10R provides that a *firm* must promptly correct any discrepancies which are revealed in the reconciliations envisaged by CASS 6.5, and make good, or provide the equivalent of, any unreconciled *shortfall* for which there are reasonable grounds for concluding that the *firm* is responsible.

33 Has the firm complied with the requirements in CASS 7.6.1R, CASS 7.6.2R and CASS 7.6.9R?

A *firm* should indicate whether it has complied in all material respects with the requirements set out in CASS 7.6.1R, CASS 7.6.2R and CASS 7.6.9R.

34 Following reconciliation, is the firm unable, in any material respect, to comply with CASS 7.6.13R to CASS 7.6.15R

If a *firm*, having carried out a reconciliation, has not complied with or is unable to comply with one or more of the obligations found in CASS 7.6.13R to CASS 7.6.15R, it should record that fact in this data field. CASS 7.6.13 to CASS 7.6.15R set out requirements which apply to a *firm* in relation to internal and external reconciliation discrepancies.

In relation to data fields 31 and 33, a *firm* should only report in the affirmative if it has been in compliance with the *rules* specified in those data fields at all times throughout the reporting period in question. In relation to data fields 32 and 34, a *firm* should report the fact of its non-compliance if it has any time during the reporting period failed to comply with the specified *rules* in the way envisaged by CASS 6.5.13R(2) and CASS 7.6.16R(2), whether or not it is in compliance at the period end date.

CASS 6.5.13R and CASS 7.6.16R require that the *FSA* be informed without delay of any of the matters in respect of which notification is required by those *rules*. Submission of the *CMAR* within the time limit specified in SUP 16.14.5R does not discharge the obligations in

those *rules* and a *firm* remains obliged to notify the *FSA* as soon as it becomes aware that any of the circumstances described in those *rules* has arisen.

Section 9 Outsourcing and offshoring

In relation to its business that is subject to *CASS*, a *firm* should report in data field 35 outsourcing and offshoring arrangements that it has established which it judges to be material to that business, either by reason of their scale or their importance.

Validation

Validation number	Data element	Sign	Formula
1	8B	>	0 (NIL)
2	8C(total)	=	$8CT = \sum 8C$
3	8C (total)	=	$8CT = 12CT$
4	8D (total)	=	$8DT = \sum 8D$
5	8D (total)	=	$8DT = 25DT$
6	10A	<=	9A
7	12A	<=	11A
8	13C(total)	=	$13CT = \sum 13C$
9	20A	=	14A-19A
10	25D(total)	=	$25DT = \sum 25D$
11	28D	=	28A+28B-28C
12	29D	=	29A+29B-29C
13	30D(total)	=	$30DT = 28D + 29D$

Annex C

Further amendments to the Supervision manual (SUP)

To the text of SUP 16.14 as inserted by the Supervision Manual (Client Assets Reporting) (Amendment) Instrument 2011 there is added the following text. The text is all new and is not underlined.

16.14 Client money and asset return

...

Method of submission

16.14.6 R A *CMAR* must be submitted by electronic means made available by the *FSA*.

Annex D

Further amendments to the Supervision manual (SUP)

The text of SUP 16 Annex 29R as inserted by the Client Assets Sourcebook (Enhancement) Instrument 2010 (FSA 2010/52) is replaced with the following. The text is all new and is not underlined.

Client Money & Asset Return

Section 1 - Firm Information

This section should be completed by all firms

- | | A |
|--|----------------------|
| 1 Name of CASS audit firm | <input type="text"/> |
| 2 Name of CASS audit firm (if other was selected above) | <input type="text"/> |
| 3 Does the firm hold client money | <input type="text"/> |
| 4 Does the firm safeguard and administer safe custody assets | <input type="text"/> |
| 5 Is the firm subject to the CFTC Part 30 Exemption Order | <input type="text"/> |
| Alternative Approach | |
| 6 Does the firm operate the alternative approach? (CASS 7.4.14G - 7.4.16G) | <input type="text"/> |
| 7 Has the alternative approach been signed off by the firm's auditors (as detailed in CASS 7.4.14G - 7.4.16G)? | <input type="text"/> |

Overview of firm's activities subject to CASS

Please complete the table below with all business types undertaken for segregated clients

8	Type of business activity	Number of clients	Balance of client money as at reporting period end date	Value of safe custody assets as at reporting period end date
			Total	

Section 2 - Balances

This section should be completed by all firms

- 9 Highest client money balance during the reporting period A
- 10 Lowest client money balance during the reporting period
- 11 Highest value of safe custody assets during the reporting period
- 12 Lowest value of safe custody assets during the reporting period

Section 3 - Segregation of client money

This section should only be completed if the answer to question 3A is "Yes"

	A Type	B Institution where client money held	C Client money balances	D Country of incorporation of the institution	E Is this a group entity	
13						
			Total			

Appendix 2

Draft Handbook text in relation to Chapter 3 (Supervision Manual (Client Assets Reporting) (Amendment) Instrument 2011)

**SUPERVISION MANUAL (CLIENT ASSETS REPORTING) (AMENDMENT)
INSTRUMENT 2011**

Powers exercised

- A. The Financial Services Authority makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
- (1) section 138 (General rule-making power);
 - (2) section 156 (General supplementary powers);
 - (3) section 157 (Guidance).
- B. The rule-making powers listed above are specified for the purpose of section 153(2) (Rule-making instruments) of the Act.

Commencement

- C. This instrument comes into force on 1 June 2011.

Amendments to the Handbook

- D. Part 1 of Annex C to the Client Assets Sourcebook (Enhancement) Instrument 2010 (FSA 2010/52) (which amends the Supervision manual (SUP)) is amended in accordance with the Annex to this instrument.

Citation

- E. This instrument may be cited as the Supervision Manual (Client Assets Reporting) (Amendment) Instrument 2011.

By order of the Board
[] April 2011

Annex

Amendments to the Supervision manual (SUP)

The amendment to SUP 16.1.3R made by the Client Assets Sourcebook (Enhancement) Instrument 2010 (FSA 2010/52) is replaced with the following amendment.

Underlining indicates new text. The underlining is based on the Handbook text prior to the amendments made by the Client Assets Sourcebook (Enhancement) Instrument 2010 (FSA 2010/52).

16.1.3 R Application of different sections of SUP 16

(1) Section(s)	(2) Categories of firm to which section applies	(3) Applicable rules and guidance
...		
<i>SUP 16.12</i>
<u><i>SUP 16.14</i></u>	<u><i>A CASS large firm and a CASS medium firm</i></u>	<u>Entire section</u>
...		

The text of SUP 16.14 as inserted by the Client Assets Sourcebook (Enhancement) Instrument 2010 (FSA 2010/52) is replaced with the following. The text is all new and is not underlined.

16.14 Client money and asset return

Application

16.14.1 R This section applies to a *CASS large firm* and a *CASS medium firm*.

Purpose

16.14.2 G The purpose of the *rules* and *guidance* in this section is to ensure that the *FSA* receives regular and comprehensive information from a *firm* which is able to hold *client money* and *safe custody assets* on behalf of its *clients*.

Report

16.14.3 R (1) *A firm* must submit a completed *CMAR* to the *FSA* within 15 *business days* of the end of each month.

(2) In this *rule* month means a calendar month and *SUP 16.3.13R(4)* does not apply.

- 16.14.4 R For the purposes of the *CMAR*:
- (1) *client money* is that to which the *client money rules* in *CASS 7* apply;
and
 - (2) *safe custody assets* are those to which the *custody rules* in *CASS 6* apply.
- 16.14.5 G For the avoidance of doubt, the effect of *SUP 16.14.4R(1)* is that any *client money* held in accordance with *CASS 5* is to be excluded from any calculations which the *CMAR* requires.

PUB REF: 002518

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