



FSA Improving Trust: Client Assets & Markets Regulation in the FCA

Tuesday 20 November 2012

Welcome and introduction

David Lawton

Director, Markets Division

Financial Services Authority

FCA's approach to markets regulation

Martin Wheatley

CEO designate to the FCA

Structure of the Client Assets Unit

Richard Sutcliffe

Head of Department,
Client Assets and Wholesale Conduct Policy
Financial Services Authority

Q: What was the value of custody assets held under the CASS rules in September?

Q: What was the value of custody assets held under the CASS rules in September?

A: £500 billion

B: £1.5 trillion

C: £5.6 trillion

D: £9.7 trillion

Refreshments

King George
Ground floor

Developing the CASS rules – our policy agenda

Emad Aladhah

Manager, Client Assets Unit Policy
Financial Services Authority

- **Current consultations**
- **The year ahead**

Current consultations

- PS 12/20 Client assets firm classification, oversight, reporting and the mandate rules
- CP 12/20 Review of the client money rules for insurance intermediaries
- CP 12/22 EMIR, Multiple Pools, and the wider review

CP 12/22 EMIR, multiple pools, and the wider review

- Part 1 – Changes required by EMIR, Policy Statement planned for December 2012
- Part 2 – Multiple pools*
- Part 3 – Discussion on the wider review*

*Responses by 30 November 2012

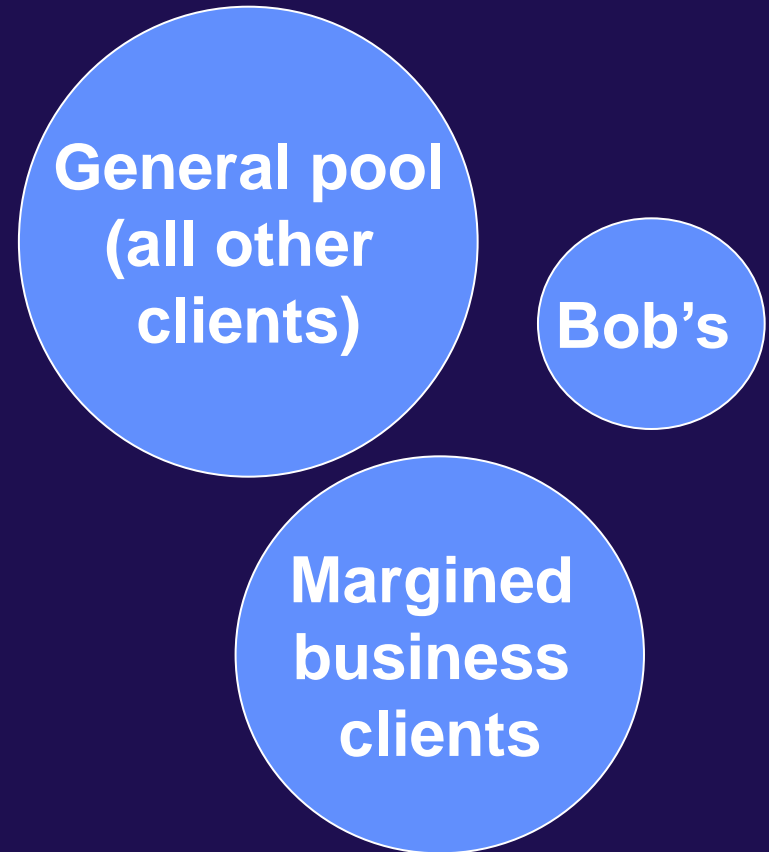
Multiple pools

- Currently single client money pool (rateable distribution of client money)
- Proposed change driven to increase the likelihood of porting cleared positions
- Provide separation between individual clients or groups of clients
- Option or mandated?

Multiple pools – illustration



Vs.



Q: Would you **use multiple pools for your or your clients' money when placing such money with other investment firms?**

Q: Would you **use multiple pools for your or your clients' money when placing such money with other investment firms?**

A: Yes – for our money

C: Yes – for our & clients' money

B: Yes – for our clients' money

D: No

Q: Would you **operate multiple pools for your clients if permitted by the rules?**

Q: Would you **operate multiple pools for your clients if permitted by the rules?**

A: Yes – only for some specific clients

C: Yes – splitting business units

B: Yes – splitting certain client types

D: No

Send us your comments...

- **CP 12/22 – Part 2, Multiple Pools**
- **CP12_22@fsa.gov.uk**
- **Responses by 30 November**

The wider review objectives:

- **Improve the speed of return of client assets**
 - **Reduce the impact on the market**
 - **Achieve a greater return to clients**
- + Incorporate lessons learnt**

Improve the speed of return of client assets

- **Speed vs. accuracy**
- **Wholesale vs. retail**
- **Client expectations**

Reduce the impact on the market

- **Transfer and porting**
- **Insolvency vs. resolution**
- **Diversification**

Achieve a greater return to clients

- **Compliance, strengthening the rules**
- **Buffers, compensation, insurance**
- **Multiple pools**

Q: Does the **current regime strike the right balance for the objectives of speed, market impact, and amount returned?**

Q: Does the **current regime strike the right balance for the objectives of speed, market impact, and amount returned?**

A: No – not right for wholesale clients

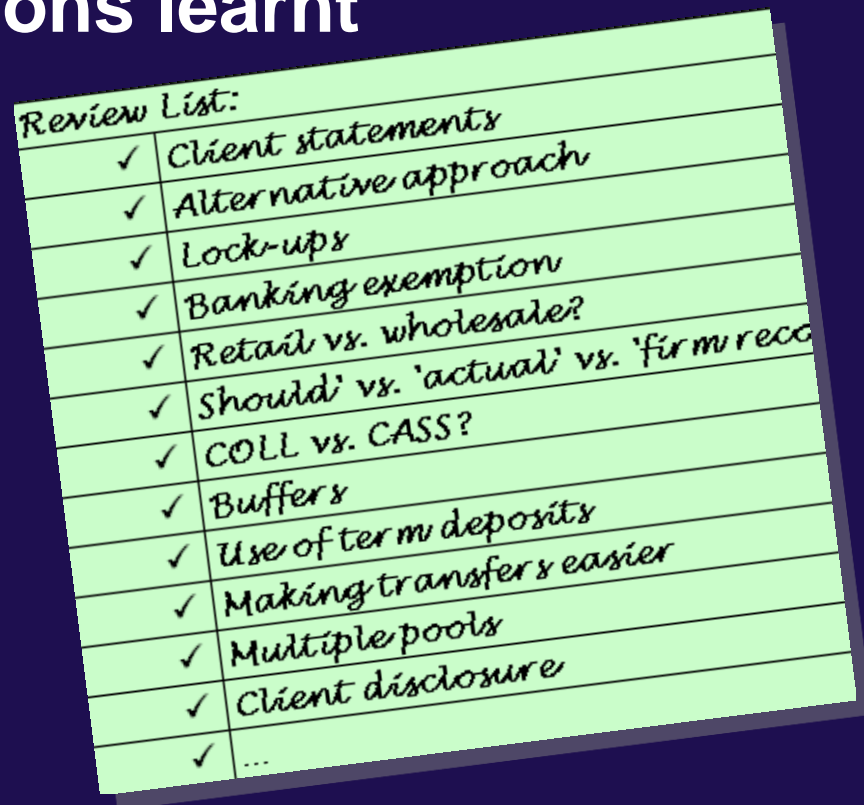
C: No – not right for anyone

B: No – not right for retail clients

D: Yes

+ Incorporating the lessons learnt

- Incorporate feedback from CP12/22
- Pre-consulting work
- Consultation mid-2013



Send us your comments...

- **CP 12/22 – Part 3, Achieving better results**
- **CP12_22@fsa.gov.uk**
- **Responses by 30 November**

SAR / wider review

- **HM Treasury review to look at the effectiveness of SAR and broader issues**
- **Coordinated with the CASS review**
- **Initial report due February 2013**

To look forward to:

- Feedback on CP Part 1 Changes required by EMIR - December 2012
- Consultation on EMIR (BTS) indirect clearing - Q1 2013
- Feedback on multiple pools and consultation on wider review – mid-2013
- Feedback on the review of the client money rules for insurance intermediaries
- Consultation on consumer credit companies

Client Assets supervision – what are we finding

Richard Johnson & Valerie Stainton
Managers, Client Assets Unit
Financial Services Authority

The CASS Population



£9.7 trillion of custody assets & £98 billion of client money

This is held across 1500 firms with the relevant permissions.

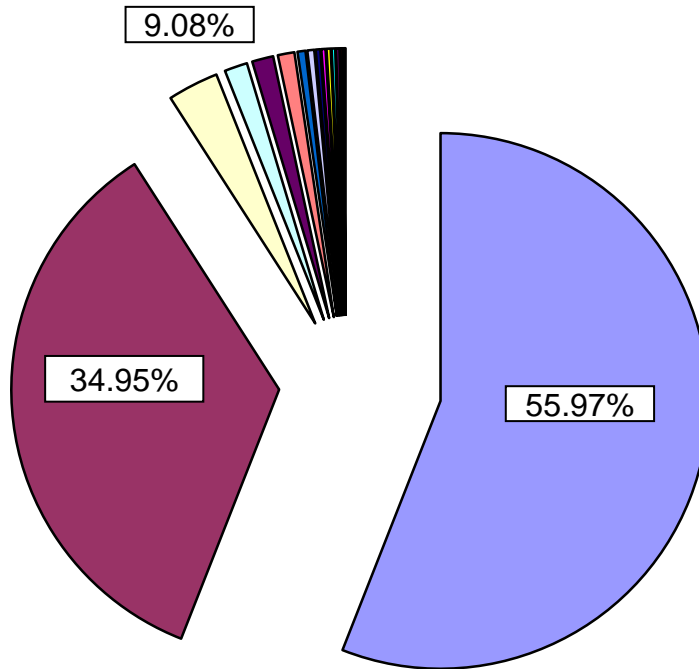
We have broken this population down into:

	<u>CM</u>	<u>CA</u>	
28 Large firms	£69bn	£8.6tn	
646 Medium firms	£28bn	£1tn	
208 Small firms	£34mn	£124mn	(from Start 2012)

Above figures based on the amount of money or assets they hold

The CASS Population

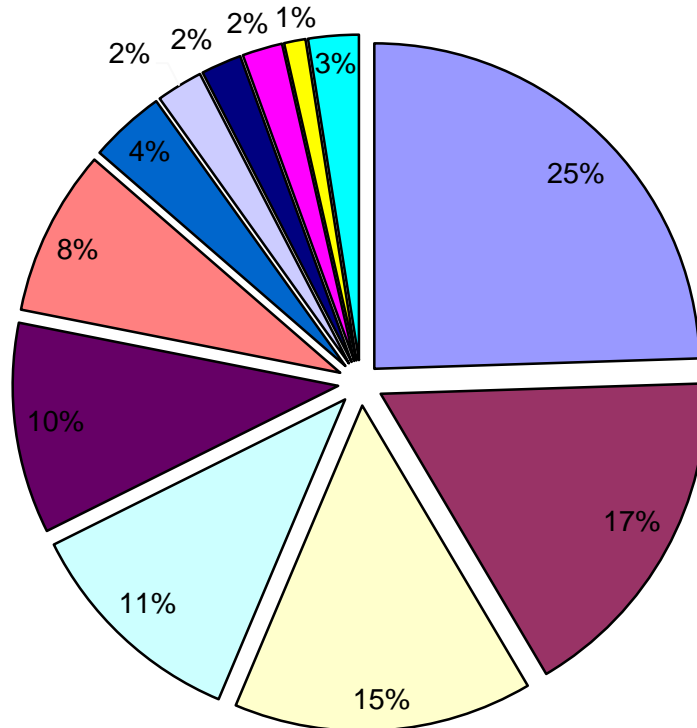
Client Assets Sept 2012



- Bank (other than Wholesale only)
- Custodial Service Provider
- Discretionary Investment Manager
- Stockbroker
- Market Maker
- Arranging only Intermediary (exc. Stockbroker)
- Financial Adviser (FA)
- Venture Capital Firm
- Wholesale only Bank

The CASS Population

Client Money Sept 2012



- Market Maker
- Bank (other than Wholesale only)
- Discretionary Investment Manager
- Stockbroker
- Wholesale only Bank
- Wholesale Market Broker
- Financial Adviser (FA)
- Advising and Arranging Intermediary (exc. FA & Stockbroker)
- Clearer/Settlement Agent
- Arranging only Intermediary (exc. Stockbroker)
- Custodial Service Provider
- Other

Q: What is your greatest challenge when seeking to comply with CASS?

Q: What is your greatest challenge when seeking to comply with CASS?



A: Interpreting the rules?

B: The complexity/scope of your business?

C: Internal resistance to change?

D: Insufficient resource/time?

Trust v Mandates

- CASS 7 vs. CASS 8
- What do the contracts say? Are they clear?
- Whose name are accounts/deposits in?

Total Capture

- Have you captured all the client money/assets?
- Mapping business lines
- All legal entities?
- Mergers, acquisitions & restructuring

Client money reconciliations

- The standard method
- Any deviation:
 - auditor sign-off
 - equivalency tests
- Do not assume - check

Due diligence

- Several elements:
 - Banks where client money is placed
 - Custodians and sub-custodians for assets
 - Outsource providers
- Frequency
- Documentation – could you show us evidence?
- Senior management/CF10a sign-off

Reliance on third parties

- Linked to the prior slide
- What oversight do you exercise?
- Not just service level monitoring, but *regulatory* monitoring?
- Are the breaches in your audit down to you or your TPA?

Unbreakable term deposits

- If there is no contractual ability to break term deposits
 - Risk of deposit taker failing, client loss?
 - If you fail, client delay?
- We have issued a survey and follow up letters.
- Please contact us or your supervisor if you are unsure

Q: Has the Board of your firm discussed client assets In the last 12 months?

Q: Has the Board of your firm discussed client assets in the last 12 months?



A: Yes, it is a regular item

C: No

B: Yes, on an ad-hoc basis

D: I don't know?

In summary...

- Trust notification & acknowledgement
- Lack of awareness/poor governance
- Trust vs. Mandates
- Total capture
- Client money reconciliation
- Due diligence
- Over-reliance on third parties
- Unbreakable term deposits

Who to contact?

- Cassgeneral@fsa.gov.uk
- Your normal supervisory contact

Q&A panel

Richard Sutcliffe, Head of Department, Client Assets and Wholesale Conduct Policy

Emad Aladhal, Manager, Client Assets Unit Policy

Richard Johnson, Managers, Client Assets Unit

Valerie Stainton, Managers, Client Assets Unit

Closing remarks

David Lawton

Director, Markets Division
Financial Services Authority

Lunch

King George
Ground floor

