Financial Services Authority

FINAL NOTICE

To: **Towry Investment Management Limited**

FSA Reference Number: **142989**

Of**:** **Towry House**
Western Road
Bracknell
RG12 1TL

Date: **14 September 2011**

1. ACTION

1.1. For the reasons given in this notice, the Financial Services Authority ("FSA") hereby:

(1) imposes on Towry Investment Management Limited ("Towry") a financial penalty of £494,900 pursuant to section 206 of the Financial Services and Markets Act 2000 ("the Act").

(2) Towry agreed to settle at an early stage of the FSA's investigation and qualified for a 30% (Stage 1) discount under the FSA's executive settlement procedures. Were it not for this discount, the FSA would have imposed a financial penalty of £707,000.

2. SUMMARY OF REASONS

2.1. The FSA proposes to take this action on the basis of Towry's breaches of:

(1) Principle 10 (Clients' assets) of the Principles for Businesses ("the Principles") during the period 1 December 2001 – 21 February 2011 ("the P10 Relevant Period"); and

(2) Principle 11 (Relations with regulators) during the period 19 January 2010 – 1 November 2010 ("the P11 Relevant Period").

2.2. These breaches relate to a number of serious failings by Towry in respect of the management and protection of client money and Towry's communications with the FSA.

2.3. Towry breached Principle 10 because it failed to:

(1) perform client money calculations and reconciliations accurately or in a timely manner;

(2) maintain adequate records to enable it to distinguish accurately, and without delay, client money held for one client from client money held for any other client and to the extent that Towry did not remove excess funding from its client money accounts, from Towry's own funds; and

(3) ensure that client money was properly segregated from Towry's money by funding any shortfalls of client money from Towry's bank account to the client money bank accounts or withdrawing any excess of client money from the client money bank accounts to Towry's bank account as appropriate.

2.4. Towry breached Principle 11 because it failed to deal with the FSA in an open and cooperative way by failing to:

(1) undertake adequate enquiries before replying to the FSA's Dear CEO Letter dated 19 January 2010 ("the Dear CEO Letter"), saying that it was compliant with the FSA's client money and custody requirements, including those Rules set out in the part of the FSA Handbook ("the Handbook") entitled Client Assets Sourcebook ("CASS"); and

(2) disclose appropriately breaches of CASS requirements.

2.5. The FSA has not found that Towry was seeking deliberately to mislead the FSA.

2.6. Towry also breached associated FSA Rules set out in the parts of the Handbook entitled the Conduct of Business sourcebook ("COB") and the Supervision Manual ("SUP"). Details of the relevant Rules are set out in the Annex to this Warning Notice.

2.7. The FSA considers Towry's failings to be serious for the following reasons:

(1) the CASS failings took place over a period of more than nine years;

(2) had Towry become insolvent these failings could have placed client money at risk of potential diminution, loss or delay in distribution. Towry did not

become insolvent and none of Towry's clients suffered any loss as a result of the failings;

(3) Towry failed to identify the failings itself. Instead, the matters came to the FSA's attention during a thematic visit in November 2010;

(4) Towry failed fully and appropriately to disclose CASS related failings to the FSA;

(5) there was a high level of awareness in the financial services industry at the time of the importance of handling client money properly given the collapse of Lehman Brothers on 15 September 2008 and the letter sent by the FSA to compliance officers of regulated firms on 20 March 2009 ("the Dear CO Letter"); and

(6) Dear CEO letters are an important regulatory tool and are used by the FSA in respect of important issues and firms must therefore treat them with particular care.

2.8. The FSA has taken into account the following factors which have served to mitigate the seriousness of Towry's failings:

(1) Towry co-operated with the FSA's investigation and accepted the failings set out in this Warning Notice;

(2) Towry has put in place a comprehensive CASS compliance and oversight programme to address its compliance failings; and

(3) there was no actual client detriment or diminution or loss of client money.

2.9. When exercising its powers, the FSA seeks to act in a way it considers most appropriate for the purpose of meeting its regulatory objectives, which are set out in section 2(2) of the Act.

2.10. Having considered the nature of the breaches outlined above, the FSA considers that imposing a financial penalty of £494,900 (after Stage 1 discount) on Towry meets the FSA's regulatory objective of the protection of consumers.

3. DEFINITIONS

3.1. The definitions below are used in this Warning Notice:

"**ARCC**" means Towry's Audit, Risk & Compliance Committee.

"**CASS Report**" is the FSA's report dated January 2010 outlining its findings about the state of CASS compliance across regulated firms. The CASS Report was attached to the Dear CEO Letter.

"**Dear CEO Letter**" means the letter the FSA sent to the CEOs of regulated firms on 19 January 2010. The FSA attached the FSA's CASS Report to that letter.

"**Dear CEO Response**" means the email Towry's compliance function sent to the FSA on 25 January 2010 in response to the Dear CEO Letter confirming that it was in compliance with the CASS rules.

"**Dear CO Letter**" means the letter the FSA sent to compliance officers of regulated firms on 20 March 2009. It identified the FSA's concerns about firms' CASS compliance and set out FSA's expectations of firms to arrange adequate protection of clients' assets and money.

"**DEPP**" means the FSA's Decision Procedures and Penalties Manual which forms part of the FSA Handbook.

"**Towry**" means Towry Investment Management Limited.

"**Tribunal**" means the Upper Tribunal (Tax and Chancery Chamber).

4. FACTS AND MATTERS

Background

4.1. Towry is a fee-based, independent discretionary investment manager providing independent investment management services to private individuals and pensions and employee benefits advice to small and medium sized enterprises.

4.2. During the course of its business, Towry received money on behalf of its clients for the provision of a variety of investment and brokerage services. The money Towry received on behalf of its clients was "client money" and was subject to the requirements and standards set out in CASS. Towry operated client money bank accounts under the normal approach to segregation so all client money received was paid into those accounts. During the P10 Relevant Period, Towry held client money in the range of £14.7m to £187.9m and an average of £50.6m at any given time.

Regulatory context – Client assets and money thematic project

4.3. The FSA has been conducting a thematic project into the management of client assets and client money with the aim of ensuring that firms have robust systems in place to ensure the swift return of client assets and money in the event of firm insolvency. The FSA commenced the project with the Dear CO Letter on 20 March 2009.

The Dear CO Letter

4.4. The Dear CO Letter identified, for firms' senior management, the FSA's concerns about firms' CASS compliance and set out FSA's expectations of firms in arranging adequate protection of clients' assets and money. It emphasised, among other points, the importance of proper CASS record keeping; ensuring that when firms opened a client bank account a written notice of trust arrangements was sent to and acknowledged by the bank; and ensuring proper due diligence and diversification in the selection of the financial institutions where client money was deposited and held.

The Dear CEO Letter and the Client Money & Asset Report

4.5. Less than a year later, on 19 January 2010, the FSA sent the Dear CEO Letter which attached the FSA's CASS Report to the CEOs of regulated firms. Dear CEO letters are an important regulatory tool and are used by the FSA in respect of important issues. The Dear CEO Letter asked the CEO to respond to the letter on behalf of the firm confirming that "*the content of this letter and report have been properly considered and that your firm is in compliance with its obligations regarding the protection of client money and assets*".

4.6. Among other things, the Dear CEO Letter asked the CEO to:

(1) "e*nsure the* [CASS] *report is fully considered for its relevance to your business*" noting that it expected "*the Board and, where appropriate, the Chair of the Risk Committee at your firm, to consider its [the Report's] content, as well as those who are responsible for risk and compliance with CASS. It should be made clear that these individuals are accountable for the protection of the firm's client money and client assets*";

(2) "*make arrangements for them* [the Board and, where appropriate, the Chair of the Risk Committee] *to see the report*"; and

(3) "*confirm that the content of this letter and report have been properly considered and that your firm is in compliance with its obligations regarding the protection of client money and assets*" by responding to the FSA in writing.

4.7. The CASS Report summarised the FSA's findings from visits it made to investment and insurance broker firms to review their CASS compliance and notified firms that "[t]argeted supervision and regulatory intervention will continue throughout 2010".

4.8. The CASS Report identified the following areas for improvement in investment firms:

(1) Management oversight and control: the FSA's key finding was that inadequate senior management oversight and control is often the underlying cause of more serious CASS breaches;

(2) Acknowledgments of trust status: some firms could not locate trust letters, and the majority of the firms had not checked whether the acknowledgement of trust letters contained the required details and confirmations;

(3) Due diligence of banks: some firms simply looked at the credit rating of a bank, which, in the FSA's view does not constitute appropriate due diligence;

(4) Segregation: most firms the FSA visited were aware of the basic requirement to segregate client money from the firm's own money and had arrangements in place to facilitate this, but the FSA found a high degree of errors occurring during periods of "operational changes";

(5) Reconciliations: the FSA observed breaches of the CASS reconciliation rules, for example, some firms left prolonged periods of time between performing internal reconciliations, or in some cases omitted internal reconciliations altogether; and

(6) Oversight of Third Party Administrators ("TPAs"): most firms used TPAs to hold and control client money and had robust arrangements in place (TPA agreements, service levels, regular visits to TPAs to assess their performance), but some firms did not.

Towry's response to the Dear CEO Letter

4.9. Towry replied to the Dear CEO Letter in the Dear CEO Response, four business days after the FSA had sent the letter. Towry's compliance function emailed to confirm that it had:

> *"reviewed the content of the letter and report and, further, that [Towry is] in compliance with [its] obligations regarding the protection of client money and assets. [Towry] has engaged in additional specific CASS oversight work since the FSA's letter dated 20th March 2009 was issued and continues to do so. [The compliance function] will also be bringing the FSA's letter and report to the attention of [Towry's] Audit, Risk & Compliance Committee and the Board of [Towry] when they next meet in February this year. The Firm is also scheduled for an FSA Arrow risk assessment visit in April this year and is fully prepared and ready to discuss these issues with its FSA supervision team at that time"*.

4.10. The FSA, in the Dear CEO Letter, said that it expected Towry to ensure the CASS report was fully considered for its relevance to Towry's business. This included firms making arrangements for their board and, where appropriate, the chair of the risk committee to see the CASS Report and consider its content, as the individuals accountable for the protection of Towry's client money and client assets. This was not done prior to sending the Dear CEO Response.

4.11. From the time of receipt of the Dear CEO Letter through to the Dear CEO Response some four business days later, key members of senior management saw neither document. Towry therefore provided the Dear CEO Response on the basis of incomplete and/or outdated CASS information held within Towry.

4.12. The ARCC subsequently considered the Dear CEO Letter and CASS Report in its meeting on 14 May 2010 and asked for a "snapshot" of CASS compliance for its subsequent meeting on 22 July 2010. The Dear CEO Response was not provided to ARCC for the 14 May 2010 and 22 July 2010 meetings and as the ARCC was not aware of the Dear CEO Response at that time, it did not ask to see it. ARCC made no enquiries at the 22 July 2010 meeting as to whether arrangements had been made to respond to the Dear CEO Letter.

4.13. The Board saw the Dear CEO Letter and CASS Report in its 22 July 2010 board meeting papers. The Dear CEO Response was not included in those papers and as the Board was not aware of the Dear CEO Response at that time, it did not ask to see it. The Board made no enquiries at the time as to whether arrangements had been made to respond to the Dear CEO Letter. Key members of senior management (including the CEO) were unaware of the Dear CEO Response during this period.

FSA's thematic CASS visit to Towry

4.14. On 2 November 2010, the FSA undertook an assessment of Towry's compliance with CASS as part of a thematic visit (the "CASS Visit"). The FSA discovered CASS breaches including breaches of the CASS Rules in relation to client money calculations, reconciliations and the top up of a shortfall or removal of an excess of client money from the client money bank accounts.

Client money calculations, reconciliations and failure to segregate client money

4.15. The FSA's subsequent investigation has confirmed a number of findings made as part of the FSA's visit of 2 November 2010.

4.16. A firm should perform internal reconciliations of its records and accounts to match the entitlement of each client for whom the firm holds client money with the records and accounts of client money the firm actually holds in the client money accounts and client transaction accounts. Where a difference is identified in the internal reconciliation a client money calculation should be performed to ensure a shortfall is topped up by the firm to the client money account or an excess is removed from the client money account to the firm account. Carrying out internal reconciliations and client money calculations is one of the ways that a firm ensures that its records and accounts of client money are accurate and that client money has been segregated appropriately.

4.17. Towry did not perform client money calculations or reconciliations accurately or in a timely manner.

4.18. Prior to July 2009 Towry performed its internal reconciliations and client money calculations and any resulting top up or removal of excess on a monthly basis, rather than on a daily basis. Towry performed the reconciliation within ten working days of the last day of the month. This approach was inadequate given the nature and complexity of Towry's business.

4.19. After July 2009 Towry outsourced some of its client money accounts to a third party. Towry was then reliant on the third party to provide reports to enable Towry to perform the internal reconciliation and client money calculation. On a number of occasions the third party did not provide the reports to Towry and an internal reconciliation and client money calculation was not performed. Towry was therefore unable to fund any shortfall or remove any excess from the client money accounts.

4.20. The third party provided Towry with a daily listing of negative client money balances which required topping up. This listing did not consolidate individual clients cash balances over multiple bank accounts. Towry was therefore topping up too much into the client money accounts. Towry did not withdraw the excess money from the client money bank accounts to Towry's bank account.

4.21. Towry did not identify these breaches to the FSA in the Dear CEO Response.

Withdrawal of the Dear CEO Response

4.22. On the basis of the FSA's CASS Visit findings, and on the request of the FSA, Towry withdrew the Dear CEO Response on 31 January 2011.

4.23. On 4 February 2011 Towry issued an "interim replacement" letter for the Dear CEO Response. In that letter Towry outlined four CASS "*improvement and enhancement workstreams*" it was undertaking to complete before sending a final response to the Dear CEO Letter. The workstreams were:

- A full review of the contracts, agreements and documentation in respect of outsourced and service relationships in respect of client money;
- A full 'ground up' review of all policies and procedures for client money handling, administration, audit and reporting;
- A review of the control and administration in respect of client money bank accounts; and
- The implementation of protocols for and reporting lines to and from Towry's newly established CASS Oversight Committee.

5. FAILINGS

5.1. The issues referred to in paragraphs 4.9 to 4.21 above constitute breaches of the FSA's Principles and Rules. The regulatory provisions relevant to this Warning Notice are referred to in Annex A.

Breach of Principle 10

5.2. As set out in paragraphs 4.15 to 4.21 above, the FSA has identified weaknesses in Towry's approach to the reconciliation and calculation of client money. These weaknesses meant that:

(1) Towry's records were not adequate to enable Towry to distinguish, accurately and without delay, client money held for one client from client money held for any other client and, to the extent that Towry did not remove excess funding from its client money accounts, from Towry's own funds; and

(2) Towry failed to ensure that client money was properly segregated from Towry's money by funding any shortfalls of client money from Towry's bank account to the client money bank accounts or withdrawing any excess of client money from the client money bank accounts to Towry's bank account as required.

5.3. These failings amount to a breach of Principle 10, in that Towry failed to protect its clients' money adequately throughout the P10 Relevant Period. Although the impact of these failings did not crystallise, had Towry become insolvent, its clients could have faced difficulties and delay in recovering their money and their money would have been exposed to the risk of potential diminution or loss.

5.4. Towry's failings in this regard also amounted to breaches of the FSA's CASS and COB Rules, in that Towry failed to:

(1) perform timely reconciliations of its client money requirement against its client money resource;

(2) maintain accurate records in respect of client money; and

(3) ensure that client money was properly segregated by funding shortfalls in its client money bank accounts from Towry's bank account to the client money bank accounts and withdrawing any excess of client money from the client money bank accounts to Towry's bank account. This meant that Towry was unable to distinguish, at any time and without delay, client money held for one client from client money held for any other client and, to the extent that Towry did not remove excess funding from its client money accounts, from its own funds. Had Towry become insolvent, these failings could have exposed Towry's clients to the risk of loss, diminution or delay in distribution of their money, and amounted to breaches of:

(a) COB 9.3.100R and 9.3.145R prior to 1 January 2004;

(b) CASS 4.3.66R and 4.3.111R prior to 1 November 2007; and

(c) CASS 7.3.1R, 7.6.1R, 7.6.2R and 7.6.13R from 1 November 2007.

Breach of Principle 11

5.5. As set out in paragraphs 4.9 to 4.14 above, Towry failed to deal with the FSA in an open and cooperative way by failing to consider properly the FSA's Dear CEO Letter before sending a clean response. It failed to:

(1) undertake adequate enquiries before replying to the FSA's Dear CEO Letter; and

(2) disclose CASS breaches to the FSA.

5.6. Having regard to the facts and matters, the FSA considers it appropriate and proportionate in all the circumstances to take disciplinary action against Towry for these breaches.

6. SANCTION

6.1. The FSA's policy on the imposition of financial penalties is set out in Chapter 6 DEPP, which forms part of the FSA Handbook.

6.2. Since the majority of Towry's failings occurred before the change in the regulatory provisions governing the determination of financial penalties on 6 March 2010, the FSA has applied the penalty regime that was in place before 6 March 2010. All references to DEPP in this section are references to the version of DEPP that was in force prior to 6 March 2010.

6.3. The primary purpose of a financial penalty is to promote high standards of regulatory conduct by deterring firms which have committed breaches from committing further breaches. A financial penalty also helps to deter other firms from committing similar breaches and demonstrates generally the benefits of compliant behaviour.

6.4. In determining whether a financial penalty is appropriate, and, if so, its level, the FSA is required to consider all the relevant circumstances of a case. DEPP 6.5.2G identifies a non-exhaustive list of factors that may be relevant in determining the level of a financial penalty. The FSA considers that the following factors are particularly relevant in this case.

Deterrence (DEPP 6.5.2G(1))

6.5. The FSA considers that a financial penalty is an appropriate sanction given the serious nature of the breaches and the risks created for Towry's clients. The FSA also considers there to be a need to send a strong message to the industry that serious consequences attach to the failure to:

(1) handle client money consistently with the CASS Rules;

(2) ensure adequate protection of client money;

(3) properly consider a response to a Dear CEO Letter; and

(4) deal openly and appropriately with the FSA.

The nature, seriousness and impact of the breach in question (DEPP 6.5.2G(2))

6.6. Towry's breaches of Principle 10 are serious because they relate to the control of money belonging to retail clients and because they exposed clients to a risk of financial loss in the event of Towry's insolvency. Towry's Principle 11 breaches too are serious because it both failed to make proper enquiries to identify CASS breaches to the FSA and failed to disclose them to the FSA when the compliance function emailed a "clean response" to the Dear CEO Letter. Dear CEO letters are an important regulatory tool and are used by the FSA in respect of important issues and firms must therefore treat them with particular care.

6.7. The amount Towry held as client money on a daily basis ranged between £14.7m and £187.9m during the P10 Relevant Period. The FSA has taken into account that Towry's clients suffered no actual financial detriment.

The extent to which the breaches were deliberate or reckless (DEPP 6.5.2G(3))

6.8. The FSA considers that the CASS breaches were neither deliberate nor reckless. The FSA considers that Towry was seriously deficient in failing to respond in a fully considered way to the FSA's Dear CEO Letter by sending a "clean" Dear CEO Response to the FSA confirming that Towry was "in compliance" with its "obligations regarding the protection of client money and assets".

The size, financial resources and other circumstances of the firm (DEPP 6.5.2G(5))

6.9. In determining the level of the penalty, the FSA has considered Towry's size and its financial resources.

Conduct following the breach (DEPP 6.5.2G(8))

6.10. The FSA has taken into account that Towry has taken steps put in place a comprehensive CASS compliance and oversight programme to address its compliance failings.

Disciplinary record and compliance history (DEPP 6.5.2G(9))

6.11. Towry has not previously been subject to FSA action.

Other action taken by the FSA

6.12. In determining the level of financial penalty, the FSA has taken into account penalties imposed by the FSA on other authorised persons for similar behaviour.

Conclusion

6.13. In light of the matters above, the FSA proposes to impose a financial penalty of £494,900 on Towry for breaching Principles 10 and Principle 11 and associated Rules, which includes a component representing approximately 1% of the average client money balances held by Towry during the relevant period, less a discount for early settlement.

7. PROCEDURAL MATTERS

Decision maker

7.1. The decision which gave rise to the obligation to give this Notice was made by the Settlement Decision Makers.

7.2. This Final Notice is given in accordance with section 390 of the Act.

Manner of and time for Payment

7.3. The financial penalty must be paid in full by Towry to the FSA by no later than 28 September 2011, 14 days from the date of the Final Notice.

If the financial penalty is not paid

7.4. If all or any of the financial penalty is outstanding on 29 September 2011, the FSA may recover the outstanding amount as a debt owed by Towry and due to the FSA.

Publicity

7.5. Sections 391(4), 391(6) and 391(7) of the Act apply to the publication of information about the matter to which this notice relates. Under those provisions, the FSA must publish such information about the matter to which this notice relates as the FSA considers appropriate. The information may be published in such manner as the FSA considers appropriate. However, the FSA may not publish information if such publication would, in the opinion of the FSA, be unfair to you or prejudicial to the interests of consumers.

7.6. The FSA intends to publish such information about the matter to which this Final Notice relates as it considers appropriate.

FSA contacts

7.7. For more information concerning this matter generally, contact Anthony Monaghan (direct line: 020 7066 6772) of the Enforcement and Financial Crime Division of the FSA.

……

Georgina Philippou

FSA Enforcement and Financial Crime Division

Annex

1. Principle 10

A firm must arrange adequate protection for clients' assets when it is responsible for them.

2. Principle 11

A firm must deal with its regulators in an open and cooperative way, and must disclose to the FSA appropriately anything relating to the firm of which the FSA would reasonably expect notice.

3. Supervision Manual (“SUP”)

SUP 2.3.1G
The FSA uses various methods of information gathering on its own initiative which require the cooperation of firms:

(1) Visits may be made by representatives or appointees of the FSA. These visits may be made on a regular basis, on a sample basis, for special purposes such as theme visits (looking at a particular issue across a range of firms), or when the FSA has a particular reason for visiting a firm. Appointees of the FSA may include persons who are not FSA staff, but who have been appointed to undertake particular monitoring activities for the FSA (paragraph 6(2) of Schedule 1 to the Act). The FSA needs to have access to a firm's documents, personnel and business premises to carry out a visit.

(2) The FSA may seek meetings at the FSA's offices or elsewhere.

(3) The FSA may seek information or request documents by telephone, at meetings or in writing, including by electronic communication.

SUP 2.3.3G
In complying with Principle 11, the FSA considers that a firm should, in relation to the discharge by the FSA of its functions under the Act:

(6) answer truthfully, fully and promptly all questions which are reasonably put to it by representatives or appointees of the FSA.

SUP 15.6.4R
If a firm becomes aware, or has information that reasonably suggests that it has or may have provided the FSA with information which was or may have been false, misleading, incomplete or inaccurate, or has or may have changed in a material particular, it must notify the FSA immediately. Subject to SUP 15.6.5 R, the notification must include:

(1) details of the information which is or may be false, misleading, incomplete or inaccurate, or has or may have changed;

(2) an explanation why such information was or may have been provided; and

(3) the correct information.

4. Client Assets sourcebook ("CASS")

In force since 1 November 2007.

CASS 7.3.1R
A firm must, when holding client money, make adequate arrangements to safeguard the client's rights and prevent the use of client money for its own account.

CASS 7.6.1R
A firm must keep such records and accounts as are necessary to enable it, at any time and without delay, to distinguish client money held for one client from client money held for any other client, and from its own money.

CASS 7.6.2R
A firm must maintain its records and accounts in a way that ensures their accuracy, and in particular their correspondence to the client money held for clients.

CASS 7.6.13R
When any discrepancy arises as a result of a firm's internal reconciliations, the firm must identify the reason for the discrepancy and ensure that:

(1) any shortfall is paid into a client bank account by the close of business on the day that the reconciliation is performed; or

(2) any excess is withdrawn within the same time period (but see CASS 7.4.20 G and CASS 7.4.21 R).

In force before 1 November 2007.

CASS 4.3.66R
Each business day, a firm that adopts the normal approach in accordance with CASS 4.3.8 R must:

(1) check whether its client money resource, being the aggregate balance on the firm's client bank accounts, as at the close of business on the previous business day, was at least equal to the client money requirement, as defined in CASS 4.3.71 R, as at the close of business on that day; and

(2) ensure that:

(a) any shortfall is paid into a client bank account by the close of business on the day the calculation is performed; or

(b) any excess is withdrawn within the same time period unless CASS 4.3.5 R or CASS 4.3.6 R applies.

CASS 4.3.111R
A firm must ensure that proper records, sufficient to show and explain the firm's transactions and commitments in respect of its client money, are made and retained for a period of three years after they were made.

5. Conduct of Business Sourcebook ("COB")

In force before 1 January 2004.

COB 9.3.100R
Each business day, a firm that adopts the normal approach in accordance with COB 9.3.42R must:

check whether its client money resource, being the aggregate balance on the firm's client bank accounts, as at the close of business on the previous business day, was at least equal to the client money requirement, as defined in COB 9.3.105R, as at the close of business on that day; and

ensure that:

(a)any shortfall is paid into a client bank account by the close of business on the day the calculation is performed; or

(b)any excess is withdrawn within the same time period unless COB 9.3.39R or COB 9.3.40R applies.

COB 9.3.145R
A firm must ensure that proper records, sufficient to show and explain the firm's transactions and commitments in respect of its client money, are made and retained for a period of three years after they were made.