

Regulator Assessment: Qualifying Regulatory Provisions

Title of proposal: CP16/17, Chapter 6: Disapplication of CASS audit requirements to certain debt management firms

Lead regulator: FCA

Date of assessment: 10/10/2016

Commencement date: 4 November 2016

Origin: Domestic

Does this include implementation of a Cutting Red Tape review? No

Which areas of the UK will be affected? Authorised firms undertaking debt management activities in the UK

Brief outline of proposed new or amended regulatory activity

All CASS debt management firms (DMFs) are required to have an annual audit, carried out by an independent external auditor, on how they comply with rules under Chapter 11 of the Client Assets sourcebook (CASS 11). Our current rules may be interpreted as making all DMFs subject to the requirement to have a CASS audit whether or not they are entitled to hold client money, since the definition of 'CASS debt management firm' captures firms that are not entitled to hold client money.

In the FCA Consultation Paper 16/17, we proposed a minor rule change so that DMFs that are not entitled to hold client money are not required to have the CASS audit.

Which type of business will be affected? How many are estimated to be affected?

The proposal will affect regulated DMFs that are not entitled to hold client money, which are currently required to have a CASS audit. Our internal permissions data shows at least 900 such affected firms. The vast majority of affected firms are small advice centres and citizens advice bureaux.

Price base year	Implementation date	Duration of policy (years)	Business Net Present Value	Net cost to business (EANDCB)	BIT score
2016	2016	10	£7.3m	-£0.8	-£4.0

Please set out the impact to business clearly with a breakdown of costs and benefits

We do not anticipate the proposal will increase costs on firms, as it simply removes the requirement to submit an annual CASS audit for firms that are not entitled to hold client money. Unaffected firms will see no change to their costs.

In terms of cost savings, we understand that the cost of a CASS audit report in this context is equivalent to the cost of a CASS audit report for a small loan-based crowdfunding firm. Our cost-benefit analysis in Consultation Paper 13/13 states that the cost for a small loan-based crowdfunding firm submitting a CASS audit report is £940 per annum. We therefore estimate that the removal of the reporting requirement will save an affected firm around £940 per annum.

Our internal permissions data shows that at least 900 regulated DMFs are not entitled to hold client money and will therefore be affected by the rule changes. On this basis, we estimate that the rule change will result in a total cost saving to industry of approximately £846,000 per annum (£940 * 900).

Please provide any additional information (if required) that may assist the RPC to validate the BIT Score