

PS 11/6

Financial Services Authority

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

Contents

	Acronyms used in this paper	3
1	Overview	5
2	Implementing CMAR on GABRIEL for CASS medium and large firms	7
	Annex 1: List of non-confidential respondents	
	Appendix 1: Final Instrument	

This Policy Statement reports on the main issues arising from our proposals on implementing CMAR on GABRIEL for CASS medium and large firms in Consultation Paper 11/4 (*The Client Money and Asset Return (CMAR): Operational Implementation*) and publishes final rules. Our feedback on the other proposals under Consultation Paper 11/4 in relation to CASS small firm reporting arrangements and the related final rules are published in the FSA Handbook Notice published on 3 May 2011.

Please address any comments or enquiries to:

James Ridgwell
CASS Policy
Markets Division
Financial Services Authority
25 The North Colonnade
Canary Wharf
London E14 5HS

Telephone: 020 7066 1794
Fax: 020 7066 1795
Email: cp11_04@fsa.gov.uk

Celia Ho
CASS Policy
Markets Division
Financial Services Authority
25 The North Colonnade
Canary Wharf
London E14 5HS

Telephone: 020 7066 6638
Fax: 020 7066 6639
Email: cp11_04@fsa.gov.uk

Copies of this Policy Statement 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

CF10a	CASS operational oversight function
CASS	Client Assets sourcebook
CMAR	Client Money and Asset Return
CP	Consultation Paper
CBA	Cost-benefit analysis
GABRIEL	GATHERing Better Regulatory Information ELelectronically
GBP	Great British Pound
IT	Information Technology
PS	Policy Statement

1

Overview

- 1.1** We introduced a number of enhancements to the Client Assets sourcebook (CASS) in Policy Statement (PS) 10/16 – *Client Assets Sourcebook (Enhancements) Instrument 2010* (published in October 2010). These included rules implementing requirements for firms holding client money or assets (in relation to investment business) to submit a client money and asset return (CMAR), from June this year.
- 1.2** In Consultation Paper (CP) 11/4 – *The Client Money and Asset Return (CMAR): Operational Implementation*¹ – we consulted on proposed changes to the CMAR’s scope, in particular in relation to the reporting arrangements for CASS small firms. In addition, we consulted on implementing CMAR on GABRIEL for CASS medium and large firms.
- 1.3** For the CASS small firm reporting arrangements, we proposed to postpone the requirement for CASS small firms to submit a CMAR until further notice. This would allow us to implement the CMAR successfully for firms with larger client money and asset balances, before extending the reporting requirements to CASS firms with smaller client money and asset balances. We intend to consult on when the CMAR will be extended to CASS small firms later this year. We also proposed a new one-off notification requirement for CASS small firms, to be made in July this year, to ensure that we have sufficient high-level information on CASS small firms’ client money and asset balances, in the absence of receiving detailed CMAR information from these firms. The consultation period for these proposals ended on 10 March 2011. We provided our feedback on the consultation and published related rules in our Handbook Notice of 3 May 2011.
- 1.4** In relation to our proposals in CP11/4 for CASS medium and large firms, we proposed that the CMAR should be implemented on GABRIEL, as we believe that this represents the best solution for both regulated firms and the FSA. We also published draft guidance notes, designed to help firms complete the CMAR, by clarifying our expectations of the data required. The consultation period for these proposals ended on 10 April 2011. We are providing our feedback on the consultation and publishing the related rules in this PS.

¹ For details, please refer to CP11/4 at www.fsa.gov.uk/pages/Library/Policy/CP/2011/11_04.shtml

Cost benefit analysis

- 1.5 We have received some comments relevant to the cost-benefit analysis (CBA), to which we have responded in the relevant sections below. These comments do not, in our opinion, require a change to the CBA published in CP11/4.

Who should read this PS?

- 1.6 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.
- 1.7 The policy in this paper does not apply to firms that only hold client money in accordance with CASS 5 (insurance intermediation client money).

Next steps

- 1.8 The made rules attached in Appendix 1 will come into force on 1 October 2011.

CONSUMERS

Our measures for CASS medium and large firms implement policies that will bring increased consumer protection in what we believe to be the most cost-effective manner.

2

Implementing CMAR on GABRIEL for CASS medium and large firms

- 2.1** In CP11/4, we proposed that the CMAR should be implemented on GABRIEL for CASS medium and large firms. GABRIEL is our online system for gathering regulatory information. We proposed that CASS medium and large firms should complete the CMAR in line with the timetable for implementation set out in PS10/16. On these proposals, CASS medium and large firms would have been required to complete and submit the first CMAR for the period of June 2011 within 15 business days of the end of June 2011 – that is, by Thursday, 21 July 2011. Thereafter, CASS medium and large firms would have submitted their CMAR on a monthly basis.
- 2.2** Several respondents – notably trade associations representing CASS large and medium firms – argued strongly that the implementation timetable was too tight, particularly in light of the fact that the final version of the proposed guidance notes on completing the CMAR will be published only a few days before the rules are due to take effect. These respondents argued that it would be beneficial to give firms additional time to complete their compliance preparations and systems development work.
- 2.3** Although CP11/4 did not ask for comments on the proposed implementation timetable, we are sympathetic to the concerns raised. We now propose to implement the CMAR reporting requirements for CASS large and medium firms from 1 October this year, rather than 1 June as set out in CP11/4. As well as giving firms more time to prepare, this change will also allow us to complete systems testing to a robust standard, in line with our public commitments on Integrated Regulatory Reporting. Although the delay in the implementation date may result in some loss of consumer benefit compared with the proposals set out in CP11/4, we are satisfied that this will be of minimal significance given that it is for only a four-month period, and given that we are already receiving high-level data on the client asset positions of the firms that are participating in the pilot reporting exercise.

- 2.4 Some respondents commented on Paragraph 2.5 of CP11/4. They suggested that the paragraph is not clear about the responsibility of the individual who holds the CF10a status (and the individual responsible for CASS operational oversight before 1 October 2011) in relation to CMAR. These respondents asked whether the individual is required to complete and submit the CMAR, in which case there would be key man/continuity issues if the individual was not present at the time the CMAR is due, or whether the individual can delegate completing and submitting the CMAR to an appropriate employee of the firm, while retaining overall responsibility for completion and submission of the CMAR.
- 2.5 We confirm that it is our intention that the person with CF10a status is to be the person completing and submitting the CMAR, given that the system will require the person submitting the CMAR to certify that the data is accurate to the best of his/her knowledge. We see the completion and submission of the CMAR by the CF10a as part of the responsibility for CASS operational oversight in CASS medium and large firms. In practical terms, this means that firms will need to ensure the individual holding the CF10a function is a GABRIEL user. We have considered the Equality and Diversity implications of this policy. Firms will need to ensure that a CF10a is available. Firms are reminded of SUP10.5.5R, which enables personnel to carry out what would otherwise be a Controlled Function on a temporary basis in certain circumstances.²
- 2.6 While we have not received consultation responses in relation to data field 1 of the CMAR, 'Name of CASS audit firm', we would like to clarify that the drop-down list for this data field is not an exhaustive list of auditors and that the list should not be read as a recommendation of auditors that firms should use.
- 2.7 The rest of this chapter summarises consultation feedback on the specific questions raised in CP11/4, together with our response.
- 2.8 In CP11/4 we asked:
- 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.*
- 2.9 All respondents to this question supported this proposal. One of the respondents, however, indicated that its support for this proposal was subject to appropriate system functionality and robustness. The main reasons for respondents' general support for this proposal were that GABRIEL has the advantage of being an existing, proven and consistent industry-wide online information-gathering system that firms are familiar with through their existing regulatory reporting to the FSA. Using GABRIEL will therefore help to minimise additional costs and regulatory burden, which firms may otherwise incur if a new type of data collection vehicle were to be adopted for the CMAR. The phased approach to implementing CMAR was also seen by some respondents as proportionate.

² For further details, please refer to SUP10.5.5R <http://fsahandbook.info/FSA/html/handbook/SUP/10/5>.

- 2.10 One respondent raised CBA concerns in its response to this question. We address this in our paragraphs covering Consultation Question 8 (relating to CBA).

Our response

As noted in CP11/4, we propose to implement CMAR on GABRIEL, as it will benefit firms by allowing them to report their client money and assets positions using the same Information Technology (IT) solution that they use for their prudential and other financial returns to the FSA.

In light of the consultation responses, we confirm that we are going to implement CMAR for CASS medium and large firms through GABRIEL. We propose to implement the reporting requirements from 1 October, rather than from 1 June as proposed in CP11/4, to give firms more time to prepare and to allow us more time to complete necessary systems testing.

We acknowledge respondents' comments on functionality and potential system enhancements in relation to the implementation of CMAR through GABRIEL.

- 2.11 In CP11/4 we asked:

Q2: Do you agree that minor amendments should be made to the CMAR to implement it through GABRIEL?

- 2.12 Apart from one respondent, which indicated that it did not have any specific comments on this consultation question, respondents to this question supported this proposal.
- 2.13 Some respondents provided further comments on this question. One of the respondents noted that it welcomed our consideration of the comments that we had received from the 'early-adopters' in the CMAR pilot exercise. While one respondent believed that small amendments to an existing system would help to keep costs down, another respondent noted that any amendments to the CMAR report will have a time and cost impact associated with changing automated processes, and that in most cases firms will need to rely on external third-party vendors to make the necessary changes.

Our response

One respondent expressed concerns about the costs associated with amendments made to the CMAR to enable it to be implemented using GABRIEL. However, as discussed in CP11/4, we need to make a few minor amendments to the CMAR to make its format and presentation consistent with GABRIEL. Some of these reflect feedback received from the 'early adopter' firms that participated in the CMAR pilot exercise, and serve to make the return easier to use. While the structure and

wording of the questions in the CMAR have been modified, we are confident that these amendments are minor and that the CBA has not been materially affected.

In light of the above, we confirm that we are proceeding with the minor amendments made to the CMAR to implement it through GABRIEL.

2.14 In CP11/4 we asked:

Q3: Do you have any comments on the guidance notes or the technical business validation rules?

2.15 Respondents supported the inclusion of guidance notes for the CMAR. Some respondents had no comments on the guidance notes or the technical business validation rules. One respondent expressed the view that the notes and rules are self-explanatory. A substantial proportion of respondents raised comments on the guidance notes. The key points raised are set out in the paragraphs below.

Valuation

2.16 Two respondents believed that CMAR data fields 11 and 12 (which relate to the highest and lowest value of safe custody assets during the reporting period respectively) require firms to value safe custody assets on a daily basis. They noted that such valuation is not a current requirement under our custody rules. These respondents also asked us to improve our guidance on how safe custody assets are to be valued, especially in relation to illiquid, difficult to price securities, to ensure consistency across reporting firms. These respondents raised CBA concerns in relation to their valuation points. These concerns are addressed below in the paragraphs on Consultation Question 8.

Submission timeframe

2.17 Some respondents suggested that the CMAR submission timeframe of 15 working days is too tight. One respondent suggested that it would not be able to complete its monthly unit trust reconciliations in time to include this within that month's return. Another pointed out that some data fields in the CMAR require detailed information, which would be challenging for firms with more complex client money arrangements. This respondent considered that 20 working days would be more appropriate to allow firms (particularly those with complex client money arrangements) sufficient time to undertake due governance around checking and submitting the CMAR. Some respondents suggested that the timeframe used in the CMAR pilot exercise, which is by the end of the following month, would be a more realistic reporting timeframe.

Reporting currency

- 2.18 Many firms operate in a multi-currency environment where they can segregate client money under the Client Money rules, and maintain records, in various currencies. Moreover, their main reporting currency for business purposes may sometimes be a currency other than Great British Pound (GBP). In light of this, some respondents argued that reporting in GBP for CMAR would not always be proportionate, and that the burden of converting account records and data from various currencies to GBP for the sole purpose of CMAR should not be underestimated.

Other points

- 2.19 The other most frequently raised comments generally fall into:
- type of business activity – respondents requested further guidance on what should be inputted for this data field in the CMAR;
 - client money balances – what data records should firms refer to when determining their client money balances;
 - clarification on ‘unreconciled items’, in relation to both client money and safe custody assets;
 - method of completing the various fields in data field 25 ‘Segregation of safe custody assets’;
 - type of safe custody asset – whether further guidance would be provided on what we expect firms to enter in data field 27C; and
 - outsourcing and offshoring – clarification on meaning, justification in asking for this information.
- 2.20 The final form of the guidance notes has also been informed by other queries we received after the publication of CP11/4.

Our response

On valuation

We are clear that the CMAR guidance notes do not prescribe any particular standard relating to frequency of valuation, daily or otherwise. Firms should refer to the final guidance notes in relation to how they should go about valuing their positions.

15 day submission timeframe

The 15 business day timeframe was an extension we made in PS10/16, after considering the consultation feedback we received for CP10/9 which suggested a ten business day period. We continue to believe that a 15 business day submission period is adequate and appropriate.

Currency

Requiring firms to report in GBP will enable us to evaluate the data in firms' CMAR submissions on a consistent basis. Consequently we intend to implement the reporting requirements as set out in CP11/4.

On the other frequently raised comments

In light of the respondents' comments on the proposed guidance notes and technical business validation rules, we have amended the draft guidance notes and technical business validation rules, which are published in this PS. In making these changes, we have tried to provide further helpful guidance to firms while avoiding the imposition of material additional costs on reporting firms in so doing. We believe the changes made to the draft guidance notes clarify what we expect firms to provide in relation to the data fields in CMAR. These changes and the consultation responses have not materially altered the CBA in CP11/4.

2.21 In CP11/4 we asked:

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

2.22 Eight respondents supported the amended CBA in relation to implementing the CMAR through GABRIEL for CASS medium and large firms, while five respondents raised concerns over it.

2.23 One respondent said that, given the low frequency of investment by private equity and venture capital firms, managers of these firms often carry out a full reconciliation of their portfolio only once per quarter or once every six months. Accordingly, much of the information supplied in the monthly CMAR reports would duplicate information supplied by these firms in their earlier reports. The respondent suggested that it would therefore be disproportionately burdensome for such firms to provide us with a monthly CMAR in relation to safe custody issues and it did not agree that the benefit would be commensurate with the cost. The respondent also opposed applying the proposed CMAR monthly to private equity and venture capital firms on the grounds these firms have lower risks because of their investment models.

2.24 Two respondents raised concerns over the CBA in relation to the valuation of safe custody assets, arguing that the data fields 11 and 12 require daily valuation of safe custody assets, and that costs associated with this were not originally assessed within the CBA set out in CP10/9. They also argued that we had underestimated the level of resources required by firms to produce CMAR data on an ongoing basis.

2.25 One respondent argued that the current CASS rules allow firms to hold client assets in omnibus safe custody accounts with no requirement to separate assets by client business stream. As such, many firms will incur significant costs to enhance their systems significantly so that they can report the value of assets held by each business stream. This respondent asked us to justify the need to value assets by each business stream.

- 2.26 One respondent urged us to address how the new CMAR reporting obligations interact with existing FSA reporting requirements – specifically that we should clarify whether firms meeting new CMAR reporting obligations will still need to report their CASS stratification on an annual basis. The respondent believed that, in the event that the consultation proposals are adopted, the current CASS annual reporting requirement will not provide us with any additional information. The respondent suggested that duplication is onerous to both firms and the FSA, and should be avoided.

Our response

We note that the response relating to the frequency of reporting for private equity and venture capital firms relates to the CBA published in CP10/9 on the introduction of CMAR. Therefore, the consultation period to comment on the former has passed, and the proposals have already been followed up in PS10/16.

As detailed in PS10/16, the CMAR can provide us with the benefit of, among other things, an overview of firm-specific CASS positions and an overview of UK investment firms' CASS holdings, enabling us to make regulatory interventions on a timely, firm-specific or thematic basis. Data fields in the CMAR are designed to achieve this purpose. In particular, the highest and lowest values of safe custody assets can enable us to have oversight of the magnitude of a firm's client assets exposure in a given month, and across specific time periods.

The criticism made by some respondents in relation to the perceived costs associated with data fields 11 and 12 (which relate to the highest and lowest value of safe custody assets during the reporting period respectively) within the CMAR stemmed mainly from the belief that the CMAR will require firms to value safe custody assets on a daily basis. We confirm that it is not our policy intention to use the CMAR rules to prescribe any particular methodology or frequency of valuation for safe custody assets, as set out above.

This means that, where valuations take place once a month, or less frequently than once a month, it is possible for firms to report the same figure for the highest and lowest safe custody asset balances held in any particular month on the CMAR return. We do, of course, expect firms to use suitably prudent valuation practices (which may vary by product or to reflect client requirements), but we are not using this policy initiative as a vehicle to harmonise them. As such, we believe that the cost concerns raised by the respondents in having to perform daily valuation of safe custody assets are adequately addressed and will therefore not materially affect our CBA as set out in CP11/4.

As we are not being prescriptive on how firms should categorise their type of business, we do not think that requiring this data to be provided will result in additional costs for firms.

CASS 1A is clear that the annual CASS notification requirement is fulfilled by a firm's submission of the CMAR for the relevant month.

In light of the above, we consider that our CBA and compatibility statement published in CP11/4 remain valid.

- 2.27** The final instrument published in this PS does not differ significantly from the consultative draft instrument contained in CP11/4.

Annex 1:

List of non-confidential respondents

Association for Financial Markets in Europe (AFME)
Association of Private Client Investment Managers and Stockbrokers (APCIMS)
Aviva plc
The Bank of New York Mellon
Barclays Group
Brewin Dolphin Limited
British Bankers' Association (BBA)
British Private Equity and Venture Capital Association (BVCA)
Cazenove Capital Management Limited
The Children's Mutual
Cofunds Limited
Ernst & Young
The Futures and Options Association (FOA)
Kotak Mahindra UK Limited
Mark J Rees
Morton Fraser LLP
Nucleus Financial Group Limited

Rathbone Investment Management Limited

Rensburg Sheppards Investment Management Limited

The Royal Bank of Scotland Group

In addition to the above, there were three confidential responses to the consultation.

Appendix 1:

Final Instrument

CLIENT ASSETS REPORTING (AMENDMENT NO 2) 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 as follows:
- (1) Part 1 of Annex D to this instrument comes into force on 1 June 2011;
 - (2) the remainder of this instrument comes into force on 1 October 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.

Amendments to the Client Assets Reporting (Amendment) Instrument 2011

- E. (1) The Client Assets Reporting (Amendment) Instrument 2011 (FSA 2011/26) is amended in accordance with Annex C to this instrument.
- (2) The commencement of Annex B to the Client Assets Reporting (Amendment) Instrument 2011 (FSA 2011/26) is deferred to 1 October 2011.

Amendments to the Client Assets Sourcebook (Enhancement) Instrument 2010

- F. (1) 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.
- (2) The commencement of Part 1 of Annex C to the Client Assets Sourcebook (Enhancement) Instrument 2010 (FSA 2010/52) (which amends the Supervision manual (SUP)) is deferred to 1 October 2011.

Citation

- G. This instrument may be cited as the Client Assets Reporting (Amendment No 2) Instrument 2011.

By order of the Board
26 May 2011

Annex A**Amendments to the Client Assets sourcebook (CASS)**

In this Annex, underlining indicates new text and striking through indicates deleted text.

1A.2 CASS firm classification

...

- 1A.2.11 G For the purpose of *CASS* 1A.2.9R(1), the *FSA* will treat that obligation as satisfied if a *firm* submits a *CMAR* for the ~~period~~ or month ending 31 December in compliance with ~~*SUP* 16.14.5R~~ *SUP* 16.14.3R.

...

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.

[Editor's Note: The text of 16 Annex 29R is being replaced by the text shown in Annex D to this instrument.]

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 Asset Return (CMAR)

This annex 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 the *data item* shown in SUP 16 Annex 29R any *client money* that it holds in accordance with CASS 5.

Valuation

Where this *data item* asks for a *firm* to report or calculate 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

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.

3 Does the *firm* hold *client money*?

A *firm* should state "Yes" or "No".

4 Does the *firm* safeguard and administer *safe custody assets*?

A *firm* should state "Yes" or "No".

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

A *firm* should state "Yes" or "No". Handbook provisions dealing with the CFTC Part 30 exemption order are set out CASS 7.4.32G to CASS 7.4.35R.

6 Does the *firm* operate the alternative approach?

A *firm* should state "Yes" or "No". 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?

A *firm* should state "Yes" or "No". 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* and may do so using its own description of the activity or service in question.

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 Balances9 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 number of calendar *days* between the date on which an internal reconciliation in respect of that item should have been carried out, but was not, and the reporting date.

Section 6 Segregation of safe custody assets

- 25A Where and how held

A *firm* should identify in this data field at least those:

- (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;

- (e) *safe custody assets* which it has deposited with any other third party.

In relation to any asset which falls into more than one of the available categories in 25A, a *firm* should report its holding of that asset in each of the available categories. However, for validation purposes, a *firm* should enter the 25D positive value of that asset in one only of those categories and enter a value of zero in each of the other available categories. A *firm* may choose in which of the available categories it reports the 25D positive value of that asset.

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 each stock which bears its own CUSIP or ISIN number as a separate line of stock.

25D Value of *safe 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. In completing 25D a *firm* should have regard to the *guidance* given in relation to 25A.

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 number of calendar *days* between the date on which an internal reconciliation in respect of that item should have been carried out, but was not, and the reporting date.

In relation to the 30-day field, a *firm* should report items which have remained unreconciled for no more than 30 *days*.

In relation to the 60-day field, a *firm* should report items which have remained unreconciled for at least 31 *days*, but no more than 60 *days*.

In relation to the 90-day field, a *firm* should report:

- (a) items which have remained unreconciled for at least 61 *days*, but no more than 90 *days*; and
- (b) items which have remained unreconciled for 91 *days* or more.

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 and may do so using its own description of an asset type.

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 7.6.13R 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 16.14.3R 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)	=	$8CT = 13CT$
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)**

In this Annex, underlining indicates new text.

To the text of SUP 16.14, as inserted by the Client Assets Reporting (Amendment) Instrument 2011 (FSA 2011/26), there is added the following text.

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)

Part 1: Comes into force on 1 June 2011

SUP 16 Annex 29R, as made by the Client Assets Sourcebook (Enhancement) Instrument 2010 (FSA 2010/52), is revoked.

Part 2: Comes into force on 1 October 2011

After SUP 16 Annex 28BG insert the following new annex. The text is not underlined.

16 Annex 29R Client Money and Asset Return (CMAR)

This annex consists only of one or more forms. Forms are to be found through the following address:

Client Money and Asset Return: [insert link to form included below]

see next page

Client Money & Asset Return

Section 1 - Firm Information

This section should be completed by all firms

- 1 Name of CASS audit firm A

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

Overview of firm's activities subject to CASS

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

	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
8				
	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			

Section 4 - Client money requirement and resources

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

14	Client money requirement	A []
	of which:	
15	Unallocated to individual clients but identified as client money	[]
16	Unidentified client money in client money bank accounts	[]
17	Uncleared payments e.g. unpresented cheques sent to clients	[]
18	Excess cash in segregated accounts	[]
19	Client money resource	[]
20	Surplus (+)/deficit (-) of client money resource against client money requirement.	[]
21	Adjustments made to withdraw an excess or rectify a deficit identified as a result of an internal reconciliation	[]

Section 5 - Client money reconciliations

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

		A Frequency []
22	Client money internal reconciliation	[]
23	Client money external reconciliation	[]
		A B C D
		6-29 days 30-59 days 60-90 days 90+ days
24	Client money unreconciled items	[]

Section 6 - Segregation of safe custody assets

This section should only be completed if the answer to question 4A is "Yes"

	A	B	C	D	E	F
	Where & how held?	Name of institution	Number of lines of stock	Value of safe custody assets as at reporting period end date	Country of incorporation of the institution	Is this a group entity
25						
			Total			

Section 7 - Safe custody assets reconciliations

This section should only be completed if the answer to question 4A is "Yes"

		A B C	
		30 days 60 days 90 days	
26	Safe custody assets unreconciled items	[]	
		A B C	
27	Method	Frequency	Type of safe custody asset

Section 8 - Record Keeping & Breaches

Record Keeping

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

	A	B	C	D	E	F
	Number of accounts held at beginning of reporting period	Number of new accounts opened during the reporting period	Number of accounts closed during the reporting period	Total number of accounts at the end of the reporting period	Number of trust status letters and/or acknowledgement letters in place that cover these accounts	Explanation of discrepancies
28 Client bank account						
29 Client transaction account						
30 Total						

Notifiable CASS Breaches

This section should be completed by all firms

- 31 Has the firm complied with the requirements in CASS 6.5.1R, 6.5.2R and 6.5.6R ? A
- 32 Following reconciliation is the firm unable, in any material respect, to comply with the requirements in CASS 6.5.10R
- 33 Has the firm complied with the requirements in CASS 7.6.1R, 7.6.2R and 7.6.9R?
- 34 Following reconciliation, is the firm unable, in any material respect to comply with the requirements in CASS 7.6.13R to 7.6.15R

Section 9 - Outsourcing & Offshoring

This section should be completed by all firms

	A	B	C	D
	Who do you outsource and/or offshore your client money and/or custody asset operations to? (name of entity)	What function of your CASS operations do you outsource and/or offshore?	Location of service provider	Significant changes being made or planned to existing arrangements
35				

PUB REF: 002575

The Financial Services Authority
25 The North Colonnade Canary Wharf London E14 5HS
Telephone: +44 (0)20 7066 1000 Fax: +44 (0)20 7066 1099
Website: www.fsa.gov.uk

Registered as a Limited Company in England and Wales No. 1920623. Registered Office as above.