



MEMORANDUM

To: Technical Representatives
From: Roger Morris
Date: 27 March 2015
Ref: TM 03/15

HAT FINANCIAL CONDUCT AUTHORITY (“FCA”) CLIENT ASSETS REPORTS MANUAL ~ MARCH 2015

HAT has released an FCA Client Assets Reports Manual (March 2015) to replace the FCA Manual (June 2013). The renaming of the Manual more closely reflects the scope of the assignments covered by the Manual, which should be used on all future FCA Client Assets Reports assignments.

This release reflects two major developments within the FCA Handbook:

Debt Management Firms:

Firstly, ‘debt management firms’ came within the scope of FCA regulation on 1 April 2014. How they handle client money is covered within CASS 11 – Debt management client money chapter. In simple terms, all incoming client funds (including mixed receipts) must be paid into a client account, with withdrawals, which typically must happen fairly promptly, only being permitted from cleared funds.

The majority of documentation within the FCA Client Assets Reports Manual is “common” across all types of entity, although there are specific pro-forma wording for the letter of engagement and the format of the Client Assets Report. Also, consideration of Prudential Resources, and handling of Client Money are specific to debt management firms, hence there are specific work programmes in these areas. All documentation which is specific to a debt management firm is signified with the suffix, “DM”.

12 COCK LANE, LONDON EC1A 9BU
TEL: 020 7213 9911 FAX: 020 7213 9922
EMAIL: hat@hatgroup.co.uk
www.hatgroup.co.uk

ACCOUNTING DIRECT PLUS LIMITED . ALWYNS LLP . APPLEBY & WOOD . ASHCROFT ANTHONY . BARRONS . BEAVIS MORGAN LLP . BIRD LUCKIN . BOURNER BULLOCK
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FCA Review of the Client Assets Regime for Investment Businesses:

Secondly, the FCA has issued a number of enhancements to the Client Assets (CASS) section of the FCA Handbook, which has been driven by the failure of Lehman Brothers. These are intended to improve handling and security of client money and custody assets, which were published in [Policy Statement \(PS\) 14/9: Review of the Client Assets Regime for Investment Businesses](#), and which come into force on the following effective dates:

- 1 July 2014 – certain rules and guidance come into force providing clarifications to existing requirements, including limiting the placement of client money into new unbreakable term deposits;
- 1 December 2014 – certain rules and guidance come into force including requiring the use of template acknowledgment letters with new client bank accounts, and establishing protocols for dealing with assets where contact with the client has been lost; and
- 1 June 2015 – all of the remaining rules and guidance come into force which include enhanced due diligence on the choice of banks to deposit client money in, and enhanced restrictions on depositing any client funds into an office bank account (even a mixed receipt).

Note additionally, that “extra” auditor opinions (such as when “alternative” reconciliations are performed) are now required to be obtained in advance of adopting the proposed approach, rather than at the time that the Client Assets Report is obtained.

Where a new requirement has come into force on the above dates, this has been clearly marked on the relevant work programme. Note additionally that certain sections of the FCA’s Client Assets (CASS) Handbook have been entirely replaced ~ CASS 6.5 will be replaced by CASS 6.6, and CASS 7.1 - 7.8 will be replaced by CASS 7.10 – 7.18, in both instances, on 1 June 2015. Where relevant, source references on the work programmes at Appendices 7.3 / 7.4 include both the ‘old’ and the ‘new’ references.

Structure of the HAT FCA Client Assets Reports Manual (March 2015):

The way in which the Manual is structured has also been amended to clearly distinguish between assignments where a CASS auditor is required to produce a Client Assets Report, and one where such a report is not required. All documentation relating to an “Exemption” assignment (where there is no requirement to appoint a CASS auditor) are now included within the FCA Exemption folder within the Manual. This includes checklists to determine whether or not a CASS auditor needs to be appointed in accordance with SUP 3.1 of the FCA Handbook (which were previously included at Appendix 3 / 3-IB of the HAT FCA Manual (June 2013)).

We are always pleased to receive feedback on our manuals. If you have any comments on this Manual then please email roger@hatgroup.co.uk.