

30 September 2020

Dear CEO

Adequate Client Assets Arrangements

The impact of coronavirus (Covid-19) is being felt widely and is affecting all the entities we regulate in ways that may not have been predicted. In these circumstances, it is imperative that your firm continues to maintain adequate arrangements that safeguard the client money and/or custody assets ('client assets') it holds for customers.

This letter highlights those areas that are particularly important to maintaining adequate client assets arrangements in the current environment. It also reminds you of your obligations to continue to oversee those arrangements and notify us if you identify any material concerns.

This letter is in addition to the Dear CEO Letters that we have already sent to firms (where applicable) on [inappropriate use of Title Transfer Collateral Agreements](#) and [increased client money balances](#).

Senior management oversight

We expect your firm's senior management to have appropriate oversight over your client assets arrangements. You should discuss the contents of this letter with your Board, or equivalent governing body, and agree what further action is necessary to help ensure your firm has adequate arrangements in place. In particular, we draw your attention to the following areas:

- governance and oversight
- oversight of third parties, including due diligence
- adequate records and reconciliations
- acknowledgement letters for all client money accounts (when holding client money)
- accurate and up to date CASS Resolution Pack

We provide further detail on these areas in the Annex to this letter.

We will continue to conduct assessments of firms' client assets arrangements, and review the annual independent external auditors' client assets reports. If we contact your firm in the future, we will expect you to be prepared to explain the actions taken in response to this letter.

You are reminded that (in accordance with SUP 15.3 and Principle 11) you are required to notify us of any material issues or concerns your firm identifies with its client assets arrangements.

Yours sincerely

Christopher Woolard

Interim Chief Executive Officer

Annex – Detailed summary of key areas for consideration

1. Governance and oversight

a. Organisational arrangements

Your firm should have adequate governance to identify material risks to your client assets arrangements and ensure monitoring of those arrangements. This includes appropriate oversight by the senior manager with responsibility for client assets. It should also include monitoring and testing by Compliance and/or Internal Audit where relevant, or using external resource as needed, aligned to the risks identified within the business.

2. Oversight of third parties, including due diligence

a. Maintaining current due diligence for third parties holding client assets in the European Economic Area (EEA)

Your firm is required to carry out periodic due diligence reviews on third parties holding client money and/or custody assets. If your firm deposits client money and/or custody assets with any institution in the EEA, you should review your due diligence to ensure that client assets will not be subject to increased risk due to any changes arising from the end of the EU withdrawal transition period, and manage the risks accordingly. Your firm should make sure that existing safeguards and protections for client assets, especially in the event of insolvency, remain effective from the end of the transition period.

b. Third party custody arrangements

If your firm is part of tripartite arrangements where custody assets are held by another party providing services to your client (or where your firm is providing custody services to a client of another firm), we expect your firm to make sure that the contractual arrangements are robust and clear on the respective responsibilities. Specifically, your firm should assure itself that the tripartite agreements clearly set out the respective responsibilities of your firm and the other firm in relation to holding the custody assets, so that the client is not in any doubt.

c. Outsourcing arrangements

Where operational functions are outsourced to Third Party Administrators (TPAs), your firm remains responsible for discharging its regulatory responsibilities. This includes compliance with the relevant client assets rules. We expect firms to make sure they have oversight arrangements in place to manage the risks and ensure the TPA's processes are compliant with the relevant rules.

See our [outsourcing and operational resilience](#) page for further information.

d. Oversight of Appointed Representatives

If your firm is a principal to Appointed Representatives, the firm should have adequate systems and controls to monitor the activities carried out by Appointed Representatives on its behalf. In particular, your firm should ensure that any client money which arises from the Appointed Representatives' activity is received directly into a client bank account of the firm and no client money is held in the name of Appointed Representatives.

3. Records and reconciliations

a. Accuracy of recordkeeping

Your firm must ensure that it has accurate records and accounts. To help maintain their accuracy, firms are required to conduct frequent reconciliations in a timely manner with all discrepancies and breaks appropriately recorded and resolved promptly. In particular, the client money reconciliations and custody reconciliations help verify the accuracy of the balances held for clients and confirm that they are held in client accounts.

b. Client money held with third party brokers

Where your firm uses intermediate brokers to facilitate client transactions in accordance with the CASS 7 client money rules, client money can be placed with these firms in client transaction accounts, with an appropriate acknowledgement letter in place. We remind you that such arrangements must only be used to facilitate transactions. Firms should review the balances held in client transaction accounts to make sure no excess client money is held in them.

4. Acknowledgement letters

Your firm must ensure that all client money bank and transaction accounts have an acknowledgement letter, in line with the relevant requirements. The letter must make it clear that the balances held in credit in those accounts are held for the benefit of the firm's clients. If your firm holds client money, you should maintain adequate arrangements to assure itself of the completeness and accuracy of the acknowledgement letters, conducting reviews where necessary.

5. CASS Resolution Pack

Your firm must ensure that it maintains a complete and up to date CASS Resolution Pack, in line with the relevant requirements. This is essential in the event of firm failure to help insolvency practitioners understand the firm's client assets arrangements and speed up the recovery and return of client assets.