



CASHFAC

'Dear Diary'

Recordkeeping
Under the FCA's
CASS Rules

CASHFAC WHITEPAPER

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Introduction

Those of us who keep a diary did not expect to be recording the lifestyle and events that have shaped our year so far. Looking back at old diary entries may jog our memories, but diaries come in different forms. While some people keep a detailed journal of all their thoughts and plans, others simply record what happened when. In most cases, however, we have a record of some of the more exciting days but a memory that is already sketchy, when it comes to the routine days in between.

Recordkeeping for CASS

Similar points apply to the recordkeeping performed for client money and asset protection (CASS) rules. There are multiple levels and types of record to be maintained, with different audiences to inform. At whatever level of detail a diary is kept, we probably had an audience in mind, whether the diary was for personal use only or to be enjoyed by posterity. For CASS records, we need to be mindful of the requirements for each audience, which may vary according to the expertise of that audience, the reasons why the record is needed and the reliance placed on those records. The level of detail we record and the granularity of what we recall tend to be linked. Reliance on staff's own memories of what happened - and why - is at best unreliable and may be lost altogether in the event of the firm's insolvency, when the individuals who performed the work are no longer available to ask. CASS related documentation therefore needs to consider appropriate levels of detail and all of the potential readers of the evidence provided, including insolvency practitioners, in the worst-case scenario. This means avoiding the type of jargon that would only be understood by the employees of the firm – this diary is not a secret one!

CASS recordkeeping extends from the transactional to the evidencing of thought processes. The requirements for each will throw up different points for consideration. This paper sets out the key areas in which CASS recordkeeping evidence is required and explores some of the factors which apply to each. In order to think through these points, this paper looks at the recordkeeping under the following headings:

- Transactions and Positions
- Procedures and Actions
- Policies and Decisions
- Roadmaps

Before embarking on that analysis, however, it is worth just recapping on the key requirement in this area. This is the requirement to achieve the standard set out in Principle for Business 3¹ – one of the over-arching regulations set out at the beginning of the FCA Handbook:

A firm must take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems

That Principle is reflected and clearly linked back to recordkeeping requirements in the client money rules:

7.12.2 **R**

Requirement to have adequate organisational arrangements

A firm must introduce adequate organisational arrangements to minimise the risk of the loss or diminution of client money, or of rights in connection with client money, as a result of misuse of client money, fraud, poor administration, inadequate record-keeping or negligence.²

The Facts - Transactions and Positions

A diary can record the purely factual (distance walked, what you ate for supper, current weight). This is akin to the transactional data for CASS. These are facts which are vitally important and relied upon by the firm, clients, auditors, the regulator and any insolvency practitioner. They may be seen as important but, frankly, rather dull, as the same events are repeated day after day. It is therefore easy to overlook the obvious. How do you prove that these basic records are correct and complete?



¹ Financial Conduct Authority (2020) 'Principles for Business', available at: <https://www.handbook.fca.org.uk/handbook/PRIN.pdf>

² Financial Conduct Authority (2020) 'FCA Handbook', available at: <https://www.handbook.fca.org.uk/handbook/CASS/7/12.html>

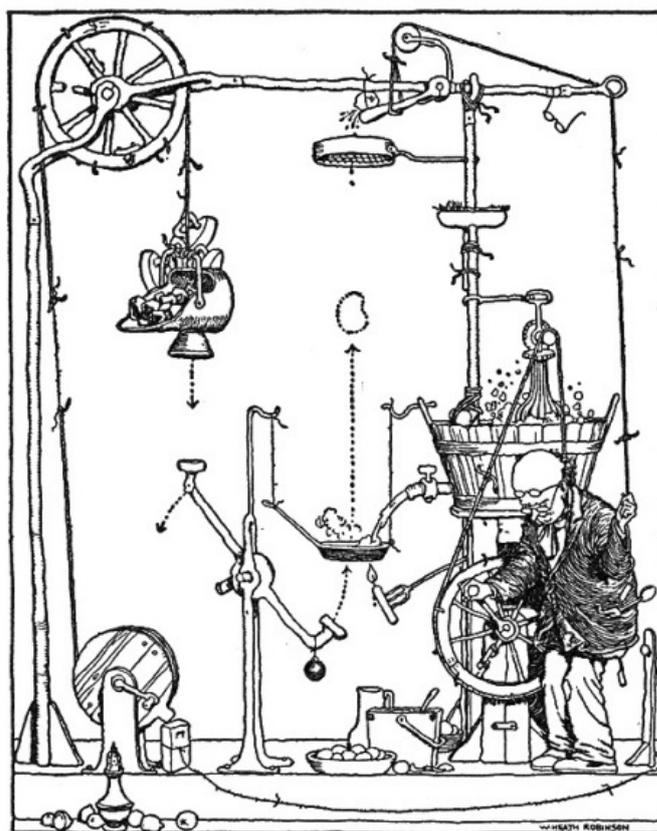
In the case of entries made through your systems, the CASS rules – and others – require you to have accurate records, with an audit trail that will prove the origins, timing, source of your entries.

6.6.3 **R** | A firm must maintain its records and accounts in a way that ensures their accuracy, and in particular their correspondence to the safe custody assets held for clients and that they may be used as an audit trail.³

7.15.3 **R** | 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 and that they may be used as an audit trail.⁴

The necessity to ensure that records correspond to the money and assets held, however, does point to a need for prompt updates, as these positions change. Some firms and auditors consider this requires all updates to be posted on the day of each transaction or movement. While some might consider this to be best practice, it is not achievable for all firms and all transactions. Nevertheless, systems which are capable of taking regular feeds through the day and making postings automatically for the majority of transaction types are clearly ahead of the game in meeting this requirement.

A more contentious issue is the approach to proving that records are complete and correct. For many firms, reliance on long-established systems means that they have taken it for granted that these systems are doing what they think, in terms of both processes and controls. This assumption is being challenged by auditors, as they apply more robust checks to this area. This can lead to demands for firms to 'crack open' their systems, to enable auditors to



*Depiction of complex layers and processes
(The Pancake-Making Machine - Heath Robinson Contraption)*

³ Financial Conduct Authority (2020) 'FCA Handbook', available at: <https://www.handbook.fca.org.uk/handbook/CASS/6/6.html>

⁴ Financial Conduct Authority (2020) 'FCA Handbook', available at: <https://www.handbook.fca.org.uk/handbook/CASS/7/15.html>

examine the underlying code so that they can gain the assurance they need – an expensive and tricky process. Many firms' processes are, of course, powered by complex layers of interlinking processes and underlying systems that have built up over time. Firms with well-documented and clearly understood systems processes and controls are in a stronger position to be able to evidence these requirements without the need for such complex checks. There are also other valuable benefits to having such documentation, in terms of the ability to manage the risks and prove the continuity of CASS protection during systems changes. Documenting requirements, specifications and testing of the changes will be helpful evidence, not just to prove robust change control to auditors but also to support the appropriate analysis of the changes and any unforeseen effects, before those changes are made.

Painting a Picture – Procedures and Actions

Continuing the diary analogy - providing a little more information enables a clearer picture of the day's activities. What did you eat that might have caused that weight gain? What did you do, relative to your exercise goal? In other words, not just that 'what' but a snapshot of how you are moving forward, and any issues tackled.

In the same way, CASS records need to include these elements in a number of different contexts, as set out below.

Actions Taken

Having recorded transactional information and other systems activities, there is also a need to document actions taken outside the systems. This would include full explanations of any manual journal postings; actions taken and funding movements made for reconciliation discrepancies and what has been done to address any issues or breaches. Information is needed at an appropriate level of detail, so that it can be understood by those who were not engaged in performing this work at the time. Even for those who were there at the time, it can be difficult to recall the circumstances and what was known when a discrepancy first arose, which led to a certain course of action being taken. Assumptions made at the time may very well prove to be incorrect in the light of later facts, so it is best to be clear about what was actually known at the time.

For issues and breaches, records need to cover escalations, root causes and actions taken to address these, including any controls changed as a consequence of the lessons learned. Root causes can be difficult to categorise, as it is tempting to simply categorise every slip-up as 'human error'. The reason for the occurrence of that 'human error' needs to be understood – otherwise it will be impossible to determine the action need to ensure it does not recur. Understanding that perhaps having it available in the fridge was actually the root cause of the consumption of a large bar of chocolate might help to avoid the consequent weight gain in future.

Procedures

Procedures should explain why, and not just how, to perform the processes in relation to the requirements of the CASS rules. It is important that those performing the procedures, as well as those managing and monitoring them, can identify how they fit into overall compliance with CASS, in addition to their interaction with other procedures. The controls applied through the procedures should also be highlighted, linking these back to the firm's overall CASS risk management.

Explaining why a task is to be performed and controlled in a specified way, alongside clarity about the need to meet a specified objective helps to ensure, for example, that vital steps are not missed by taking shortcuts. The step by step 'doing things by rote' method of setting out procedures only works if there are no unforeseen circumstances. It seems unlikely, these days, that anyone would argue in favour of that view of life.

Management Information

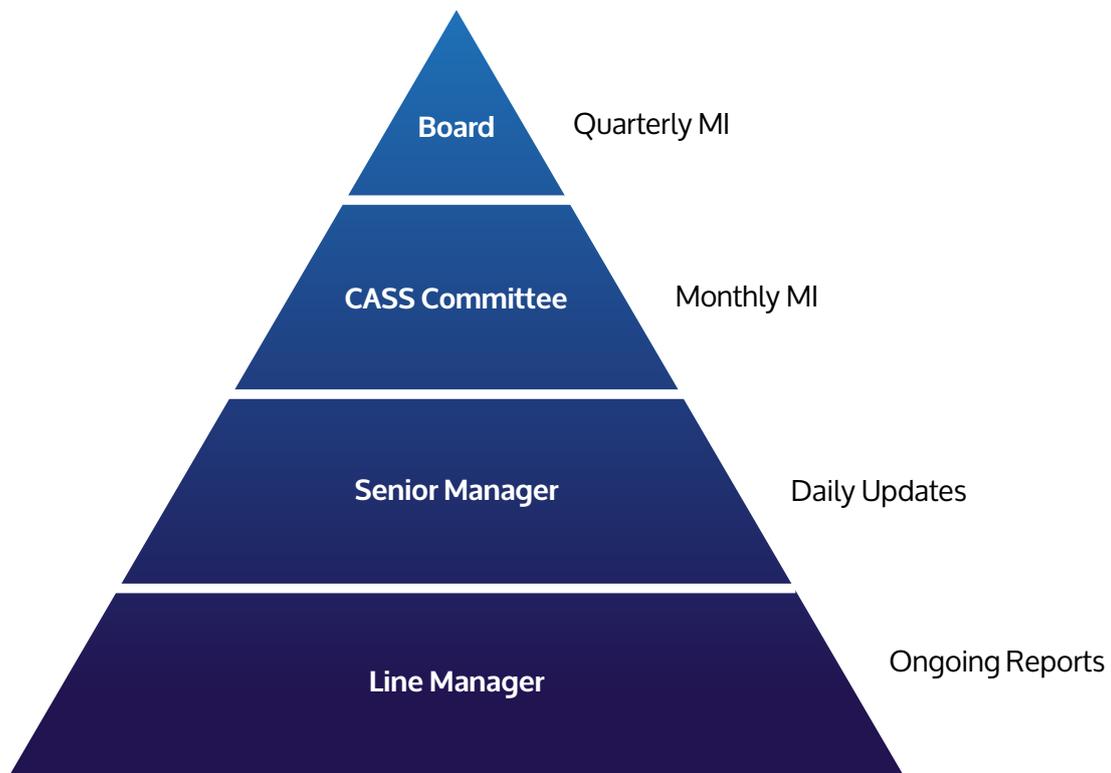
There are multiple recipients of management information, provided to multiple individuals and bodies with different roles in the business. As a result, the needs of the different recipients need to be assessed and catered for in the information provided. The senior manager with responsibility for CASS may require daily records, which report issues and/or confirm that all is under control and that BAU tasks have been completed. Committees with CASS responsibility will receive and analyse MI which covers a period of time, drawing out trends and progress towards the objectives they have set. The firm's governing body should be challenging CASS data which covers key metrics, probably over a longer time period than that provided to committees.

For each of these recipients, the records distilled into that MI will need to be reliable, complete and appropriately analysed. However, in order to achieve that goal, the underlying data will also need to be capable of aggregation in order to convert it into information which draws out how the firm is performing in relation to the key CASS metrics. This requires data to be recorded in such a way as to facilitate this analysis – for example, not just recording CASS queries in email exchanges or documenting breaches in nothing more structured than free text. The principle of GIGO – garbage in, garbage out, applies here.

Once compiled, management information should be at a level which provides meaningful information to the audience. Unless it can be readily understood and digested by the intended recipients, it cannot be reasonably discussed and challenged by that audience. This means that the reports should also be an appropriate length too – a 100-page document for the Board is unlikely to be read. There is an expectation that governing bodies, no less than committees, should engage with CASS compliance - and good recordkeeping which can produce useful management information is a prerequisite of this.

The other facet of recordkeeping in this context is the records kept of the meetings and discussions in which this information is presented. Board meetings should minute their discussions and challenges, just as committee meetings would. Actions agreed should be evidenced then tracked. This includes the actions taken as a result of internal and external audit reviews or compliance monitoring. These actions are at least as important as any BAU activity – sometimes more so.

It can be seen, therefore, that a wide range of actions needs comprehensive and well-structured recordkeeping. These records should explain and describe context, in addition to recording what was done. It is important to understand the 'why' as well as the 'what'.



Thoughts and Aspirations – Policies and Decisions

Some diarists choose to write down all of their thoughts in greater depth, in a more detailed journal. They might discuss their philosophical views, their reasons for certain life decisions and their plans for change and the future. In the same way, the best run firms will be prepared to share their thinking about policy decisions, plans and targets and the reasons for their opinions. Recordkeeping should reflect the firm's culture in relation to CASS compliance, not just its activities.

Roadmaps - Policies

Policy decisions taken by the firm were taken for a reason. Sometimes that reason is simply because there are choices to be made between alternatives set out in the CASS rules, such as the reconciliation methodology to be followed. These policy decisions are compulsory and must be documented and reviewed as set out in the rules. Other policy decisions, however, should also be documented where they help to illuminate the firm's thinking and approach in implementing the CASS rules. As those engaged in this work are aware, the CASS rules cannot hope to cover every type of business or every scenario. Choices have to be made, based on interpretation of what is set out in the rules in the context of the firm's business and the clients' best interests. Despite the best efforts of those involved, there will frequently be areas of the application of the rules where there are differences of opinion, including potential differences between the firm and the auditor's views. Explaining and justifying the firm's approach in the context of these values and the detail of the firm's business can be helpful in such situations.

Addressing Posterity – CASS Resolution Packs

For many firms, the creation and maintenance of a CASS Resolution Pack may feel like a burdensome overhead, irrelevant to the day to day compliance with the usual CASS rules. However, though a hefty piece of recordkeeping, there can be significant benefits to a comprehensive and clearly documented CASS RP.





The CASS Resolution Pack's primary purpose is to provide an insolvency practitioner with the information they need to distribute the assets to clients following the cessation of the firm. This is, of course, the key audience to bear in mind when putting the pack together. Hopefully, insolvency seems like a remote possibility to most firms, despite the acknowledged importance of achieving a speedy and complete return of assets in this event. However, the pack can be very useful for other purposes too. Other audiences might include an auditor at the end of the year or an FCA visit to the firm. It could also be used by a new senior manager seeking to get to grips with the workings of CASS within the firm, or a compliance consultant that has been engaged to review or improve its processes. So documents which explain what the firm is doing in a more holistic manner than might be seen in individual procedures and other supporting documents can be very useful in setting the scene and demonstrating the overall scope and approach of the firm's CASS related activities and structure.

Conclusion

Recordkeeping for CASS may seem to cover a plethora of different types of record. However, as we hope is clear, every record type has a valid purpose. Some are fundamental to achieving and proving the accurate and complete basic records of transactions and positions. Others support management, the Board, auditors and others to assess and manage CASS compliance. Still others explain the firm's approach to achieving that compliance. Overall, however, the key factors that emerge from this analysis are:

- Prove the accuracy and completeness of the records kept
- Consider the purposes for which the records are required
- Ensure that records are appropriate to the audience(s)

By following these precepts, firms should be in a stronger position to achieve best practice in this area.

About Cashfac

Cashfac (www.cashfac.com) is a global leader in back office cash management and Virtual Account Management (VAM) solutions. Our platform is the world's most deployed virtual accounts solution, used by organisations across the global financial services sector from large banks and asset managers to smaller non-banking financial institutions.

Our products help these financial institutions improve productivity and provide greater visibility, automation and control over their critical cash management operations including compliance with Client Money (CASS 7/MiFID II) regulations. As well as an internal and external reconciliation solution, our client money platform offers a full suite of accounting, banking and reporting functionality that can be quickly configured to bring your firm's cash operation up to best practice standard.

This is achieved by our open technology solutions plugging into existing client systems giving corporate and client operational accounting solutions which are fully integrated with your bank's records, virtually eliminating the need for reconciliation.

For information on Cashfac's Client Money Management and Compliance solution, to request a demonstration or to speak to us about your business needs, please contact us at www.cashfac.com/contact