

Mark Babington
Financial Reporting Council
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8th March, 2019

Dear Mark

Post Implementation Review - Providing Assurance on Client Assets to the Financial Conduct Authority

I am pleased to set out below TISA's response to this request for feedback as part of your post implementation review.

As you know, from speaking at our Conference, the TISA CASS group is unique in representing firms from across financial services, from banks, through custodians, trustees, to asset managers, platforms trustees and even audit firms!

This enables our group to take an holistic view of regulations, rather than just seeing them through the lens of a particular sector.

The consensus view of our group is that:

- The FRC audit has increased standards, but that the cost incurred, by firms, outweighs the benefits, and that the standard should be reviewed with that in mind.
- It removes flexibility from audit firms. Any changes should reflect this concern.

Last year, TISA conducted a survey of its members on the FRC CASS Audit standard, a copy of which is attached.

1. Do you agree that the CASS Standard has been successful in delivering the objectives set out in Paragraph 9 of the Introduction to the Standard and replicated in the covering paper? Please explain your reasoning.

Broadly yes. Audits are thorough and robust, and expectations are clear, with increased granularity driving stronger controls.

The standard has however resulted in an increase in the identification of technical non-compliance rather than where client assets are actually at risk.

The more significant improvements have been seen in firms identifying areas of weakness during their preparation for their audit.



Standard and competency of auditors overall has not materially changed as a result of the standard.

Audits are just more resource intensive for firms and auditors alike.

2. Do you agree that the enhanced independence requirements of the FRC Ethical Standard have been positive in underpinning user confidence in CASS audit? Please explain your reasoning.

No change overall. Whilst independence may have been an issue in some firms but not something encountered industry wide.

3. Do you believe that the quality of CASS audits has improved? If so what are the indicators of this?

Yes, due to the granularity that firms and auditors need to go into the evidence compliance. But see responses to 1 above.

Quality/completeness has improved from increasing audit resource rather than efficiency improvements, with costs passed to firms.

4. Are there further steps that the FRC should consider including in the CASS Standard, to support the delivery of consistently high-quality CASS audits? Please set these out in your response.

Audit firms have suggested the Standard removes their discretionary ability, essentially requiring full assurance of compliance.

Whilst use of judgement is permitted, greater clarity of the extent to which this is allowed would be useful

The approach of the FRC in requiring a statement of how firms comply with every CASS rule has led to a heavy work burden for firms to set up and maintain. Whilst it is a helpful exercise for the more technical rules, which have specific requirements (e.g. the rules on the reconciliation approach), for some of the general rules (particularly in 7.15) many controls have been mapped despite only having an incidental link to the accounting records maintained for client money.

5. The standard requires the auditor to assess an entity's compliance with the FCA's CASS Rulebook. Are there any specific additional areas of guidance that should be developed to help in the assessment of whether custody relationships are fully compliant with the CASS Rulebook?

No, the audit should assess compliance against the CASS rules only. Additional guidance should come via the FCA for inclusion in the CASS sourcebook

6. Bearing in mind that a primary objective of the standard is to support the delivery of the FCA's objectives for the CASS regime, including the safeguarding of assets held, and preventing failure of the regime, would you propose any changes to the current standard, and if so what would those changes be and why?

Generally, no, the CASS Standard supports the delivery of the FCA's objectives as written, and a period of stability and consistency are now required, particularly amongst the audit firms.

7. Do you believe that there would be benefits from bringing CASS audits within the FRC's audit inspection and monitoring approach? How do you believe any such monitoring scheme should operate?

A sampling approach to assess consistency in approach and share best practice might benefit audit firms and their clients

Increased accountability and independent assessment of competency levels in audit firms (particularly against the size of the audit firms CASS audit portfolio) would be beneficial.

However, due to the increased risks to audit firms/ partners associated with falling into the FRC's file review regime it is very likely that the costs of all audits will rise significantly unless it is restricted.

We therefore suggest that the FRC file reviews only cover FCA regulated entities that pose a material risk to market stability and/ or are CASS large firms.

We are not sure that FRC has the necessary expertise to undertake a review of a CASS audit file and we should question how they would resource this given the other issues raised on the general lack of knowledge of auditors who undertake CASS audits.

A proactive rather than reactive approach to oversight and provision of feedback on enhancements/developments would be welcomed

Given the significant cost increases introduced with the standard, cost implications of further oversight should be carefully assessed

8. Would you suggest any changes to the standard to increase the value of CASS audit to those entities that are subject to the regime? If so what changes would you propose and why?

CASS Audit scope broadens year-on-year.

Increasingly high level requirements (primarily from SYSC) now appear in CASS audits with any issues identified flagged as a breach for not having adequate organisational arrangements (CASS 6.2.1 & 7.12.1).



The boundaries of a CASS audit should be set out more clearly to support both firms and auditors alike in understanding expectations. Particular areas where more guidance could be provided are in regards to IT and Outsourcing

9. Are there any other matters that the FRC should take account of in carrying out this post implementation review? If there are, please set them out in your response.

The FRC standard was introduced without a need for a change to the FCA SUP rules, this step change in assurance work was (seemingly) introduced without any a need for any cost benefit analysis.

Evidence from members is that there has been a significant increase in annual audit costs together with additional one-off set up costs.

As costs are ultimately borne by customers, we believe that any changes to FRC should be subject to consultation and a rigorous cost benefit analysis before they are introduced.

Some members have suggested that the scope of the CASS Audits could be extended post the implementation of the SM&CR regime in December, for CASS audit to consider how a firm has allocated the control function 'overall responsibility for the firm's compliance with', as FCA will be bound to want to check compliance with the requirements, and auditors are already carrying out CASS audits.

Yours sincerely

A handwritten signature in black ink, appearing to read "Jeffrey Mushens". The signature is fluid and cursive, with a large initial 'J' and 'M'.

Jeffrey Mushens
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