

Chapter 1A

CASS firm classification and operational oversight

1A.1 Application

- 1A.1.1** **R**
- (1) Subject to (2), (3) and (4), this chapter applies to a *firm* to which either or both of **■ CASS 6** (Custody rules) and **■ CASS 7** (Client money rules) applies.
 - (2) In relation to a *firm* to which **■ CASS 5** (Client money: insurance distribution activity) and **■ CASS 7** (Client money rules) apply, this chapter does not apply in relation to *client money* that a *firm* holds in accordance with **■ CASS 5**.
 - (3) The *rules* and *guidance* in **■ CASS 1A.2** apply to a *firm* even if at the date of the determination or, as the case may be, the notification, either or both of **■ CASS 6** and **■ CASS 7** do not apply to it, provided that:
 - (a) either or both of those chapters applied to it during part or all of the previous calendar year; or
 - (b) it projects that either or both will apply to it in the current calendar year.
 - (4) This chapter does not apply to a *firm* to which only **■ CASS 6** applies, applied or is projected to apply, merely because:
 - (a) it is, was, or is projected to be a *firm* which *arranges safeguarding and administration of assets*; or
 - (b) when acting as a *small AIFM* and in relation to *excluded custody activities*, it would be, would have been or would be projected to be a *firm* which *arranges safeguarding and administration of assets* but for the exclusion in article 72AA of the RAO.
- 1A.1.2** **R** The *rules* and *guidance* in **■ CASS 1A.2** (CASS firm classification) do not apply to a *firm* following its *failure*.

1A.2 CASS firm classification

- 1A.2.1 **G** The application of certain *rules* in this chapter depends upon the 'CASS firm type' within which a *firm* falls. The 'CASS firm types' are defined in accordance with ■ CASS 1A.2.7 R. The 'CASS firm type' within which a *firm* falls is also used to determine whether it is required to have the *CASS operational oversight function* described in ■ CASS 1A.3.1A R and whether the reporting obligations in ■ SUP 16.14 (Client money and asset return) apply to it.
- 1A.2.2 **R**
- (1) A *firm* must once every year, and by the time it is required to make a notification in accordance with ■ CASS 1A.2.9R (4), determine whether it is a *CASS large firm*, *CASS medium firm* or a *CASS small firm* according to the amount of *client money* or *safe custody assets* which it holds, using the limits set out in the table in ■ CASS 1A.2.7 R.
 - (2) For the purpose of determining its 'CASS firm type' in accordance with ■ CASS 1A.2.7 R, a *firm* must:
 - (a) if it currently holds *client money* or *safe custody assets*, calculate the higher of the highest total amount of *client money* and the highest total value of *safe custody assets* held during the previous calendar year ending on 31 December and use that figure to determine its 'CASS firm type';
 - (b) if it did not hold *client money* or *safe custody assets* in the previous calendar year but projects that it will do so in the current calendar year, calculate the higher of the highest total amount of *client money* and the highest total value of *safe custody assets* that it projects that it will hold during that year and use that figure to determine its 'CASS firm type'; but
 - (c) in either case, exclude from its calculation any *client money* held in accordance with ■ CASS 5 (Client money: insurance distribution activity) or ■ CASS 13 (Claims management: client money).
- 1A.2.3 **R** 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 calendar year a *firm* must:
- (1) in complying with ■ CASS 1A.2.2R (2)(a), base its calculation upon internal reconciliations performed during the previous year;
 - (2) 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 assets* into sterling at the previous *day's* closing spot exchange rate; and

(3) in relation to *safe custody assets* only, calculate their total value using the previous *day's* closing mark to market valuation, or if in relation to a particular *safe custody asset* none is available, the most recent available valuation.

1A.2.4 G One of the consequences of ■ CASS 1A.2.2 R is that a *firm* that determines itself to be a *CASS small firm* or a *CASS medium firm* will, at least if it exceeds during the course of a calendar year either of the limits in ■ CASS 1A.2.7 R that applies to it, become in the next calendar year:

- (1) in the case of a *CASS small firm*, a *CASS medium firm* or a *CASS large firm*; and
- (2) in the case of a *CASS medium firm*, a *CASS large firm*.

1A.2.5 R (1) Notwithstanding ■ CASS 1A.2.2 R, provided that the conditions in (2) are satisfied a *firm* may elect to be treated:

- (a) as a *CASS medium firm*, in the case of a *firm* that is classed by the application of the limits in ■ CASS 1A.2.7 R as a *CASS small firm*; and
- (b) as a *CASS large firm*, in the case of a *firm* that is classed by the application of the limits in ■ CASS 1A.2.7 R as a *CASS medium firm*.

- (2) The conditions to which (1) refers are that in either case:
 - (a) the election is notified to the *FCA* in writing;
 - (b) the notification in accordance with (a) is made at least one week before the election is intended to take effect; and
 - (c) the *FCA* has not objected.

1A.2.6 G ■ CASS 1A.2.5 R provides a *firm* with the ability to opt in to a higher category of 'CASS firm type'. This may be useful for a *firm* whose holding of *client money* and *safe custody assets* is near the upper categorisation limit for a *CASS small firm* or a *CASS medium firm*.

1A.2.7 R CASS firm types

CASS firm type	Highest total amount of <i>client money</i> held during the <i>firm's</i> last calendar year or as the case may be that it projects that it will hold during the current calendar year	Highest total value of <i>safe custody assets</i> held by the <i>firm</i> during the <i>firm's</i> last calendar year or as the case may be that it projects that it will hold during the current calendar year
<i>CASS large firm</i>	more than £1 billion	more than £100 billion
<i>CASS medium firm</i>	an amount equal to or greater than £1 million and less than or equal to £1 billion	an amount equal to or greater than £10 million and less than or equal to £100 billion
<i>CASS small firm</i>	less than £1 million	less than £10 million

- 1A.2.8 **R** [deleted]
- 1A.2.8A **R** [deleted]
- 1A.2.9 **R** Once every calendar year a *firm* must notify to the *FCA* in writing the information specified in (1), (2) or (3) as applicable, and the information specified in (4), in each case no later than the *day* specified in (1) to (4):
- (1) if it held *client money* or *safe custody assets* in the previous calendar year, the highest total amount of *client money* and the highest total value of *safe custody assets* held during the previous calendar year, notification of which must be made no later than the fifteenth *business day* of January; or
 - (2) if it did not hold *client money* or *safe custody assets* in the previous calendar year but at any point up to the fifteenth *business day* of January the *firm* projects that it will do so in the current calendar year, the highest total amount of *client money* and the highest total value of *safe custody assets* that the *firm* projects that it will hold during the current calendar year, notification of which must be made no later than the fifteenth *business day* of January; or
 - (3) in any other case, the highest total amount of *client money* and the highest total value of *safe custody assets* that the *firm* projects that it will hold during the remainder of the current calendar year, notification of which must be made no later than the *business day* before the *firm* begins to hold *client money* or *safe custody assets*; and
 - (4) in every case, of its 'CASS firm type' classification, notification of which must be made at the same time the *firm* makes the notification under (1), (2) or (3).
- 1A.2.10 **R** For the purpose of the annual notification to which **■ CASS 1A.2.9 R** refers, a *firm* must apply the calculation *rule* in **■ CASS 1A.2.3 R**.
- 1A.2.11 **G** For the purpose of **■ CASS 1A.2.9 R** (1), the *FCA* will treat that obligation as satisfied if a *firm* submitted a *CMAR* for each period within the previous calendar year in compliance with **■ SUP 16.14.3 R**.
- 1A.2.12 **R** A *firm's* 'CASS firm type' and any change to it takes effect:
- (1) if the *firm* notifies the *FCA* in accordance with **■ CASS 1A.2.9 R** (1) or **■ CASS 1A.2.9 R** (2), on 1 February following the notification; or
 - (2) if the *firm* notifies the *FCA* in accordance with **■ CASS 1A.2.9 R** (3), on the *day* it begins to hold *client money* or *safe custody assets*; or
 - (3) if the *firm* makes an election under **■ CASS 1A.2.5 R** (1), and provided the conditions in **■ CASS 1A.2.5 R** (2) are satisfied, on the *day* the notification made under **■ CASS 1A.2.5 R** (2)(a) states that the election is intended to take effect.

1A.2.13

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Any written notification made to the *FCA* under this chapter should be marked for the attention of: "Client Assets Firm Classification".



1A.3 Responsibility for CASS operational oversight

- 1A.3.1** **R**
- (1) A CASS *small firm* must allocate to a single *director* or *senior manager* of sufficient skill and authority responsibility for:
 - (a) oversight of the *firm's* operational compliance with CASS; and
 - (b) reporting to the *firm's governing body* in respect of that oversight.
 - (2) A CASS *small firm* that is not an *SMCR firm* must make the allocation in (1) to a *director* or *senior manager* who is approved to perform a *significant influence function* for that *firm*.

[Note: article 7, first paragraph of the *MiFID Delegated Directive*]

- 1A.3.1-A** **G**
- The material in ■ CASS 1A.3.1BG about how ■ CASS 1A.3 fits into the *FCA* senior managers and certification regime for *SMCR firms* also applies to a CASS *small firm* that is an *SMCR firm* and the function in ■ CASS 1A.3.1R. However:
- (1) the function in ■ CASS 1A.3.1R is not a separate *FCA certification function*; and
 - (2) the *person* performing that function will not necessarily be subject to the employee certification regime described in ■ SYSC 27 (Senior managers and certification regime: Certification regime).

The approved persons regime and the certification regime

- 1A.3.1A** **R**
- A CASS *medium firm* and a CASS *large firm* must allocate to a single *director* or *senior manager* of sufficient skill and authority the function of:
- (1) oversight of the operational effectiveness of that *firm's* systems and controls that are designed to achieve compliance with CASS;
 - (2) reporting to the *firm's governing body* in respect of that oversight; and
 - (3) completing and submitting a *CMAR* to the *FCA* in accordance with ■ SUP 16.14.

[Note: article 7, first paragraph of the *MiFID Delegated Directive*]

1A.3.1B G

- (1) (a) ■ CASS 1A.3.1AR describes the *FCA controlled function* known as the *CASS operational oversight function* (CF10a). The table of *FCA controlled functions* in ■ SUP 10A.4.4R together with ■ SUP 10A.7.9R specify the *CASS operational oversight function* as an *FCA required function* for a *firm* to which ■ CASS 1A.3.1AR applies.
 - (b) The *CASS operational oversight function* does not apply to an *SMCR firm*. For an *SMCR firm*, the function in ■ CASS 1A.3.1AR is not a separate *controlled function* and performing that function does not require approval as an *approved person*. Paragraphs (1A) to (4) describe how ■ CASS 1A.3.1AR applies to *SMCR firms*.
 - (c) However, nothing in paragraphs (1A) to (4) affects the requirement for the function in ■ CASS 1A.3.1AR to be allocated to a single *director* or *senior manager* of sufficient skill and authority in accordance with ■ CASS 1A.3.1AR and ■ CASS 1A.3.2AR.
- (1A) There are three elements of the regime for *SMCR firms* that are particularly relevant to ■ CASS 1A, although they do not all apply to all *SMCR firms*:
- (a) a *firm's* obligation to allocate certain responsibilities to its *SMF managers* (see ■ SYSC 24 (Senior managers and certification regime: Allocation of prescribed responsibilities));
 - (b) a *firm's* obligation to ensure that one or more of its *SMF managers* have overall responsibility for each of its activities, business areas and management functions (see ■ SYSC 26 (Senior managers and certification regime: Overall and local responsibility)); and
 - (c) the certification regime (see ■ SYSC 27 (Senior managers and certification regime: Certification regime)).
- (2) (a) This paragraph (2) explains how ■ CASS 1A.3.1AR applies to an *SMCR firm* to which ■ SYSC 24 and ■ SYSC 26 both apply.
 - (b) The *firm* must allocate responsibility for the *firm's* compliance with CASS to one of its *SMF managers* (see ■ SYSC 24.2.1R). That responsibility is an "*FCA-prescribed senior management responsibility*". The full list of *FCA-prescribed senior management responsibilities* is in the table in ■ SYSC 24.2.6R.
 - (c) Although the CASS function in ■ SYSC 24.2.1R is different from the function in ■ CASS 1A.3.1AR, the *firm* may allocate the function in ■ CASS 1A.3.1AR to the *SMF manager* in (b).
 - (d) The *firm* may allocate the CASS *FCA-prescribed senior management responsibility* described in (b) to an *SMF manager* who does not perform any other function coming within the *FCA* regime for *SMF managers* in *SMCR firms*. See ■ SUP 10C.7 (Other overall responsibility function (SMF18)) and ■ SUP 10C.8.1R (Other local responsibility function (SMF22)) for details. Where this is the case, the manager will be performing the *other overall responsibility function* or the *other local responsibility function*.
 - (e) The *firm* may choose to allocate the function in ■ CASS 1A.3.1AR to someone who is not an *approved person* and *SMF manager*. If so:
 - (i) that *person* will be subject to the employee certification regime described in ■ SYSC 27 (Senior managers and certification regime: (Certification Regime));

- (ii) that *person* will be subject to supervision by the *SMF manager* in (b); and
 - (iii) the function in ■ CASS 1A.3.1AR will be the CASS oversight *FCA certification function* in ■ SYSC 27.8.1R.
- (3) In relation to an *SMCR firm* to which ■ SYSC 24 applies but ■ SYSC 26 does not apply, the *guidance* in sub-paragraphs (2)(b), (2)(c), and 2(e) applies, but the *guidance* in sub-paragraph (2)(d) does not apply.
- (4) (a) The position of an *SMCR firm* to which neither ■ SYSC 24 nor ■ SYSC 26 apply is slightly different.
- (b) The *firm* may choose to allocate the function in ■ CASS 1A.3.1AR to an *SMF manager*.
- (c) The *firm* may instead choose to allocate the function in ■ CASS 1A.3.1AR to someone who is not an *SMF manager*.
- (d) Where (c) applies, the *person* performing the function in ■ CASS 1A.3.1AR will fall into the certification regime. The function in ■ CASS 1A.3.1AR will be the CASS oversight *FCA certification function* in ■ SYSC 27.8.1R.

1A.3.1C

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If, at the time a *firm* that is not an *SMCR firm* becomes a *CASS medium firm* or a *CASS large firm* in accordance with ■ CASS 1A.2.12R(1) or ■ CASS 1A.2.12R(2), the *firm* is not able to comply with ■ CASS 1A.3.1A R because it has no *director* or *senior manager* who is an *approved person* in respect of the *CASS operational oversight function*, the *firm* must:

- (1) take the necessary steps to ensure that it complies with ■ CASS 1A.3.1A R as soon as practicable, which must at least include submitting an application for a *candidate* in respect of the *CASS operational oversight function* within 30 *business days* of the *firm* becoming a *CASS medium firm* or a *CASS large firm*; and
- (2) until such time as it is able to comply with ■ CASS 1A.3.1A R, allocate to a *director* performing a *significant influence function* or a *senior manager* performing a *significant influence function* responsibility for:
 - (a) oversight of the *firm's* operational compliance with CASS;
 - (b) reporting to the *firm's governing body* in respect of that oversight; and
 - (c) completing and submitting the *CMAR* to the *FCA* in accordance with ■ SUP 16.14.

1A.3.1D

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- (1) ■ CASS 1A.3.1CR provides a grace period for a *firm* that is not an *SMCR firm* to apply for someone to be approved to perform the *CASS operational oversight function*.
- (2) There is no equivalent to ■ CASS 1A.3.1CR for an *SMCR firm*, because a *person* does not need specific *FCA* approval before carrying out the function. This is explained in (3) to (5), below.
- (3) As explained in ■ CASS 1A.3.1BG(2), the function in ■ CASS 1A.3.1AR is not, by itself, a *controlled function*.

- (4) Therefore, if an *approved person* is to perform the function for an *SMCR firm*, it can be allocated to any *director* or *senior manager* who is already an *approved person* who is suitable to carry it out. However, if the *firm* wishes to allocate the function to someone as described in ■ CASS 1A.3.1BG(2)(d), it will need to get *FCA* approval before the *firm* appoints them.
- (5) If the function is to be carried out by a *certification employee*:
 - (a) *FCA* approval is not needed because performance of a role that falls into the certification regime does not require *FCA* approval;
 - (b) the *firm* should:
 - (i) either issue them with a certificate under ■ SYSC 27 (Senior managers and certification regime: Certification regime) before the *firm* becomes a *CASS medium firm* or a *CASS large firm*; or
 - (ii) give the function to a suitable *approved person* pending issue of the certificate.

1A.3.2 R [deleted]

1A.3.2A R Where a *firm* allocates the responsibilities in ■ CASS 1A.3.1R or ■ CASS 1A.3.1AR (“the CASS oversight responsibilities”) to a *director* or *senior manager* (“P”), the *firm* must not allocate any other responsibilities to P in addition to the CASS oversight responsibilities, unless the *firm* is satisfied on reasonable grounds that:

- (1) P will still be able to discharge the CASS oversight responsibilities effectively; and
- (2) the *firm’s* full compliance with CASS will not be compromised.

[Note: article 7, second paragraph of the *MiFID Delegated Directive*]

1A.3.2B R A *firm* may allow the CASS oversight responsibilities to be shared amongst one or more *directors* or *senior managers* where this is done as part of a job share between those *persons*.

- 1A.3.3 R
- (1) Subject to (2), a *firm* must make and retain an appropriate record of the *person* to whom responsibility is allocated in accordance with ■ CASS 1A.3.1 R, ■ CASS 1A.3.1A R or ■ CASS 1A.3.1C R (2).
 - (2) A *CASS small firm* must make and retain such a record only where it allocates responsibility to a *person* other than the *person* in that *firm* who performs the *compliance oversight function*.
 - (3) A *firm* must ensure that the record made under this *rule* is retained for a period of five years after it is made.