

Chapter 5

Client money: insurance distribution activity

Segregation of designated investments: permitted investments, general principles and conditions (This Annex belongs to ■ CASS 5.5.14 R)

1 The general principles which must be followed when client money segregation includes designated investments:

- (a) there must be a suitable spread of investments;
- (b) investments must be made in accordance with an appropriate liquidity strategy;
- (c) the investments must be in accordance with an appropriate credit risk policy;
- (d) any foreign exchange risks must be prudently managed.

2 Table of permitted designated investments for the purpose of CASS 5.5.14 R (1).

Investment type	Qualification
1. Negotiable <i>debt security</i> (including a certificate of deposit)	(a) Remaining term to maturity of 5 years or less; and (b) The issuer or <i>investment</i> must have a short-term credit rating of A1 by Standard and Poor's, or P1 by Moody's Investor Services, or F1 by Fitch if the instrument has a remaining term to maturity of 366 days or less; or a minimum long term credit rating of AA- by Standards and Poor's, or Aa3 by Moody's Investor Services or AA- by Fitch if the instrument has a term to maturity of more than 366 days.
2. A <i>repo</i> in relation to negotiable <i>debt security</i>	As for 1 above and where the credit rating of the counterparty also meets the criteria in 1.
3. Bond funds	(a) An <i>authorised fund</i> or a <i>recognised scheme</i> or an investment company which is registered by the Securities and Exchange Commission of the United States of America under the Investment Company Act 1940; (b) A minimum credit rating and risk rating of Aaf and S2 respectively by Standard and Poor's or Aa and MR2 respectively by Moody's Investor Services or AA and V2 respectively by Fitch.
4. Money market fund	(a) An <i>authorised fund</i> or a <i>recognised scheme</i> ; (b) A minimum credit and risk rating of Aaa and MR1+ respectively by Moody's Investor Services or AAAM by Standard and Poor's or AAA and V1+ respectively by Fitch.
5. <i>Derivatives</i>	Only for the purpose of prudently managing foreign currency risks.

3 The general conditions which must be satisfied in the segregation of *designated investments* are:

- (a) any redemption of an *investment* must be by payment into the *firm's client money* bank account;
- (b) where the credit or risk rating of a *designated investment* falls below the minimum set out in the Table, the *firm* must dispose of the *investment* as soon as possible and in any event not later than 20 *business days* following the downgrade;
- (c) where any *investment* or issuer has more than one rating, the lowest shall apply.