Powers exercised

A. The Financial Services Authority makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 ("the Act"):

(1) section 59 (Approved persons);
(2) section 138 (General rule-making power);
(3) section 139 (Miscellaneous ancillary matters);
(4) section 156 (General supplementary powers); and
(5) section 157(1) (Guidance).

B. The rule-making powers listed above are specified for the purpose of section 153(2) (Rule-making instruments) of the Act.

Commencement

C. This instrument comes into force as follows:

(3) Part 3 of Annex B and Part 1 of Annex C comes into force on 1 June 2011; and

Amendments to the Handbook

D. The modules of the FSA’s Handbook of rules and guidance listed in column (1) below are amended in accordance with the Annexes to this instrument listed in column (2).

<table>
<thead>
<tr>
<th>(1)</th>
<th>(2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Glossary of definitions</td>
<td>Annex A</td>
</tr>
<tr>
<td>Client Assets sourcebook (CASS)</td>
<td>Annex B</td>
</tr>
<tr>
<td>Supervision manual (SUP)</td>
<td>Annex C</td>
</tr>
</tbody>
</table>

Citation

E. This instrument may be cited as the Client Assets Sourcebook (Enhancement) Instrument 2010.

By order of the Board
13 October 2010
Annex A

Amendments to the Glossary of definitions

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

Part 1: Comes into force on 1 January 2011

Insert the following new definitions in the appropriate alphabetical position. The text is not underlined.

*CASS large firm* has the meaning in CASS 1A.2.7R (CASS firm types).

*CASS medium firm* has the meaning in CASS 1A.2.7R (CASS firm types).

*CASS small firm* has the meaning in CASS 1A.2.7R (CASS firm types).

*CMAR* a Client Money and Asset Return, containing the information specified in *SUP* 16 Annex 29R.

Part 2: Comes into force on 1 March 2011

Insert the following new definitions in the appropriate alphabetical position. The text is not underlined.

*prime brokerage agreement* an agreement between a *prime brokerage firm* and a *client* for *prime brokerage services*.

*prime brokerage firm* a *firm* that provides *prime brokerage services* to a *client* and which may do so acting as *principal*.

*prime brokerage services* a package of services provided under a *prime brokerage agreement* which gives a *prime brokerage firm* a right to use *safe custody assets* for its own account and which comprises each of the following:

(a) *custody or arranging safeguarding and administration of assets*;

(b) clearing services; and

(c) financing, the provision of which includes one or more of the following:

(i) capital introduction;

(ii) margin financing;

(iii) *stock lending*.
(iv) stock borrowing;

(v) entering into repurchase or reverse repurchase transactions;

and which, in addition, may comprise consolidated reporting and other operational support.

Part 3: Comes into force on 1 October 2011

Insert the following new definition in the appropriate alphabetical position. The text is not underlined.

*CASS operational oversight function* controlled function CF10a in the *table of controlled functions*, described more fully in *SUP 10.7.9R*. 
Annex B

Amendments to the Client Assets sourcebook (CASS)

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

Part 1: Comes into force on 1 January 2011

After CASS 1 insert the following new chapter. The text is not underlined.

1A CASS firm classification and operational oversight

1A.1 Application

1A.1.1 R (1) 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 mediation 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.

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.2.7R. The ‘CASS firm type’ within which a firm falls is also used to determine the reporting obligations that apply to it in SUP 16.14 (Client money and asset return).

1A.2.2 R (1) A firm must once every year, and within the time limit provided for by CASS 1A.2.9R, 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.2.7R.

(2) For the purpose of determining its ‘CASS firm type’ in accordance with CASS 1A.2.7R, 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 \textit{client money} and the highest total value of \textit{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 \textit{client money} held in accordance with CASS 5 (Client money: insurance mediation activity).

1A.2.3 R For the purpose of calculating the value of the total amounts of \textit{client money} and \textit{safe custody assets} that it holds on any given \textit{day} during a calendar year a \textit{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 \textit{client money} or \textit{safe custody assets} denominated in a currency other than sterling, translate the value of that \textit{money} or that \textit{safe custody asset} into sterling at the previous day’s closing spot exchange rate; and

(3) in relation to \textit{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 \textit{safe custody asset} none is available, the most recent available valuation.

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

(1) in the case of a \textit{CASS small firm}, a \textit{CASS medium firm} or a \textit{CASS large firm}; and

(2) in the case of a \textit{CASS medium firm}, a \textit{CASS large firm}.

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

(a) as a \textit{CASS medium firm}, in the case of a \textit{firm} that is classed by the application of the limits in CASS 1A.2.7R as a \textit{CASS small firm}; and

(b) as a \textit{CASS large firm}, in the case of a \textit{firm} that is classed by the application of the limits in CASS 1A.2.7R as a \textit{CASS medium firm}.

(2) The conditions to which (1) refers are that in either case:

(a) the election is made by including it in the notice to the FSA provided under CASS 1A.2.8R or CASS 1A.2.9R;
(b) it is given at least one week before the election is intended to take effect; and

(c) the FSA has not objected.

1A.2.6 G CASS 1A.2.5R 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

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

1A.2.8 R In relation to the calendar year ending on 31 December 2011, a firm must notify the FSA in writing:

(1) by 31 January 2011 of the highest total amount of client money and the highest total value of safe custody assets held during the previous calendar year, if it held client money or safe custody assets in that previous year; or

(2) by 31 January 2011 of 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 2011, if it did not hold client money or safe custody assets in the previous calendar year but at the date of its notification to the FSA projects that it will do so in 2011; or

(3) in any other case, before the date on which the firm begins to hold client money or safe custody assets, of 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 2011; and

(4) in every case, of its ‘CASS firm type’ classification.
1A.2.9 R  In relation to each calendar year beginning with that which ends on 31 December 2012, a firm must notify the FSA in writing:

(1) within 15 business days of 31 December of the previous calendar year, of the highest total amount of client money and the highest total value of safe custody assets held during the previous calendar year, if it held client money or safe custody assets in that previous calendar year; or

(2) within 15 business days of 31 December of the previous year, of 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 then current calendar year, if it did not hold client money or safe custody assets in the previous calendar year but at the date of its notification to the FSA projects that it will do so in the then current calendar year; or

(3) in any other case, before the date on which the firm begins to hold client money or safe custody assets, of 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 then current calendar year; and

(4) in every case, of its ‘CASS firm type’ classification.

1A.2.10 R  For the purpose of the annual notification to which CASS 1A.2.8R and CASS 1A.2.9R refer, a firm must apply the calculation rule in CASS 1A.2.3R.

1A.2.11 G  For the purpose of CASS 1A.2.9R(1), the FSA will treat that obligation as satisfied if a firm submits a CMAR for the period or month ending 31 December in compliance with SUP 16.14.5R.

1A.3 Responsibility for CASS operational oversight

1A.3.1 R  A firm must allocate to a director performing a significant influence function or a senior manager performing a significant influence function responsibility for:

(1) oversight of the firm’s operational 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 FSA in accordance with SUP 16.14.

1A.3.2 R  A CASS large firm and a CASS medium firm must not later than 31 January 2011 notify the FSA in writing of the identity of the person to whom responsibility has been allocated in accordance with CASS 1A.3.1R or,
where CASS 1A.2.8R(3) applies, before the date on which that firm begins to hold client money or safe custody assets.

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.3.1R.

(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.

…

Sch 1 Record keeping requirements

…

Sch 1.3 G

<table>
<thead>
<tr>
<th>Handbook reference</th>
<th>Subject of record</th>
<th>Contents of record</th>
<th>When record must be made</th>
<th>Retention period</th>
</tr>
</thead>
<tbody>
<tr>
<td>CASS 1A.3.3R</td>
<td>Allocation of the CASS oversight responsibilities in CASS 1A.3.1R</td>
<td>The person to whom the CASS oversight responsibilities have been allocated, subject to the provisions of CASS 1A.3.3R</td>
<td>Upon allocation</td>
<td>5 years (from the date the record was made)</td>
</tr>
</tbody>
</table>

…

…

Sch 2 Notification requirements

Sch 2.1 G

<table>
<thead>
<tr>
<th>Handbook reference</th>
<th>Matter to be notified</th>
<th>Contents of notification</th>
<th>Trigger event</th>
<th>Time allowed</th>
</tr>
</thead>
<tbody>
<tr>
<td>CASS 1A.2.5R</td>
<td>Election to be treated as a CASS medium firm or a CASS large firm</td>
<td>The fact of that election</td>
<td>The fact of that election</td>
<td>To be made at least one week before the election intended to take effect</td>
</tr>
<tr>
<td>FSA 2010/52</td>
<td></td>
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</tr>
<tr>
<td>CASS 1A.2.8R(1) - (3)</td>
<td><strong>The highest total amount of client money and the highest total value of safe custody assets held by a firm, as more fully described in CASS 1A.2.8R.</strong></td>
<td><strong>The highest total amount of client money and safe custody assets held by a firm, as more fully described in CASS 1A.2.8R.</strong></td>
<td><strong>The coming into force of CASS 1A.2.8R.</strong></td>
<td><strong>31 January 2011 unless contrary provision is made in CASS 1A.2.8R.</strong></td>
</tr>
<tr>
<td>CASS 1A.2.8R(4)</td>
<td><strong>A firm’s ‘CASS firm type’ classification</strong></td>
<td><strong>A firm’s ‘CASS firm type’ classification</strong></td>
<td><strong>The coming into force of CASS 1A.2.8R.</strong></td>
<td><strong>31 January 2011 unless contrary provision is made in CASS 1A.2.8R.</strong></td>
</tr>
<tr>
<td>CASS 1A.2.9R(1) - (3)</td>
<td><strong>The highest total amount of client money and the highest total value of safe custody assets held by a firm, as more fully described in CASS 1A.2.9R.</strong></td>
<td><strong>The highest total amount of client money and safe custody assets held by a firm, as more fully described in CASS 1A.2.9R.</strong></td>
<td><strong>The need to comply with CASS 1A.2.9R(1) - (3).</strong></td>
<td><strong>Within 15 business days from the end of December of the previous calendar year unless contrary provision is made in CASS 1A.2.9R.</strong></td>
</tr>
<tr>
<td>CASS 1A.2.9R(4)</td>
<td><strong>A firm’s ‘CASS firm type’ classification</strong></td>
<td><strong>A firm’s ‘CASS firm type’ classification</strong></td>
<td><strong>The need to comply with CASS 1A.2.9R(4).</strong></td>
<td><strong>Within 15 business days from the end of December of the previous calendar year unless contrary provision is made in CASS 1A.2.9R.</strong></td>
</tr>
<tr>
<td>CASS 1A.3.2R</td>
<td><strong>The person to whom the responsibilities in CASS 1A.3.1R have</strong></td>
<td><strong>The name of the person</strong></td>
<td><strong>Upon allocation</strong></td>
<td><strong>Until 31 January 2011</strong></td>
</tr>
</tbody>
</table>
been allocated

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Part 2:  
Comes into force on 1 March 2011

3 Collateral

...  

3.1.8  
A prime brokerage firm is reminded of the additional obligations in CASS 9.3.1R which apply to prime brokerage agreements.

...  

6 Custody rules

6.1 Application

...  

Prime brokerage agreements

6.1.9A  
A prime brokerage firm is reminded of the additional obligations in CASS 9.3.1R which apply to prime brokerage agreements.

...  

6.3 Depositing assets and arranging for assets to be deposited with third parties

...  

6.3.3  
A firm should consider carefully the terms of its agreements with third parties with which it will deposit safe custody assets belonging to a client. The following terms are examples of the issues firms should address in this agreement:

...  

(4) the restrictions over the third party's right to claim a lien, right of retention or sale over any safe custody asset standing to the credit of the account. [deleted]

...  

6.3.5  
Subject to CASS 6.3.6R, in relation to a third party with which a firm
deposits safe custody assets belonging to a client, a firm must ensure that the agreement with that third party relating to the custody of those assets does not include the grant to that third party, or to any other person, of a lien or a right of retention or sale over the safe custody assets, or a right of set-off over any client money derived from those safe custody assets.

6.3.6 R A firm may conclude an agreement with a third party relating to the custody of safe custody assets which does confer on that third party, or on another person, a lien, right of retention or sale, or right of set-off in favour of that third party or that other person if and only if that lien or right:

(1) is confined to an individual client’s safe custody assets or client money and extends only to that third party’s (or a sub-custodian’s, where a sub-custodian is appointed by that third party) properly incurred charges and liabilities arising from the provision of custody services to that client; or

(2) arises under the operating terms of a securities depository, securities settlement system or central counterparty in whose books or accounts a client’s client money or safe custody assets is or are recorded or held, and provided that it does so for the purpose only of facilitating the settlement of that client’s trades; or

(3) arises in relation to a client’s safe custody assets or client money held in a jurisdiction outside the United Kingdom provided that:

(a) it does so as a result of local applicable law or as a necessary precondition for participation in a local market; and

(b) the firm has taken reasonable steps to determine that holding those assets or that money subject to such a lien or right is in the best interests of that client.

...

6.5.2A R A firm must keep a copy of every executed client agreement that includes that firm’s right to use safe custody assets for its own account, including in the case of a prime brokerage agreement the disclosure annex referred to in CASS 9.3.1R.

...

After CASS 8 insert the following new chapter. The text is not underlined.

9 Prime brokerage

9.1 Application

9.1.1 R This chapter applies to a firm:
(1) to which CASS 6 (Custody rules) applies; and

(2) which is a prime brokerage firm.

9.2 Prime broker’s daily report to clients

9.2.1 R (1) A firm must make available to each of its clients to whom it provides prime brokerage services a statement in a durable medium:

(a) showing the value at the close of each business day of the items in (3); and

(b) detailing any other matters which that firm considers are necessary to ensure that a client has up-to-date and accurate information about the amount of client money and the value of safe custody assets held by that firm for it.

(2) The statement must be made available to those clients not later than the close of the next business day to which it relates.

(3) The statement must include:

(a) the total value of safe custody assets and the total amount of client money held by that prime brokerage firm for a client;

(b) the cash value of each of the following:

(i) Cash loans made to that client and accrued interest;

(ii) securities to be redelivered by that client under open short positions entered into on behalf of that client;

(iii) current settlement amount to be paid by that client under any futures contracts;

(iv) short sale cash proceeds held by the firm in respect of short positions entered into on behalf of that client;

(v) cash margin held by the firm in respect of open futures contracts entered into on behalf of that client;

(vi) mark-to-market close-out exposure of any OTC transaction entered into on behalf of that client secured by safe custody assets or client money;

(vii) total secured obligations of that client against the
prime brokerage firm; and

(viii) all other safe custody assets held for that client.

(c) total collateral held by the firm in respect of secured transactions entered into under a prime brokerage agreement, including where the firm has exercised a right of use in respect of that client’s safe custody assets;

(d) the location of all of a client’s safe custody assets, including assets held with a sub-custodian; and

(e) a list of all the institutions at which the firm holds or may hold client money, including money held in client bank accounts and client transaction accounts.

9.3 Prime brokerage agreement disclosure annex

9.3.1 R (1) A firm must ensure that every prime brokerage agreement that includes its right to use safe custody assets for its own account includes a disclosure annex.

(2) A firm must ensure that the disclosure annex sets out a summary of the key provisions within the prime brokerage agreement permitting the use of safe custody assets, including:

(a) the contractual limit, if any, on the safe custody assets which a prime brokerage firm is permitted to use;

(b) all related contractual definitions upon which that limit is based;

(c) a list of numbered references to the provisions within that prime brokerage agreement which permit the firm to use the safe custody assets; and

(d) a statement of the key risks to that client’s safe custody assets if they are used by the firm, including but not limited to the risks to the safe custody assets on the failure of the firm.

(3) A firm must ensure that it sends to the client in question an updated disclosure annex if the terms of the prime brokerage agreement are amended after completion of that agreement such that the original disclosure annex no longer accurately records the key provisions of the amended agreement.

9.3.2 G (1) Principle 10 (Clients’ assets) requires a firm to arrange adequate protection for clients’ assets when it is responsible for them. As part of these protections, the custody rules require a firm to take appropriate steps to protect safe custody assets for which it is
responsible.

(2) A prime brokerage firm should not enter into “right to use arrangements” for a client’s safe custody assets unless the person to whom the responsibilities set out in CASS 1A.3.1R have been allocated and each of the firm’s managers who are responsible for those safe custody assets are satisfied that the firm has adequate systems and controls to discharge its obligations under Principle 10 which include:

(a) the daily reporting obligation in CASS 9.2.1R; and

(b) the record-keeping obligations in CASS 6.5.

TP 1  Transitional Provisions

...

TP 1.1

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td></td>
<td>CASS 6.3.5R</td>
<td>R</td>
<td>The rule listed in column (2) does not apply in relation to agreements executed before 1 March 2011.</td>
<td>1 March 2011 until 1 October 2011</td>
<td>1 March 2011</td>
</tr>
</tbody>
</table>

...

Sch 1  Record keeping requirements

...

Sch 1.3 G

<table>
<thead>
<tr>
<th>Handbook reference</th>
<th>Subject of record</th>
<th>Contents of record</th>
<th>When record must be made</th>
<th>Retention period</th>
</tr>
</thead>
</table>
6.5.2AR

Client agreements that include a firm’s right to use safe custody assets for its own account

A copy of every executed client agreement that includes a firm’s right to use safe custody assets for its own account

Maintain up-to-date records

5 years (from the date the record was made)

Part 3: Comes into force on 1 June 2011

7.4 Segregation of client money

... 7.4.9A R A firm must limit the funds that it deposits or holds with a relevant group entity or combination of such entities so that those funds do not at any point in time exceed 20 per cent of the balance on:

(1) all of its general client bank accounts considered in aggregate;

(2) each of its designated client bank accounts; and

(3) each of its designated client fund accounts.

7.4.9B R For the purpose of CASS 7.4.9AR an entity is a relevant group entity if it is:

(1) a BCD credit institution, a bank authorised in a third country, a qualifying money market fund, or the entity operating or managing a qualifying money market fund; and

(2) a member of the same group as that firm.

7.4.9C G The rules in SUP 16.14 provide that a firm must report to the FSA in relation to the identity of the entities with which it deposits client money and the amounts of client money deposited with them. The FSA will use that information to monitor compliance with the diversification rule in CASS 7.4.9AR.
Part 4: Comes into force on 1 October 2011

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.2.7R. 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.3.1AR and the reporting obligations that apply to it in SUP 16.14 (Client money and asset return).

1A.3 Responsibility for CASS operational oversight

1A.3.1 R A CASS small firm must allocate to a director performing a significant influence function or a senior manager performing a significant influence function responsibility for:

(1) oversight of the firm’s operational 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 FSA in accordance with SUP 16.14.

CF10a: the CASS operational oversight function

1A.3.1A R A CASS medium firm and a CASS large firm must allocate to a director or senior manager 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 FSA in accordance with SUP 16.14.

1A.3.1B G CASS 1A.3.1AR describes the controlled function known as the CASS operational oversight function. The table of controlled functions in SUP 10.4.5R together with SUP 10.7.9R specify the CASS operational oversight function as a required function for a firm to which CASS 1A.3.1AR applies.

1A.3.2 R A CASS large firm and a CASS medium firm must not later than 31 January 2011 notify the FSA in writing of the identity of the person to whom responsibility has been allocated in accordance with CASS 1A.3.1AR or, where CASS 1A.2.8R(3) applies, before the date on which that firm begins to
hold client money or safe custody assets. [deleted]

1A.3.3 R (1) Subject to (2), a firm must make and retain an appropriate record of the person to whom the responsibility or function is allocated in accordance with CASS 1A.3.1R or CASS 1A.3.1AR.

(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.

9.3 Prime brokerage agreement disclosure annex

9.3.2 G (1) …

(2) A prime brokerage firm should not enter into “right to use arrangements” for a client’s safe custody assets unless:

…

(a) in the case of a CASS small firm, the person in that firm to whom the responsibilities set out in CASS 1A.3.1R have been allocated; or

(b) in the case of any other firm, the person who carries out the CASS operational oversight function; and

(c) and each of the those of that firm’s managers who are responsible for those safe custody assets;

are each satisfied that the firm has adequate systems and controls to discharge its obligations under Principle 10 which include:

(i) the daily reporting obligation in CASS 9.2.1R; and

(ii) the record-keeping obligations in CASS 6.5.
Sch 1  Record keeping requirements

...  

Sch 1.3G

<table>
<thead>
<tr>
<th>Handbook reference</th>
<th>Subject of record</th>
<th>Contents of record</th>
<th>When record must be made</th>
<th>Retention period</th>
</tr>
</thead>
<tbody>
<tr>
<td>CASS 1A.3.3R</td>
<td>Allocation of the CASS oversight responsibilities in CASS 1A.3.1R or of the CASS operational oversight function, as relevant</td>
<td>The person to whom the CASS oversight responsibilities have been allocated, subject to the provisions of CASS 1A.3.3R₂ or to whom the CASS operational oversight function has been allocated in accordance with CASS 1A.3.1AR</td>
<td>Upon allocation</td>
<td>5 years (from the date the record was made)</td>
</tr>
</tbody>
</table>

...
Annex C

Amendments to the Supervision manual (SUP)

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

Part 1: Comes into force on 1 June 2011

16 Reporting requirements

... 

16.1.2 G The only categories of firm to which no section of this chapter applies are:

(1) an ICVC;

(2) an incoming EEA firm or incoming Treaty firm, unless it is:

(a) a firm of a type listed in SUP 16.1.3 R as a type of firm to which SUP 16.6, SUP 16.7, SUP 16.9 or SUP 16.12, or SUP 16.14 applies; or

... 

16.1.3 R Application of different sections of SUP 16

<table>
<thead>
<tr>
<th>(1) Section(s)</th>
<th>(2) Categories of firm to which section applies</th>
<th>(3) Applicable rules and guidance</th>
</tr>
</thead>
<tbody>
<tr>
<td>...</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SUP 16.14</td>
<td>A firm with permission to conduct MiFID business or, to the extent that any business is not MiFID business, designated investment business, except for those categories of firm which are excluded by SUP 16.14.2R,</td>
<td>Entire section</td>
</tr>
<tr>
<td>...</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

16.3.2 G This chapter has been split into the following sections, covering: 

...
After SUP 16.13 insert the following new section. The text is not underlined.

16.14 **Client money and asset return**

**Application**

16.14.1 Except as provided for in **SUP 16.14.2**, this section applies to a **firm** with permission to conduct **MiFID business** or, to the extent that any business is not **MiFID business**, designated investment business.

16.14.2 This section does not apply to a **firm** that falls into any of the following categories:

1. The **firm** is:
   (1) an ICVC;
   (2) a UCITS qualifier;
   (3) an incoming EEA firm but this exclusion only applies with respect to its passported activities;
   (4) an authorised professional firm but this exclusion only applies with respect to its non-mainstream professional activities; or
   (5) an insurer unless it is a long-term insurer which is also a MiFID investment firm.

2. The firm’s permission prevents it from holding safe custody assets and:
   (a) the firm is an authorised professional firm and it complies with the requirements in CASS 7.1.15R in respect of any money received or held by it that falls into CASS 7.1.1R; or
   (b) the firm’s permission prevents it from holding client money in relation to either:
      (i) all the activities in SUP 16.14.1R for which it has permission; or
      (ii) all the activities in (i) except for insurance mediation activities in relation to life policies but in
this case this exclusion only applies if the firm has validly elected to act in accordance with CASS 5 (Client money: insurance mediation activity) in relation to its client money.

(3) The firm’s permission prevents it from holding client money and it meets the following conditions:

(a) it acts as the operator of a regulated collective investment scheme or it is a personal investment firm; and

(b) either it holds no safe custody assets or all the safe custody assets that it holds are exempt from CASS 6 (Custody rules) due to CASS 6.1.16BR (Operators of regulated collective investment schemes) or CASS 6.1.16CR (Personal investment firms).

16.14.3 R The exclusions in SUP 16.4.2R only apply to a firm with respect to the obligation to submit a particular CMAR if it meets the conditions for the whole of the period that would have been covered by that CMAR and for the period up to the date by which the CMAR would otherwise have had to be submitted.

Purpose

16.14.4 G The purpose of the rules and guidance in this section is to ensure that the FSA receives regular and comprehensive information from a firm which is able to hold client money and safe custody assets on behalf of its clients.

Report

16.14.5 R (1) A CASS large firm and a CASS medium firm must submit a completed CMAR to the FSA within 15 business days of the end of each month.

(2) A CASS small firm must submit a completed CMAR to the FSA within 15 business days of the conclusion of each six month period ending on 30 June and 31 December.

(3) In SUP 16.14.5R month means a calendar month and SUP 16.3.13R(4) does not apply.

16.14.6 R For the purposes of the CMAR:

(1) client money is that to which the client money rules in CASS 7 apply; and

(2) safe custody assets are those to which the custody rules in CASS 6 apply.

16.14.7 G For the avoidance of doubt, the effect of SUP 16.14.6R(1) is that any client money held in accordance with CASS 5 is to be excluded from any
calculations which the CMAR requires.

16.14.8 G Nil returns are required for reporting in this section. In other words, if this section applies to a firm but it does not hold client money to which the client money rules in CASS 7 apply then it should still complete the CMAR. It should report that it does not hold client money. The same applies to safe custody assets under CASS 6.

…

After SUP 16 Annex 28BG insert the following new annex. The text is not underlined.

16 Annex 29R Client Money and Asset Return (CMAR)

This annex consists only of one or more forms. Forms are to be found through the following address:

Client Money and Asset Return: [insert link to form included below]

see next page
Section 1 – Firm information
For further guidance please go to section 0 and validation at section 9
Please ensure all monetary values are entered in GBP thousands (000's): (£1000 =1)

1a) Firm Name
1b) FSA firm reference number
1c) Reporting Period End Date
1d) What is your reporting frequency?
1e) Name of CASS audit firm
1f) Name of CASS audit firm (if Other was selected above)
1g) Does the firm hold Client Money?
1h) Does the firm safeguard and administer custody assets?
1i) Are you subject to the CFTC Part 30 Exemption Order?

Alternative Approach:
1j) Do you operate the Alternative Approach? (CASS 7.4.14G)
1k) Has the Alternative Approach been signed off by your auditors (as detailed in CASS 7.4.15R)?

Overview of firm's activities subject to CASS
1l) Please complete the table below with all business types undertaken for segregated clients

<table>
<thead>
<tr>
<th>Type of Business Activity</th>
<th>Number of clients</th>
<th>Balance of Client Money as at reporting period end date</th>
<th>Value of Custody Assets as at reporting period end date</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Section 2 - Balances
Please ensure all monetary values are entered in GBP thousands (000's): (£1000 =1)
CASS – Client Money and Client Asset balances
Firms are reminded that this form should not be completed for client money subject to CASS 5
Please provide the following information:

2a) Highest Client Money balance during this reporting period:
2b) Lowest Client Money balance during this reporting period:
2c) Highest value of Custody Assets held during this reporting period:
2d) Lowest value of Custody Assets held during this reporting period:

Provision of the above figures does not have any immediate effect on your categorisation. Any re-assessment of a firm's categorisation will normally take place on an annual basis, based on year end data.

Section 3a – Segregation of Client Money
Please ensure all monetary values are entered in GBP thousands (000's): (£1000 =1)
Firms are reminded that this form should not be completed for client money subject to CASS 5
Where the firm holds client money as at reporting period end date

<table>
<thead>
<tr>
<th>Type - Select from drop down box</th>
<th>Institution where client money held</th>
<th>Client Money Balances</th>
<th>Country of incorporation of the institution (select from list)</th>
<th>Is this a group entity?</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Total: 0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Section 3b – Segregation of Safe Custody Assets
Please ensure all monetary values are entered in GBP thousands (000's): (£1000 =1)
Where the firm holds safe custody assets as at reporting period end date

<table>
<thead>
<tr>
<th>Where &amp; How Held? - Select from drop down box?</th>
<th>Name of Institution</th>
<th>Number of lines of stock</th>
<th>Value of Assets as at reporting period end date</th>
<th>Country of incorporation of the institution (select from list)</th>
<th>Is this a group entity?</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Section 4 - Client Money Requirement and Resource
Please ensure all monetary values are entered in GBP thousands (000's): (£1000 =1)

Client Money Requirement and Resource

- CASS 7 Annex 1G
  - Enter Amount

4a) Client Money Requirement
   of which:

4ai) Unallocated to individual clients but identified as client money
4aii) Unidentified client money in client money bank accounts
4aiii) Uncleared payments e.g. unpresented cheques sent to clients
4aiiv) Excess cash in segregated accounts

4b) Client Money resource
   : Money Requirement v Resource
   (Autocalc: 4a – 4b)

4bi) Any adjustments made to withdraw an excess or rectify a deficit identified as a result of an internal reconciliation?

Section 5a – Safe Custody Asset Reconciliations
Please ensure all monetary values are entered in GBP thousands (000's): (£1000 =1)

Safe Custody Asset unreconciled items

<table>
<thead>
<tr>
<th>Method</th>
<th>Frequency</th>
<th>Type of custody asset</th>
<th>Frequency (if ‘g’ is Other )</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Section 5b - Client money reconciliations
Please ensure all monetary values are entered in GBP thousands (000's): (£1000 =1)

Client money reconciliations

<table>
<thead>
<tr>
<th>Type</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>5a) Client Money Internal Reconciliation</td>
<td></td>
</tr>
<tr>
<td>5b) Frequency (if Other was selected above)</td>
<td></td>
</tr>
<tr>
<td>5c) Client Money External reconciliation</td>
<td></td>
</tr>
<tr>
<td>5d) Frequency (if Other was selected above)</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Client Money unreconciled items</th>
<th>6-29 days</th>
<th>30-59 days</th>
<th>60-90 days</th>
<th>90+ days</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Enter number of unreconciled items even if it is 0
Section 6 - Record Keeping & Breaches

Record Keeping

| Type of Account: | Total number of accounts held at beginning of reporting period | Number of new accounts opened during the reporting period | Number of accounts closed during the reporting period | Total number of accounts at the end of the reporting period | Number of trust status letters and/or acknowledgement letters in place which cover these accounts | Explanation of Discrepancies. |
|-----------------|---------------------------------------------------------------|----------------------------------------------------------|------------------------------------------------------|-------------------------------------------------------------|----------------------------------------------------------------------------------|
| 6a) Client Bank Account | | | | | | |
| 6b) Client Transaction Account | | | | | | |

(Enter values even if 0) TOTAL:

Breaches

6c) Has the firm reported any of the following notifiable breaches?

Must be completed either Yes or No

Custody Asset Notification requirements (CASS 6.5.13R)

6d) Has the firm complied with the requirements in CASS 6.5.1R, 6.5.2R and 6.5.6R?

Must be completed if 6c is Yes

6e) Following reconciliation, is the firm able to comply with the requirements in CASS 6.5.10R without material differences?

Must be completed if 6c is Yes

Client Money Notification Requirements CASS 7.6.16R)

6f) Has the firm complied with the requirements in CASS 7.6.1R, 7.6.2R and 7.6.9R?

Must be completed if 6c is Yes

6g) Following reconciliation, is the firm able to comply with the requirements in CASS 7.6.13R and 7.6.15R without material differences?

Must be completed if 6c is Yes

6h) Are there any other CASS matters you wish to draw to our attention?

Section 7 - Does the firm outsource and/or offshore any of your client money and/or custody asset operations?

<table>
<thead>
<tr>
<th>Who do you outsource and/or offshore these operations to? (name of entity)</th>
<th>What function of your CASS operations do you outsource and/or offshore?</th>
<th>Location of outsourcer/TPA</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Are there any significant changes being made or planned changes being considered to the firms existing outsourcing arrangements? Please provide the detail of any such consideration:
TP 1  Transitional Provisions

... 

TP 1.2

<table>
<thead>
<tr>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
<th>(5)</th>
<th>(6)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Material to which the transitional provision applies</td>
<td>Transitional Provision</td>
<td>Transitional provision: dates in force</td>
<td>Handbook provisions: coming into force</td>
<td></td>
</tr>
<tr>
<td>...</td>
<td>...</td>
<td>...</td>
<td>...</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>13B</td>
<td>SUP 16.14.5R(2)</td>
<td>R</td>
<td>In the case of a CASS small firm with a reporting period ending on 30 June 2011, that period begins on 1 June 2011</td>
<td>1 June 2011 until 30 June 2011</td>
<td>1 June 2011</td>
</tr>
</tbody>
</table>

... 

Sch 2  Notification requirements

... 

Sch 2.2 G

<table>
<thead>
<tr>
<th>Handbook reference</th>
<th>Matter to be notified</th>
<th>Contents of notification</th>
<th>Trigger event</th>
<th>Time allowed</th>
</tr>
</thead>
<tbody>
<tr>
<td>...</td>
<td>...</td>
<td>...</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>SUP 16.13.3 D to SUP 16.13.4 D</td>
<td>...</td>
<td>...</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>SUP 16.14.5R</td>
<td>CMAR</td>
<td>The items listed in the form contained in SUP 16 Annex 29R</td>
<td>For CASS large firms and CASS medium firms, the end of each month. For CASS small firms, the conclusion of each six month</td>
<td>For CASS large firms and CASS medium firms, within 15 business days of the end of each month. For CASS small firms, within 15...</td>
</tr>
</tbody>
</table>
Part 2: Comes into force on 1 October 2011

10.4 Specification of functions

... 

10.4.5 R Controlled functions

<table>
<thead>
<tr>
<th>Type</th>
<th>CF</th>
<th>Description of controlled function</th>
</tr>
</thead>
<tbody>
<tr>
<td>...</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Required functions*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>...</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10a</td>
<td>CF10a</td>
<td>CASS operational oversight function</td>
</tr>
<tr>
<td>...</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

... 

10.7 Required functions

... 

CASS operational oversight function (CF10a)

10.7.9 G [deleted] In relation to a CASS medium firm and a CASS large firm, the
R CASS operational oversight function is the function of acting in the capacity
of a person to whom is allocated the function set out in CASS 1A.3.1AR.