

Good Governance

A Key Aspect of CASS Compliance



About AutoRek

AutoRek is an award-winning global provider of financial controls and reporting software.

Authors of the world leading reconciliation solution (called AutoRek®), our suite of solutions also incorporate a range of products to help companies perfect their financial controls landscape, including:

- **Compliance and regulatory reporting solutions (including CASS, FATCA/CRS and MiFID II)**
- **Automated cash allocations**
- **High-volume data migration**
- **Balance sheet certification/account attestation**
- **Improving financial close processes**

Our solutions are purpose-built to improve the quality and efficiency of financial data management, from cost reduction and process efficiency projects, to improving adherence to regulatory reporting requirements.

For more information please visit www.AutoRek.com or call us on **+44 (0) 845 603 3613**.

About Rosediem Consulting Limited ("Rosediem")

Rosediem are market leading advisors specialising in CASS. In addition, they also offer a broad range of services in relation to COBS (Conduct of Business), Wholesale Conduct, SYSC (Senior Management Systems and Controls), Outsourcing, Operational Risk Management, Regulatory Change, EMIR, MiFID II, Governance and Training.

Rosediem's subject matter experts have worked with a wide range of firms, including asset managers, investment banks, broker dealers and wealth managers, and have assisted these firms across many disciplines including compliance with the CASS rules.

Rosediem guarantee technical expertise that is both pragmatic and tailored to your business needs. A fact that is evident from their reputation and history of successful client engagements.

Rosediem's team experience stems from many years of practical experience and multi-disciplinary work. As a boutique firm they also work collaboratively with other consultancy firms and law firms.

Should any of Rosediem's services be of interest, or if you have any specific requirements you would like to explore with Rosediem, they would love to hear from you.

To find out more, please visit their website, www.rosediem.com, or send an email to: mail@rosediem.com.

Good Governance: The Key to CASS Compliance

Why does it matter?

In today's regulatory environment governance and culture are two buzz words that pack a punch. Whilst these are key areas of criticism in almost every public enforcement case, these are also terms at risk of becoming industry hyperbole.

The risk stems from the fact that few firms or consultants with their 'solutionising' (sic) ways can - explain what good governance looks like, or provide a tangible solution. This lack of clarity in the market, exists even before the myriad of CASS arrangements have been added to the equation.

Having worked with a many firms in the CASS space we believe that without the right CASS governance and oversight framework in place it is very difficult to achieve CASS compliance. Most firms with CASS failings painfully resolve their issues only to find more problems down the line, despite all the costs and resources that they would have dedicated to resolving the initial failings. Often this is due to the lack of focus on building a sustainability framework that is forward looking, rather than incident driven.

Firefighting

Whilst the above sentiment is a reality, most firms cannot help but focus on the now, given the environment that most financial services firms find themselves in. Perhaps the greatest 'catch-22' is that the daily firefighting comes at the opportunity cost of building a better model which would reduce the need for constant firefighting in the first place. Despite this, there is no hiding behind the fact that without a well thought out CASS governance framework there cannot be CASS compliance. The Financial Conduct Authority ("FCA") themselves say that inadequate senior management oversight and control was often the underlying cause of more serious CASS breaches.

We believe that as well as achieving a more CASS compliant environment, a robust governance framework makes good business sense. It allows decision making to take a commercial stance and also allows for effective risk management, being one of the key components of business growth and profitability. It sounds too good to be true but with our approach and thinking, regulation can make business sense!



Personal accountability

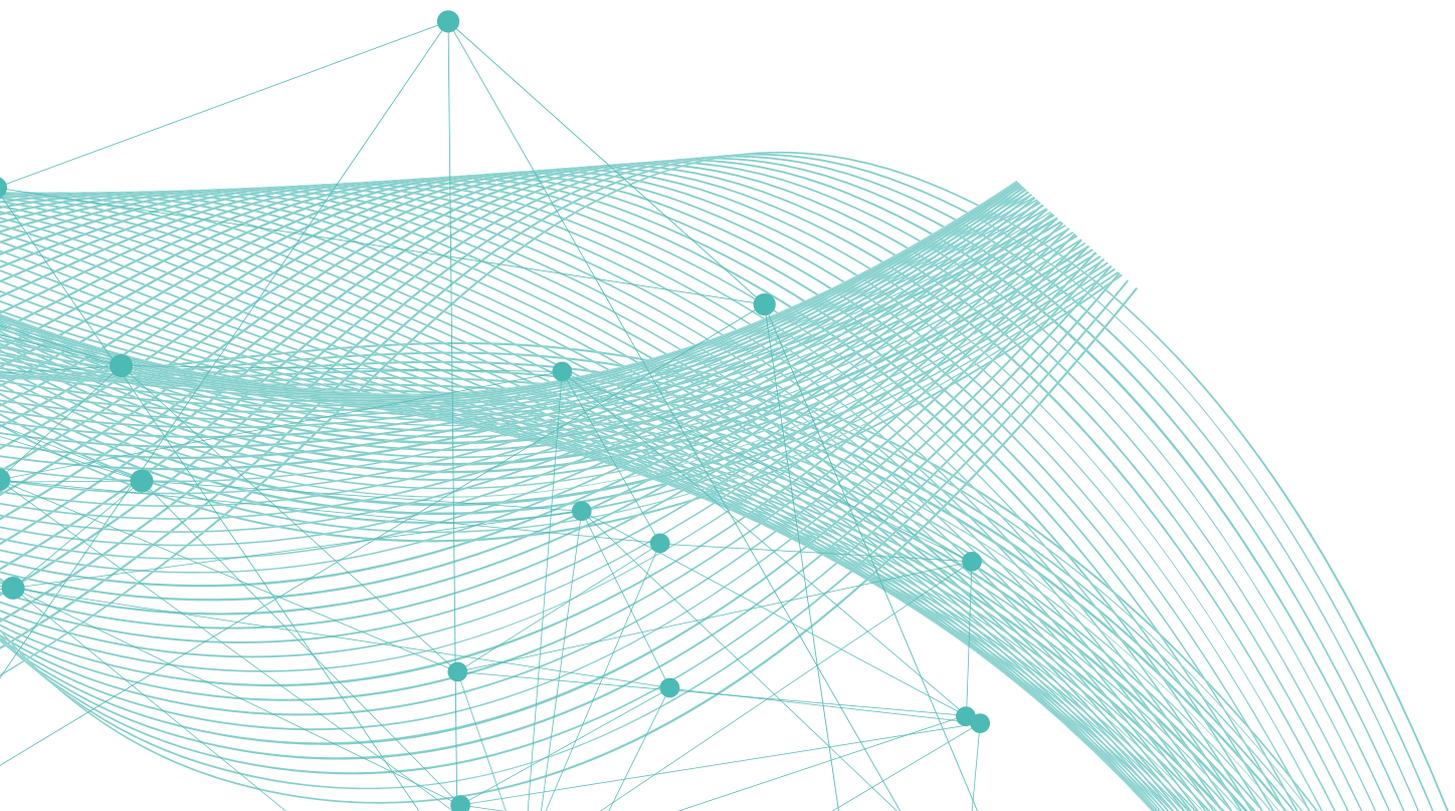
A tight focus on the daily processes that underpin much of CASS, i.e. the 'daily ticking and bashing' of reconciliations and updating records and registers, is necessary for a firm to keep in compliance with CASS. However, by focusing solely on this at the expense of other organisational arrangements and governance processes, senior management including CF10a's can often be left in a position where they are unable to evidence clear lines of sight, or illustrate how their authority has been delegated across the firms for which they are responsible, and how CASS compliance is embedded within their firm's wider culture. This is now a tangible issue given the FCA's increased focus on personal accountability of individuals for their actions and the actions of their firms.

We believe that in order to operate a robust CASS governance and oversight framework there is a need for documented roles and responsibilities to be mapped to CASS processes and controls. The CF10a is not the only one responsible for CASS, as CASS sits as a Board responsibility, and also branches across most of an organisation's functions. Therefore, responsibility and accountability backed up with actual direction should form part of every job description. Essentially it comes down to a working model where there is effective discharge of responsibility at every level.

Tougher CASS audits

Another factor to consider is the Financial Reporting Council's ("FRC's") publication of their new audit standards, for CASS audits. These standards came into force for auditors and CASS firms for periods beginning on, or after, 1 January 2016. Within the new standards, the FRC have instructed auditors that governance and culture at CASS firms should be scrutinised and tested along with the more traditional route of testing operational compliance with the rules. In addition, audit firms will expect that governance arrangements and CASS processes are mapped to the rules to allow for effective risk management of CASS.

We believe that in order to meet what auditors will require going forward, firms should seek to have one tool that maps into a firm's overall CASS governance framework. In order to demonstrate effective oversight, the tool needs to cover: (i) CASS rules mapped to CASS processes; (ii) CASS roles and responsibilities mapped to CASS processes; (iii) CASS controls mapped to CASS processes; and (iv) CASS risks mapped to CASS processes and controls. As if this was not complicated enough, any governance tool will need to be 'living and breathing' such that firms can proactively and effectively manage CASS risk and start to make decisions that are simultaneously congruent to both a more compliant business and a more commercial business.



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We remain committed
to holding individuals to
account where they fail
to meet our standards.

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Statement from the FCA following the
announcement by HM Treasury of changes to the
Senior Managers Regime. Extract from speech by
Tracey McDermott, acting Chief Executive of the
FCA (15/10/2015)

Source:

<https://www.fca.org.uk/news/hm-treasury-changes-to-the-senior-managers-regime>

The importance of centralised processes and controls and clear roles and responsibilities

In light of the FCA's ever increasing focus of ensuring individual accountability within firms, it is as important as ever, for the Board, the CF10a and for senior management as a whole to have in place a robust CASS governance framework and also ensure that they are setting the right 'tone at the top' within their organisation.

For CASS medium and large firms, where a CF10a has been nominated to perform the CASS oversight function, it is important to remember that the role of the CF10a does not reduce the scope of compliance and wider senior management responsibilities in this area. Whilst understanding and documenting roles and responsibilities is important, given the significant personal accountability at all levels of an organisation, ensuring that there is a method in which to effectively discharge responsibility is also key.

As well as clearly articulating roles and responsibilities firms must have in place robust CASS governance arrangements and detailed management information in order to provide assurance to senior management that the firm's CASS risks are adequately evaluated, monitored and mitigated through documented processes, controls, policies and procedures.

All of the above is often difficult to manage in practice. Consequently, effective tools need to be in place to both manage and evidence effective discharge of responsibility at all levels, particularly as the CF10a function needs to have and be able to demonstrate clear 'lines of sight' into activities not directly under

their remit. As well as having access to information and resources as needed, the CF10a needs to also be able to form a view on the effectiveness of their firm's current arrangements and also have the ability to effect change, where standards are not met.

Typically, this means firms need to recognise that CASS is not just Operations focused but includes Front Office, Business Managers, Legal, IT, Network Management, Client Services and Compliance. For senior management and staff within a firm this also requires recognition of their CASS responsibilities.

By documenting these individual CASS responsibilities, firms can ensure that critical interdependencies across different functional areas are understood and handover risks can be suitably managed. Furthermore, full documentation should lead to each accountable function having a complete list of their own key processes and controls which they must perform in order to fulfil their CASS responsibilities.

In addition to solely defining the accountable and responsible individuals or functions for a given CASS activity, it is also beneficial to include functions that should be either consulted or informed in order to achieve optimal solutions within the governance framework. In this way staff are reminded of the expertise that resides within their own firms and also understand where handover points exist.

Within any governance model there needs to be a recognition that CASS compliance should be considered at all stages of the product, service and client lifecycles for the full scope of CASS.

Effective risk management using ‘tangible’ governance tools

When reference is made to the governance and culture of an organisation it can often be hard to visualise a clear picture of what the regulator’s expectations are, and as managers, what needs to be done to build a model that is sustainable within your organisation.

One way of achieving this is to consider risks to good governance, as it is often easier to shape solutions for sustainability by thinking about the underlying factors that would cause an issue. Based on what we have seen in the industry and amongst our clients, key KRI’s to consider are shown in figure 1.

| Scope | Senior Management Focus | Management Information & Reporting | Processes & Procedures |
|---|---|--|--|
| Lack of clear understanding of where CASS impacts business and where client assets are held | Senior management not able to articulate control framework for CASS (across all applicable functions) | Lack of CASS focussed MI and lack of escalation or positive assurance | Training not evidenced and/or not adequate |
| Off shoring and outsourcing – completeness and unclear oversight arrangements | Complex matrix management structures – regional, global or multiple teams | Poor MI leads to poor decision making and inadequate tools for CASS committees | Processes and controls not documented alongside roles and responsibilities |
| Legal entity focus between group firms and the relationships with service providers | Lack of evidence of escalation and robust challenge by management & no level 1 proactive self-testing | CMAR and CASS RP errors | No inventory of risks or active management of risks against a framework |
| Jurisdictional considerations and contractual impacts | Responsibilities not formally allocated/ documented and no effective discharge of responsibility | No Internal Audit/ Compliance monitoring or review points not actioned | Change management controls not clear |

Figure 1: The matrix lists out fundamental risks to good governance categorised into four key areas that we have experienced across the industry and our clients.

By considering the above factors managers and firms can establish whether they have sufficient safeguards and controls in place to ensure that their governance structures are fit for purpose and address their firm's CASS risks appropriately. In our experience firms often fail to capture this knowledge within their formal governance framework arrangements opting for pure graphical representations, flowcharts and 'Visio' diagrams, of how responsibilities are shared and how process flows operate.

While these traditional methods of documenting processes and controls have their merit, they have a tendency to quickly turn stale once created, only being 'wheeled out' during audits and compliance reviews. The inert nature of such documents, and the fact that they only map the state of arrangements at the point in time of their construction, means that they are very difficult to integrate into an active governance framework where effective risk management is key.

For effective risk management a 'live' process is required. Ideally any inventory of processes and controls should link in to the firm's roles and responsibilities framework and in turn form the blueprint for the governance framework and on-going CASS risk evaluation.

Once established with the help of CASS subject matter experts, the tool can be used to assist appraisal of CASS governance and individual performance across a firm's entire controls framework. As well as providing a centralised view of actual CASS breaches, and perhaps

more powerfully, this framework will also assist operational staff in escalating control weaknesses early which will enable risks to be understood and / or mitigated. Early escalation will also enable management to make measured decisions when it comes to the allocation of budgets and resource. Ultimately this will help in avoiding firefighting so that risks can be managed effectively with a commercial mind-set.

For example

If a firm's external reconciliation is comprised of three separate distinct controls, one of which is fully automated and two of which are manual in nature, a good governance tool would enable operational staff to clearly articulate the risks associated with the manual processes so that senior management can take an informed decision to either:

- (i) risk accept them;**
- (ii) plan for enhancement in the future;**
- (iii) or invest in an enhanced automation immediately.**

A reactive (rather than a proactive) governance tool would just let management know whether or not a rule breach had occurred, and as such senior management may not be aware of the underlying CASS control risk they are running within the business that they are responsible for.

Other factors for good governance

The following, 'Governance Wheel' provides a graphical representation of what we deem to be the most critical elements of good CASS governance.



Figure 2: The 'Governance Wheel' illustrates the key areas firms need to consider in order for them to be in a strong position with regards to their CASS governance structures and control environments.

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Today I would like to speak about culture and governance, but mostly culture. Culture is in danger of becoming a buzz term, an integrated ideal of good governance, regulatory compliance and fair process. Intangible, theoretical, in danger of becoming merely regulatory, and yet another catchphrase, it cannot be bought, nor sold.....Yet there is value in culture and without it there is cost, as we have seen in recent years.

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Speech by Mark Steward, Director of Enforcement and Market Oversight at the FCA, London, 11 November 2015.

An overarching control framework is key to CASS compliance. Firms need to fully operationalise a robust control environment, with clearly defined accountability, responsibility and escalation. The robust control and management of financial and regulatory data is an essential component to mitigating risk and ensuring on going CASS compliance. As governance models are designed and implemented, firms need to ensure that data flowing through their organisation is valid, complete and accurate. Creating a 'golden source' of data by amalgamating, consolidating and validating different data sources from different systems is paramount to ensuring data integrity. Accurate and reliable management information is a pre-requisite to each segment of the governance wheel.

A good governance framework should consist of a 'living and breathing' mechanism to link together: CASS rules; CASS processes; CASS controls; CASS roles and responsibilities; and CASS risk. Other key areas firms should have in place, and be able to evidence to their auditors and the FCA are:

- A clear program of activities planned to remediate ongoing issues and manage firms ongoing CASS responsibilities.
- A strong thought out documented approach to breach escalation and incident management including the considerations they make when ascertaining whether breaches require immediate notification to the FCA or not.
- Well thought out CASS MI that is meaningful, real time and shows continuation from one month to the next.
- Healthy relations with individual supervisors at the regulator, in order to foster a mutually beneficial level of interaction and transparency.
- Robust review processes across all three lines of defence within an organisation:
- Level 2 and 3 Compliance Monitoring and Internal Audit coverage of CASS.
- A clear level 1 review and challenge approach that does not just rely on other reviews. The firm's governance tool can be used to frame and shape any such level 1 review.
- A strong CASS operational training programme that includes classroom based training for key personal as well as more generic online training. Training should also include annual Board and senior management CASS awareness sessions.

The danger of 'sticking plaster solutions'

The unfortunate modern day reality is that often compliance issues have to occur for senior management to allocate budget and resources to CASS issues. This often leads to expensive remediation projects being launched to plug perceived gaps which often fail to provide ongoing benefits.

Whilst it is right and correct that focus should be given to remediate areas of known non-compliance swiftly, a more commercial outcome can be achieved through building a proactive governance approach which minimises the need for last minute reaction and unnecessary pain.

A well thought out governance model has many facets but all of these facets should come together and should integrate into a common usable framework such that any tools used do not become stale.

A proactive model will mean that:

- **The firm can demonstrate confidence to the regulator and its auditors and perhaps avoid intervention such as S166 reviews.**
- **CASS control risks can be identified and understood which is more powerful than simply having a framework to react to breaches.**
- **Once CASS control risks are understood and well-articulated these can aid with effective risk management whereby risk tolerance can be determined by the firm and the firm can avoid being caught out.**
- **A CASS risk model can be used to frame testing and review within all lines of defence within a firm and will avoid the need for cumbersome point in time full scope reviews.**
- **Accountable individuals at all levels, the Board and the CF10a can demonstrate effective discharge of their responsibilities and more importantly maintain an audit trail to demonstrate how this has been achieved.**
- **CASS rules, processes and controls will be mapped to the firm's governance framework which will be key under the new external audit standards going forward.**



How can Rosediem help?

As trusted advisors to your peer organisation we can help you improve your approach to CASS governance, as well as work with you on a whole range of technical issues across UK financial regulation. The below are some key examples of areas of CASS where we can assist:

CF10a Governance and framework tools

We regularly work with CF10a's to review and enhance governance arrangements. We recognise that arrangements need to be tailored to each individual firm and that CASS governance can be extremely complex.

We can help to review existing arrangements and provide guidance on best practice. Our deliverable can be provided as a formal report which can be shared with other parties.

We can also design oversight tools (such as roles and responsibilities matrices), committee structures and management information. Our tried and tested governance tool provides a map of all CASS rules, processes, controls and risks. The tool also provides a clear mechanism for discharging responsibility amongst all functions, reporting up to the CF10a and ultimately to the Board.

CASS Health Checks

Targeted CASS reviews depending on your specific requirements and objectives. For example, review of the client money calculation; or a review of products and services mapping out CASS scope and applicability.

End-to-end CASS Design Reviews

A specifically scoped end-to-end design review where we will use our technical knowledge along with market awareness to review and evaluate CASS compliance and the design of processes and controls within your organisation. This can cover all of CASS or a specific area such as the banking exemption.

What do we know?

Hopefully this paper has provided some well received insights on what firms need to do in order to manage CASS risk and build a robust CASS governance structure. If you would like to talk further about this topic, or anything else CASS related, we would be happy to hear from you. We have helped a broad range of firms to navigate these issues and achieve pragmatic solutions to these regulatory requirements.

CASS Audits

We can supply ex BIG4 auditors to assist with your annual CASS audit. This can include ad-hoc assistance as well as more tailored assistance such as prepping staff and/or assisting with interpreting and confirming audit findings prior to the final report being issued; and

Testing scripts for QA level one testing programs

In order to support any form of level 1 review, we can work with your firm to establish strong testing scripts which can be used within your own testing program. We can also provide direct audit experience and a CASS SME lens to ensure the design of any test is fit for purpose.

CASS operational training & Board awareness sessions

We are able to provide interactive and tailored classroom training for all CASS purposes and for all levels of staff, depending upon your firm's requirements. This includes operational training and Board awareness sessions. We can also provide assistance by acting in the capacity of subject matter experts on your CASS Committees, and Operations Committees and Executive Committees.

Contact Rosediem

For more information or for a no obligation, confidential briefing on the latest developments and themes arising in the area of CASS compliance, please contact us at:

✉ mail@rosdiem.com

☎ +44 (0)793 032 3758

🌐 www.rosdiem.com/our-services.html

How can AutoRek Help?

AutoRek enables an automated control regime to be put in place, with the necessary transparency of data, good governance and comprehensive audit trails to ensure on going CASS compliance. Key components include:

Constant activity

AutoRek's CASS solution is a real time system designed to be 'always on', and so allows instant and real time management control and reporting.

Sourcing data

AutoRek can source any data in any format from any source, which gives the advantage of speed to implementation. As soon as new data is available, AutoRek loads and verifies the data, rolls the reconciliation forward, matching, analysing and reporting the transactions, both for client assets and client money.

Intra-day reconciliation

Existing customers use our software to perform frequent intra-day reconciliations allowing them to:

- **Identify intra-day shortfalls;**
- **Release funding that is no longer required; and**
- **Spot and remediate breaches caused by counterparties, agents, service provider and of course the firm itself.**

Once completed the reconciliation and supported data are persisted in the system for use by the system analytics.

Root-cause analysis

AutoRek not only performs reconciliations but also performs root-cause analysis on the causes of breaks and exceptions. This root cause analysis is then available for long term review and to perform highly accurate automatic calculation of, for example, prudent segregation top up requirements.

Workflow

AutoRek's system of alerts and notifications allows the escalation of breaks and exceptions, so that issues can be identified and captured before they become breaches. Configurable workflow and case management functionality supports the resolution of issues efficiently and effectively, guiding users through the necessary steps to resolve breaks and exceptions.

In summary, our rapidly implementable and scalable solution allows firms to streamline the collection, reconciliation and reporting processes for client assets and client money. This in turn allows firms to spend more time understanding the impacts of terms of business and client behaviours, together with ensuring on going CASS compliance.

Detailed analytics

AutoRek comes with a full suite of reporting and analytic tools which allow the analysis of any data gathered into the system or recorded in the audit trail. This data will typically be persisted for several years to facilitate audit and analysis. The analysis tools have the full range of charts, tables, RAG statuses and other graphical means to present the data in easy-to-understand formats. Senior management can therefore have visibility of performance and common issues, facilitating the monitoring and optimisation of CASS control processes.

CMAR and CASS RP

Detailed reporting includes automated production of CMAR and the ongoing maintenance of the CASS RP, the advantage being that all documentation and supporting data can be held in one place.

Real time update of other systems

AutoRek's solution can also be used as an accounting or settlement engine, taking internal data or data third parties, including custodians and counterparties, and using it to automatically update your core settlement and custody systems in real time. This allows real time and intra-day accounting and reporting and prevents breaches caused by human error.

Audit trail

Each action undertaken in AutoRek is recorded and date stamped. This comprehensive audit trail is of particular importance, not just for rectifying errors, but also for demonstrating to auditors and the FCA that a robust control regime is in place and operating effectively.

Contact AutoRek

To arrange a client money demonstration or a confidential discussion to explore our methodology and credentials, please contact us:

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