

Regulatory Bulletin: Hot topics for the Year Ahead



A MASSIVE HAPPY NEW YEAR from everyone at Rosediem. We wish you a happy and healthy 2018.

2017 was an exciting year for Rosediem. Our firm underwent a re-branding exercise and succeeded in developing several new valuable client relationships which we look forward to developing further in the near future.

The firm has a fantastic new website where clients or other interested parties can go to obtain free downloads of our “Thought Leadership Papers”; and access our news feeds and blogs page for up to date information on what is going on.

2018 here we go!

This year has started with a bang for those involved in financial services regulation with MiFID II going live on 3 January 2018.

Within this bulletin, we discuss what Rosediem envisages will be some of the CASS hot topics for the year ahead and how these can be best

approached by building upon the lessons learnt in 2017.

2017 continued to be a challenging year in the regulatory space with firms continuing to face challenges from both business as usual and new regulation. Whilst we can't ever see a time where there will not be a regulatory challenge to solve, 2018 could be the year where you make your operating model as efficient as possible with a true understanding of risk management.

More stringent controls based CASS audits

2017 was the year when most of our clients experienced their first CASS audit under the new FRC standards. Generally, firms experienced more stringent audits with a higher level of breaches being reported due to the newly scoped in control failings.

To meet the audit requirement most firms have managed to create a spreadsheet based controls and processes mapping. Whilst this is a large step forward, our clients are now saying that the next step is to think about a system solution for housing all this great work. Far too often we see Excel and Visio documents gathering dust. A good solution should allow for the data to remain dynamic and should not just be about mapping CASS rules to controls. The solution should link into the heightened responsibility requirements underpinned by the new Senior Managers regime, create better governance,



and generate meaningful MI allowing for effective risk management.

Rosediem's System Solution to CASS Rules Mapping

We have recently partnered with the software firm, Axiom HQ, to automate our existing CASS RACI product and create industry standard content. This new development offers firms a comprehensive system solution for mapping processes and controls to the CASS rules.

The CASS rules are sourced directly from the FCA and as such remain up to date with any changes. The Rosediem content has been designed to ensure completeness but also to ensure that roles and responsibility hierarchies can be managed effectively (useful for SMCR as well as CASS). The tool can also be used to generate powerful MI using Axiom HQ's capabilities and our framework.

For further information on this exciting development please get in touch via our website or using the contact information at the end of this bulletin.

The impact of MiFID II

Following the introduction of MiFID II and the need to maintain a single handbook, there have been several incidental changes to CASS, which effect all CASS firms whether they conduct MiFID business or not. In addition, many firms have been advised that there are no MiFID II changes that weren't already implemented as part of PS14/9.

In our experience, these factors have created a potential for organizations to overlook some of the changes that may have impacted them.

How Rosediem can help

For a summary of key areas of CASS affected by MiFID II, please see our "Thought Leadership Paper" at www.rosediem.com/downloads.html or contact us for more information.

Rosediem can help in this area by providing both advice on what is required, and by providing assistance with the operational implementation of controls and policies.

Preparing for the extension of SM&CR to non-banking entities

In July 2017, the FCA published CP17/25 which sets out its proposed requirements for the extension of the SM&CR framework to all solo-regulated firms. At the end of the year the FCA published two further CP's in this area. CP17/40 and CP17/41 set out how the FCA intends to transition firms to the new regime and CP17/42 consults on the concept of the Duty of Responsibility.

Within these documents the FCA states that they envisage the changeover from the approved persons' regime to SM&CR will take place in late 2018 for insurance firms and mid 2019 for all other firms already not captured by the new regime.

How Rosediem can help

For more information please see our "Thought Leadership Paper", available for free download at www.rosediem.com/downloads.html or contact us directly.



Having worked with Banking entities when they were transitioned onto the regime, Rosediem are well placed to assist firms with their own transition to the SM&CR regime.

Despite the 2019 deadline, we are advising all our non-banking clients subject to these new rules to start preparing now as there are organisational changes and personnel impacts to potentially consider which may require some up-front planning.

We are happy to conduct a briefing at your firm if this is of interest to you.

Key areas to look at in 2018

Within our client base we come across many different challenges faced by firms when it comes to CASS compliance. Notwithstanding this, in a lot of cases we generally see common themes which we feel can be beneficial to understand as an industry. Using this insight, the following examples are key areas that we feel firms should consider reviewing in 2018:

Health checks: This is something we say every year but please remember that the FCA expects firms to self-review and challenge their own arrangements. This work should be a combination of internal level one reviews, Compliance Monitoring reviews and Internal Audit reviews. Positive assurance is key and attestations alone will not demonstrate that you have tested your operating environment. If you haven't had an external expert review in some time this is probably the year to consider commissioning one with a consultant of your choice.

If you do commission an external review please remember that scope is key...do not ask for a full

CASS review without understanding the limitations of what you are getting. It is far better to carve out a measured and achievable scope to cover areas as appropriate over a period of time.

Intercompany and third party contractual arrangements:

This theme is one that comes up time and time again but no one is clear how to resolve the issues that they face. Please ask for more information if required but key issues we see are:

- No agreements in place or legacy agreements which do not cover the current arrangements
- No central understanding of arrangements
- No centralised repository
- No terms in the agreements which would allow for continued service in a resolution situation

Risk management across all three lines of defense:

Hopefully your firm now has a complete and accurate risk register. The key for this year is to make this operational across all three lines of defense. We would also advise using this tool to make review work as efficient as possible. If you are not sure how to do this, please get in touch.

Mandates: Mandates continue to be a challenging area and generally most issues, as small as they may seem, will lead to a CASS 8 breach, so please think about the following areas:

- The scope of mandates across your products and services
- Historic mandate records
- The adequacy of fields in your mandates register
- The mandates on-boarding process



CASS Resolution Pack: The FCA's specialist team is still in place and intends to carry out a number of CASS RP reviews so please make sure that your CASS RP is adequately maintained and kept up to date. We recommend:

- Performing or commissioning a readiness test to ensure that the RP can be accessed and items can be called back within the required timescales
- Performing or commissioning a CASS 10 compliance review of the RP contents
- Creating an internal procedure and process to map out which functions own each element of the RP, in order to dynamically confirm accuracy and ownership of underlying data

Treatment of breaks and how these are recorded: This may sound like a basic area that is part of business as usual but we came across a number of firms that had not changed their processes in line with PS14/9 and the new record keeping requirements. Please be sure that you have this covered as it was an easy area to miss.

The client money calculation, books and records and adjustments on the client money calculation: In line with our prediction at the start of the 2017, this area is set to remain an area of intense focus from audit firms. A number of firms have not considered these business as usual elements for some time and are therefore not where they should be in terms of ensuring compliance.

Intra-day risk: Lots of firms continue to face challenges in this area, both due to internal processes and also due to the way that market settlement works. With MiFID II changes the challenge from auditors is likely to increase. Firms will need to consider both controls and

prudent segregation methods to deal with these risks. Please get in touch for a more in-depth discussion if this is a challenge you are trying to resolve.

Client disclosures: Recently we have worked with a number of clients where legal agreements are not fully compliant or up to best practice standards. In a lot of cases we have found that this is because legal updates have been standalone without considering the operating model in full. We are very happy to work with firms or their law firms in reviewing and ensuring that legal agreements are compliant. We are also able to help draft tailored disclosures.

Oversight and outsourcing: We do not expect the focus on outsourcing to go away in 2018 as the market tightens up due to lessons learnt. The question now is how to ensure a compliant model and achieve a balanced oversight model. Where possible we are trying to influence the industry in this space so please do get in touch so that we may share insights.

Potential impacts following Brexit & other unpredictable events

As we start to unravel what Brexit may mean for the regulatory and corporate infrastructure, 2018 will no doubt bring other changes to both UK and European legislation which will continue to impact UK firms in the interim.

As the country proceeds in preparing for Brexit, international firms may well be considering alterations to their infrastructure. Whilst these considerations may not always obviously impact a firm's compliance with the FCA's rules, like all business change processes, it is important that prior to any operational changes being made,



the full regulatory consequences are worked through and understood. This is especially key in this period where we work under one regime which may alter at some point in the future.

Contacts

As we embark upon 2018, we once again would like to thank all our friends and colleagues in the industry for their continued support and the opportunities that they bring to us.

If you would like to discuss any of the issues raised in this paper further, or would like to discuss any area of the FCA's conduct rules or your own operational model, please get in touch directly by email or by leaving a message on our website.

www.rosediem.com



Nisha Madhvani Sanghani
CEO & Managing Director

nisha.madhvani@rosediem.com

07930 323 758



Joseph Wood
Senior Manager

joseph.wood@rosediem.com

07837 294 397