

Mr M Babington
Acting Director of UK Auditing Standards and Competition
AAT@frc.org.uk

27 September 2019

Our response to your consultation on changes to the CASS assurance standards

Dear Mr Babington,

We write to you in response to the FRC's consultation on the proposed changes to the CASS assurance standards (the standards) published 1 August 2019.

In 2010 the TA Forum was established to provide a centre of excellence for the Transfer Agency industry. Our members are recognised leaders in Third Party Transfer Agency services, Platforms and large Fund Managers, with in house services representing approximately 95% of Transfer Agents in the UK and processing over 8 million transactions per year across a wide spectrum of clients ranging from UK institutions to retail customers.

As the majority of our members are primarily Third Party Administrators ('TPAs') for asset management firms who hold client money or assets, our members play an important and resource intensive role in the CASS audit process. This is especially true where firms outsource the majority of their CASS-relevant administration responsibilities to our members. Our response is focussed on the aspects of the changes that are relevant to our members as TPAs.

Our feedback

With reference to the numbered sections in the proposed standards our feedback is below.

37. Reporting breaches to the FCA

We request some clarity on the intention of the additional text and would request you to consider adding further guidance, into the standards, to avoid differing and unintended interpretations by CASS auditors.

If the purpose of the update was to clarify for readers of the standards that auditors are required to report all breaches regardless of size to the FCA, and therefore justifying why firms should do the same in their own breach register, then the original wording was fine.

- Is the intention of removing words from the first sentence to indicate that it is no longer a requirement for the CASS auditor to report breaches identified by the firm? Or are you removing this as it is stated elsewhere?
- Is the new text expecting auditors to assess if the firm has systems in place to identify **all** breaches?

Cont 1/3...

Cont 2/3...

- What opportunity on the report would firms have to respond if the auditor could not provide the assurance on breach completeness to the FCA? There may be a valid reason why a breach was not recorded by the firm at the time e.g. it is only upon receipt of new information during the audit that was unavailable at the time or after a change in industry thinking that it is considered a breach.
- Could complete assurance on this aspect ever be provided where the auditor or the FCA has identified a breach that the firm has not? In other words, lack of completeness would be self-evident to the FCA if there were any auditor identified breaches on the report. Or is this additional assurance only necessary when there are no auditor or FCA identified breaches on the report?
- Or is this expecting auditors to assess the completeness and integrity of the systems/logs used to record breaches e.g. through substantive testing (data in = data out)?

Although we are not certain of the intention of the new text this change could have a moderate impact on TA Forum member firms. Our members' clients would want their TPAs to be able to demonstrate to them that their TPA would be able to meet the requirements set by their CASS auditor. We would also expect it be included within the scope of CASS auditors' fieldwork with TPAs. In the interests of efficiency, especially where our members have many clients appointing a variety of audit firms, we expect a consistent interpretation of the standards.

106. Use of Third Party Administrators

We do not support the additional text as it is currently worded.

With the addition of the new text, we request that this paragraph is qualified to ensure that the scope for CASS auditors is clear especially where the TPA does not hold client money or assets itself. We believe it should be made explicit that the auditor should only be assessing the governance, operations and control of the TPA as they apply to the CASS-relevant activities it performs for the regulated firm.

Without this qualification we would be concerned on the impact this change would have on our members who, as a result, may be asked to provide confidential information or be required to explain these elements in depth despite them not being relevant to the CASS processes performed.

We would also be concerned that, without clear direction, that auditors would be assessing the TPA against the governance standards expected to be in place for a firm that is responsible for holding client money or assets. The nature of the business conducted by a firm conducting MiFID/designated investment business and holding client money or assets vs. their TPA will be different by their nature and its governance, operations and control arrangements would reflect that.

108. Use of Third Party Administrators

We support the suspected intention of the additional text but suggest the words "having taken account of the auditor's own assessment required by paragraph 106 of this Standard" are removed from the end of the sentence.

Cont 2/3...

Cont 3/3...

Our suggested amendment will remove any doubt that auditors are able to place reliance on SOC reports, whether they be conducted by a third party or by their own firm.

70. Assessing CASS assurance engagement risk

This is reasonable and, from our experience, reflects existing practice by the major audit firms.

85. Monitoring activities

This is reasonable and, from our experience, reflects existing practice by the major audit firms.

Other comments

We recommend that references to CF10a are deleted as this will be defunct for all firms as of 9 December 2019.

71. Inherent risk and control risk

We suggest a review of the wording to ensure it is grammatically correct.

72. Inherent risk and control risk

Is it the CASS auditor that is required to confirm the conclusion they reached in their assessment that that there is a deficient control environment with the senior manager? If so, we would suggest replacing “their” with “the CASS auditor’s”.

We look forward to reading your response whether that’s directly or as part of your published response to the comments received from the industry on this consultation.

Yours sincerely

Paul Mitchell
Chair of The TA Forum CASS Working Group