



## Provision of Custody Services 6 months ending JUNE, 2024

The purpose of this document is to provide current and potential users of James Brearley's custody services with information on how successful we have been in meeting the FCA's CASS regulatory requirements over this period. An additional section has been introduced to assist in providing an update on our financial strength relative to our regulatory capital requirement. In conjunction with this document, you may also wish to refer to that covering our service standards relating to our Pro Icon and Outsourced Administration services.

The Prescribed Responsibility for CASS, as defined within the Senior Manager & Certification Regime, over the reporting period, has been held by David Hannis. The firm's Operations Director, Simon Trippier, has had responsibility for CASS Operational Oversight. The FCA's Principle 10, requires a firm to arrange adequate protection for clients' assets. The FCA set out detailed rules explaining how this is to be satisfied in their Client Asset custody rules (CASS 6) and Client Asset money rules (CASS 7).

James Brearley has analysed the FCA's rules and put these into day to day practice as part of its responsibilities for safeguarding clients' investments and cash. The information below is not everything that we do to comply with the rules but describes the most important aspects.

### Regulatory Permissions

Over the reporting period, James Brearley has held the following regulatory permissions, fundamental in the provision of providing its custody services:-

- Safeguarding and administration of assets (without arranging)
- Client Money
- Safeguarding and administration of assets (arranging)

### Client Money

The client money rules (CASS 7) apply to a firm that receives or holds client money, in whatever form. A firm must introduce adequate organisational arrangements to minimise the risk of the loss of client money or of rights in connection with client money, as a result of misuse of client money, fraud, poor administration inadequate record keeping or negligence. James Brearley therefore maintains the following arrangements.

### Keeping Client Money Separate from the Firm's Own Money

Under the CASS rules, James Brearley keeps client money in trust for the benefit of the client. James Brearley always keeps all client money separate from that of James Brearley's own money (the 'normal approach' to segregation of client money, as defined by the FCA). Client money is received into one of several banks and with the odd exception is then pooled with the money of other clients in designated client money bank accounts. Prior to depositing funds into an account, James Brearley obtains letters from each bank, in the form prescribed by the FCA, to acknowledge that the money in each client bank account is clients' money, with James Brearley acting as trustee.



James Brearley assesses each bank considered for holding an element of the “general client money pool”, to make sure it is suitable before placing client money with it. The opening of the account is also subject to Board approval. We then undertake a similar in-depth review on an annual basis. James Brearley also monitors each bank’s performance, credit worthiness and reputation on a monthly basis to ensure it remains comfortable to retain client money with each institution. This is not extended to those banks with whom we have structured deposits or term deposits, given that these are selected by our Plan Manager clients.

***Over the reporting period, it was identified by our CASS Auditor that the contact details of the bank signatory on a number of client money acknowledgement letters was missing, being a breach of the stated requirements.***

***On 8 occasions, firm entitlements or a payment to the firm, was incorrectly allocated to the client money account, again being a finding of the CASS Auditor.***

***On a separate occasion, a client transferred monies to the firm’s rather than the client money account, as a result of being given the wrong bank account details by their intermediary firm.***

***It was necessary to open an additional account at Royal Bank of Scotland to facilitate payments for one of our Plan Managers, this leading to the “general pool” being represented by 16 accounts and a further 1 “separate pool” arrangement, as at the end of June, making 17 in total. There being no change to the number of structured deposit arrangements over the period, this led to us operating 29 different client money accounts as at the end of June, 2024.***

#### Client Money Account Breakdown 30<sup>th</sup> June, 2024

Bank	Number	Bank/Institution	Number
Santander	2	Royal Bank of Canada	4
Royal Bank of Scotland	7	Goldman Sachs	2
Handelsbanken	1	Barclays	3
Barclays	3	Societe Generale	3
Yorkshire Bank	3		
Al Rayan Bank	1		
<b>Total</b>	<b>17</b>	<b>Total</b>	<b>12</b>

#### Client Money at the Firm’s Banks

***Over the reporting period the firm’s general client money pool was spread across five different banks, being in nine instant access accounts and two 90/95 day notice accounts. These were all maintained in line with the firm’s Bank Segregation Policy. As a consequence of a continued downturn in the total client money pool position during the period, leading to the 12 month and 6 month rolling averages, falling below £170m, notice was given leading to a reduction in the balance held on notice to circa £80m. As at 30<sup>th</sup> June, 2024, term exposure did not exceed the firm’s internally set maximum of 60%, standing at 45.0%, with the general pool totalling £176.7m. A “separate” client money pool is held with Al Rayan Bank for certain client account balances.***



**The amount held in structured/term deposits improved over the period, standing at £200.6m as at 30<sup>th</sup> June, 2024.**

**During the period given that there was no change in the Bank of England base rate, we continued to pay interest of 3.0% on client cash balances.**

### **Making Sure Client Money Records and Cash Resources are Correct**

James Brearley records all clients' money so that the amount of client money due to each client can be determined at any time. The firm makes sure it has enough money to repay all client money at any point in time. It does this by reconciling each day the individual client money records to the amount of client money held in total. The reconciliation process, undertaken daily, is twofold:

**The Internal Client Money Reconciliation.** This reconciliation is designed to make sure that the total of client entitlements to money when added together is equal to the total client money James Brearley is holding on its clients' behalf. James Brearley uses the Individual Client Balance method (as defined by the FCA) to calculate the client money requirement as at the close of business for each business day.

**The External Client Money Reconciliation** (as defined by the FCA), which is designed to make sure the amount of money being held on behalf of clients at the firm's banks is equal to the firm's client money requirement. During the period we have extended the daily reconciliation process to also include structured deposits in those instances where we receive a daily statement from the issuer.

***Over the reporting period, the daily undertaken Internal Client Money and External Client Money Reconciliations were satisfied each day to the penny.***

***An issue was identified by the CASS Auditor, where we were not receiving a daily bank statement from Barclays on one of our structured deposit arrangements, being in breach of the CASS rules.***

Dealing with discrepancies in these reconciliations as they are identified is fundamental to spotting problems quickly. The firm will use its own money to cover any shortfalls in client money, that might become apparent when undertaking these reconciliations.

***Over the reporting period, whenever we identified a shortfall in the client money requirement, possibly as a result of a settlement related issue or for account debtors, appropriate firm's money was transferred to the client money account to meet this.***

### **Receipts and payments**

Client money is generally received electronically and directly into one of the firm's client money bank accounts established for this purpose. The money is credited to the account of the client to which it relates on the same business day so long as it is received before 3.30pm. Client entitlements received in relation to distributions of dividends and interest, and corporate actions, are allocated to clients' accounts as they are received. The regulatory requirement is to allocate all entitlements within 10 business days of their receipt.



We treat all money we cannot identify immediately as if it was client money. All such 'unallocated' client money is included in the client money requirement calculations contained within the Internal Client Money Reconciliation. Money which cannot be identified by day 9 following its receipt is sent back to the bank it was sent from.

Similarly, payments are made directly from the client money bank accounts to the client's bank or building society account. Client money is paid to clients by electronic bank transfer, by BACS or CHAPS.

### Other Client Money related breaches:

***During the period (1<sup>st</sup> December, 2023 to 30<sup>th</sup> June, 2024) there was a single instance where client money was allocated to the wrong account (previous reporting period 3). On two separate occasions there was a delay in the processing of cheques by our bankers, resulting in a rule breach as we failed to bank them within a business day of our receipt. We have now taken charge of a cheque scanner to ensure this does not happen again. An incorrect journal posting, led to the cash records shown for 3 clients being wrong for 4 days until this was corrected. The journal posting and delay in banking was identified by the work undertaken by our CASS Auditor.***

### Client Assets

The CASS 6 – custody rules - are designed primarily to restrict the intermingling of client and the firm's assets and minimise the risk of the client's assets being used by the firm without the client's agreement or contrary to the client's wishes. The CASS 6 rules also prevent client assets from being treated as the firm's assets in the event of insolvency.

### How Custody of Assets is Undertaken

The firm records custody assets on behalf of clients within its pooled nominee structure or 'safe custody'. In a nominee arrangement the assets remain the property of the client. ***Over the reporting period we have continued to hold the majority of client assets in the following nominee companies- James Brearley Crest Nominees Limited and Walpole St Andrew Nominees Limited. We continue to use global custody specialist, SIX for those securities settling through Euroclear and where stock settles outside of both Crest and Euroclear.***

	£(m)	%	Lines
Crest-	1,263.5 (1338.5)	35.0 (38.0)	3,167 (3,178)
Residual-	62.7 (30.7)	1.7 (0.9)	167 (199)
Funds-	1,758.4 (1,727.7)	48.8 (49.1)	1,800 (1,891)
SIX-	522.2 (424.9)	14.5 (12.0)	497 (514)
<b>Total</b>	<b>3,606.8 (3,521.8)</b>	<b>100.0</b>	<b>5,631 (5,782)</b>

As at 30<sup>th</sup> June, 2024

Bracketed figures as at 31<sup>st</sup> December, 2023



## **Making Sure we have the Correct Assets**

An internal custody record check as defined by the FCA is carried out daily. This is undertaken using the internal custody reconciliation method as defined by the FCA. This compares the aggregate of stock held in the firm's nominee companies with the totals in each client portfolio. Any discrepancies are investigated each day and resolved on a timely basis.

***Over the period under review there no one instances where an identified discrepancy was not resolved within 25 business days, being the firm's "timely basis" definition.***

Reconciliations of custody asset positions are carried out each month to third party statements, Crest positions, custodian statements, physical certificates and any other external party records that are the most appropriate and reliable for reconciliation purposes (the external custody reconciliation as defined by the FCA). Physical assets are reconciled using the Total Count Method, as defined by the FCA. All physical certificates held are verified with the registrar on a 6-monthly basis. Any discrepancies arising from the performance of reconciliations are then resolved as quickly as reasonably possible, where any items carried forward by more than a month from when they are identified are reported to the Board.

***All reconciliation requirements were met over the period.***

***The CASS Auditor however, identified that these were undertaken on a "trade record" rather than "settled" basis. They also outlined an expectation that our crest reconciliations be performed on a daily rather than monthly basis. We intend to move both reconciliations to a revised basis over the next six to eight months.***

***There were a total of 10 instances where our holdings records had to be corrected (previous reporting period 6). Of these, there was an occasion where the basis for applying a corporate action was incorrect, leading to a delay outside of the 10 day entitlement rule. We also processed several unit trust transfer rejections as confirmations, a system issue doubled up on a holding, a trade was booked to the wrong account, a placing error duplicated a holding and incorrect stock was transferred to us by another custodian, all leading to an error in client records.***

***In a number of instances, these issues were identified as part of the work undertaken by our CASS Auditor.***

## **Complaints**

***There have been no CASS related complaints over the period.***

## **Stock shortfalls**

If James Brearley identifies a shortfall in the assets that should be held on behalf of clients, the firm will make up the shortfall by purchasing the equivalent number of shares or units in the investment instrument. If this is not possible the firm will place cash to an equivalent value into the client money requirement until such time as the shortfall is resolved.

***There were no instances over the period where the firm failed to allocate firm money to the client money pool to cover any identified stock shortfalls.***



## **Client Assets Held by Someone Else**

Any custodians used by the firm will have due diligence undertaken prior to the commencement of a custodian arrangement and thereafter at least on an annual basis.

***This remains limited to SIX as reflected in the stock holdings breakdown on the previous page.***

## **Physical assets**

In addition to residual stocks registered in the name of Walpole St Andrew Nominees Limited, the firm accepts share certificates from time to time, pending transfer into the firm's nominee service or pending the imminent placing of a sale instruction. These certificates are afforded the same protection as any other client asset.

## **Confirmation Concerning Other Possible Uses/Procedures Concerning Custody of Client Assets**

The firm does not operate any stock lending processes, securities financing transactions, hold or trade any bearer stocks, operate right to use agreements and has no affiliated companies as clients, nor operate a Delivery Versus Payment (DVP) exemption as all applicable assets are deemed covered by CASS.

## **Other aspects applicable to both client money and assets**

### **Financial Strength**

The FCA's Overall Financial Adequacy Rule (OFAR) prescribes the level of capital a firm needs to hold, having incorporated various "K" factors, based on the level of funds that the firm has under custody, under management, is held in cash and finally the value of trades we place.

***James Brearley's Own Funds Threshold Requirement as at 30<sup>th</sup> June 2024, was determined to be £3.18m. The firm's own funds resource stood at £11.17m as at this date, representing 3.51 times cover.***

### **CASS Related Regulatory Returns**

The firm ensures that all external reporting requirements to the FCA or otherwise are met completely and accurately and within the prescribed deadlines applicable. In the case of CASS this is in the form of the Client Money and Assets Return (CMAR) which needs to be submitted on a monthly basis.

***Over the reporting period the firm filed a CMAR report each month on a timely basis.***



## **CASS Audit Report**

As we reported upon in January, we appointed Grant Thornton (GT) as our new CASS Auditors in the final quarter of 2023, taking over from Evelyn Partners. It is fair to say that GT have undertaken a subsequent extensive review of our business leading to a number of items referenced in this report, as we head to their submission of their first CASS Audit Report on the firm over the coming month.

A disappointing aspect is the number of issues that they have identified which had not been identified by the firm, be it as a matter to report to our Compliance team or to in turn classify as a CASS rule breach. The internal reporting template has been enhanced and greater focus has been placed on recording the conclusion of all reported issues on an ongoing basis. This aside, it is pleasing to report that nothing of a material nature is expected to be included in the report to the FCA.

## **Resolution Pack**

The firm maintains a Resolution Pack, which is a collection of records and documentation describing how the firm holds client money and assets. The purpose of creating and maintaining a Resolution Pack (as required by CASS 10) is to provide a readily available tool to assist any Insolvency Practitioner in locating and returning client money and assets quickly.

## **Unclaimed Client Money and Assets**

Unclaimed client money and assets occur when we have been unable to contact a client for a number of years. We may then pay or gift the money or asset to charity, observing the guidance of the FCA. Whilst provisions in the firm's Service Terms & Conditions document, provide the flexibility to pay away value to a charity of our choosing, we have no intention to apply this. Should we decide to do so, regulations make it our obligation to repay the amount given to charity to any client who subsequently contacted the firm.

## **CASS Related FCA Notifications**

It is the firm's responsibility to inform the FCA promptly of any issues that we may reasonably expect them to be interested in, over and above certain CASS related rules which if breached must be immediately notified to the FCA.

***Other than the PRIN 11 notification, relating to the holdings error that we covered off in the previous report (which took 3 years to come to light) it has not been necessary to report any CASS related matter to the FCA during the report period.***

26<sup>th</sup> July, 2024.