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# Rule breakers and rule shakers

In September 2014 Barclays Bank Plc (Barclays) was fined £37,745,000 by the Financial Conduct Authority (FCA) for failing to properly protect clients' custody assets worth £16.5 billion. As a result, clients risked incurring extra costs, lengthy delays or losing their assets completely if Barclays had become insolvent.

This is the highest fine ever imposed by the FCA or its predecessor the FSA for client assets breaches, reflecting 'significant weaknesses' in the systems and controls. The FCA's rules are there to protect client assets if a firm becomes insolvent. These failings were compounded by flaws in account naming or incorrect data that suggested assets belonged to Barclays instead of its clients.

The FCA has an overarching strategic objective of ensuring the relevant markets function well. To support this it has three operational objectives: to secure an appropriate degree of protection for consumers; to protect and enhance the integrity of the UK financial system; and to promote effective competition in the interests of consumers.

The new policy statement on Client Assets marks the most significant policy shift in recent years. Protecting clients' money and assets remains a key priority for the FCA. The FCA has undertaken a fundamental rethink of the regime, and the new rules should go a considerable way in enhancing confidence in UK financial markets.

The FCA's changes to the Client Assets Protection Regime (CASS) are going to have a big impact on banks, brokers and asset managers. The shake-up will affect how businesses handle client money and assets – through customer relationships, outsourcing arrangements, operations, IT systems and the policies and procedures they have in place.

The 1 June 2015 will see the final stage of the introduction to the new rules, the previous stages being 1 July 2014 and more recently 1 December 2014. All firms are expected to be in compliance with the changes (to the extent relevant) introduced at each stage. It looks like in 2015, the FCA will keep up its momentum from the improvements and significant progresses made in 2014 and continue to remain focused on consumer issues.

A summary of the key changes arising from PS14/9 can be found at <http://www.fca.org.uk/your-fca/documents/summary-of-changes-tocass-rules-for-investment-firms>

If you would like to discuss the changes regarding client assets please speak to Zoe O'Brien at [zoe.obrien@krestonreeves.com](mailto:zoe.obrien@krestonreeves.com) or alternatively speak to your usual Kreston Reeves adviser.

## CONNECT with the FCA

From 1 October 2014, the FCA's new CONNECT system went live. Firms should use this system in order to submit most applications and notifications to the FCA. The following applications and notifications should now be prepared through CONNECT:

- Approved persons
- Appointed representatives
- Variations of permissions
- Cancellations
- Standing data



# The rise and rise of MGA's

Despite or maybe because of the recent economic climate, as the activity in the insurance sector increases, there has been an increase in the number of firms moving their business into a Managing General Agent (MGA).

The Managing General Agents Association (MGAA), is a non-profit making organisation formed to give the industry a better idea of what an MGA is and what they contribute to the insurance industry. It estimates that 10% of the annual commercial general insurance is transacted through MGA's and delegated underwriting authorities. This translates to the 300 or so fully fledged MGA's in the UK underwriting around £5 billion of the annual £47 billion of premium income of the UK's general insurance market.

## What is an MGA?

An MGA is not a wholesaler of insurance products and neither is it a general broker; it is an entity that provides underwriting services (i.e. underwrites insurance risk). As a result its primary duty is to the insurance company or Lloyd's syndicate whereas a broker's primary duty is to the policy holder or insured. This method of underwriting is primarily concentrated in the SME sector and includes compulsory classes such as motor liability and employers' liability.

## What do they do?

The services provided by an MGA differ from a binding authority holder, in that they can provide underwriting services on behalf of insurers who may wish to access markets without setting up their own distribution channels or, require a specific insurance product to be written in an area where the MGA has more detailed underwriting knowledge. In addition, the flexibility in rating products and the involvement of the MGA in setting the pure technical rate, a key component of any price structure, is in contrast to a binder which is likely to have set rates, policy wordings and a narrow product offering. As well as saving the insurer money by offering these services MGA's also provide brokers with a wider range of product and insurer options together with a better service than they can otherwise obtain.

## The future?

The flexibility and the services provided by MGA's are likely to ensure that this sector continues to grow and the number of MGA's increasing as the benefits both to insurers and brokers are developed.

# Death doesn't have to be taxing!

We have waited with bated breath for the Government to make changes to the punitive 55% death tax charge on pensions in Capped Drawdown. Will it be 40%? Will it be 35%? Then, all of a sudden, we get a (very rare) pleasant surprise from George Osborne, the removal of the Death Tax entirely before age 75.

When combined with the new pension flexibility announced in the 2014 budget, this U-turn on pensions has changed the world of retirement planning. You can contribute to a pension and save tax on the way in, and then potentially pass the fund value up to the current lifetime allowance, to your nominated beneficiaries with no Death Tax and no Inheritance Tax.

As always, there are some caveats around how and when benefits are drawn which largely depend on the position of the beneficiary. We will also need to wait for the proposed legislation to take effect from April 2015. However, no matter what position they are in, this looks to be a huge boost for those individuals who wish to view their pension not only as a retirement vehicle but also as a legacy for their family.

If you would like to discuss any of the above topics in further detail please contact Lee Hayward at Kreston Reeves Financial Planning Ltd (KRFP) at [lee.hayward@krestonreeves.com](mailto:lee.hayward@krestonreeves.com) or your usual KRFP adviser.



# FATCA - are you ready?

The countdown is on to the first annual return due under the new regulations, mark it in your diary – it is due by 31 May 2015.

Back in March 2010, the U.S approved the Foreign Asset Tax Compliance Act (FATCA). It became effective in July 2014, meaning that UK institutions which have accounts with any U.S tax payers will need to report these to the Internal Revenue Services (IRS). In response to this requirement, HMRC has launched a new online system so that UK financial institutions can register and report information on their U.S client.

For those affected by FATCA, the following process will need to be performed:

- Registration with the IRS to gain your Global Intermediary Identification Number (GIIN)
- Register with HMRC's online service
- This will lead to you receiving a FATCA ID and HMRC registration number

A link to the HMRC FATCA guide is below.

<http://www.hmrc.gov.uk/fatca/reporting.htm>

Are you ready for the FATCA? If you have a question please contact James O'Brien at [james.obrien@krestonreeves.com](mailto:james.obrien@krestonreeves.com)

# How to hire a candidate who matches your company's values

Finding a candidate who has the right skills and experience is vital but how can you be sure they will be a good fit for your organisation and make a positive contribution?

Once you have a candidate who possesses the skills and experience required to do the job, you must also take steps to align values between the candidate and your company, as this is what helps achieve greater compatibility and length of service from the new employee.

The ways in which an employer can understand their company's values and then match these to a candidate can be achieved by:

- Observing existing employees to see if they have a particular work style/pattern and determine what impact the work environment (space, facilities, etc.) has on employees
- Talking to your staff to find out what they like/dislike about their working arrangement can help determine what they value as well as open up areas of improvement
- Understand how you add value by asking what your organisation can offer and what potential employees think about you as a company to work for
- Be competitive – examine your work environment in comparison to your competitors or other similar companies

This can be a guide as to who you should or should not hire, whilst all the while still focussing on the individual characteristics of a candidate. Therefore you will have a strong overall idea about which candidate is right for your business. To support this, you may consider carrying out behavioural and motivational questions as part of the interview process. Examples include asking 'what does your ideal job involve' or 'what do you feel you can bring to this?'



**Mark Knight**

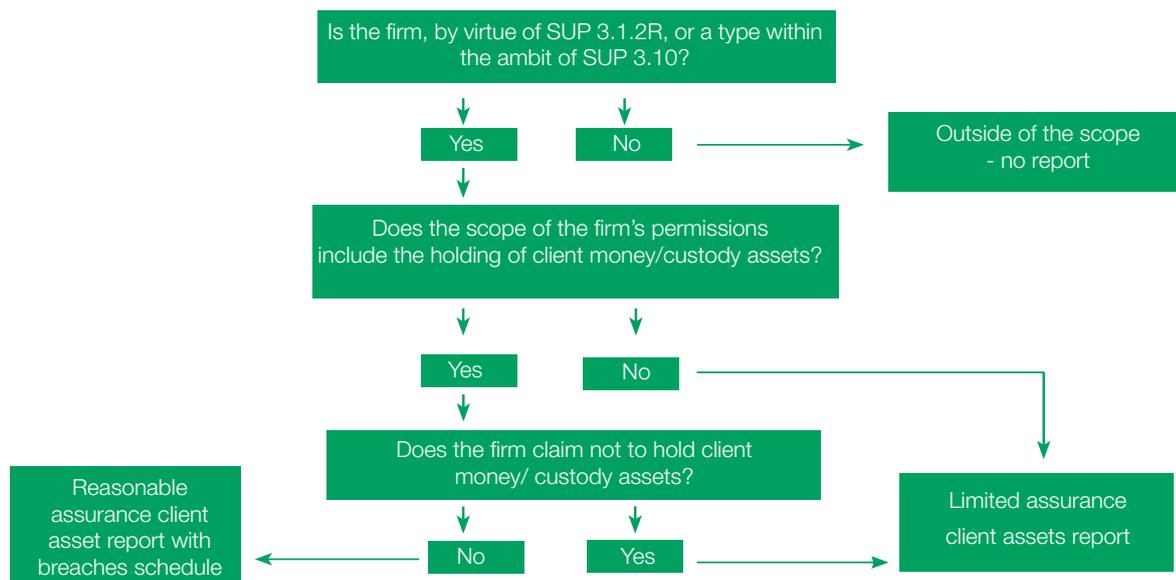
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# Client assets - do you need an audit report, and if so which one?

Although the client assets rules are changing for designated investment firms, the decisions on whether you need to appoint an FCA auditor or what report is required are to remain. It is management's responsibility to ensure that an auditor is appointed as necessary. Included below is the FCA decision tree on when you may require a report.



The first requirement box should be treated with care. There are a number of firm types listed within SUP 3.1.2R, and if your firm is covered it will mean you are required to appoint an auditor to produce at least a Limited Assurance Client Asset Report. For example, one listing covers an "Authorised professional firm which has an auditor appointed under or as a result of a statutory provision other than in the Act". The scope of this statement includes subsidiaries in large international groups. Therefore it is recommended you spend some time checking this section of the FCA Handbook.

SUP 3.1 requires Designated Investment Firms (DIF) to undergo CASS audits if they are either:

- permitted to hold client assets in relation to DIF business; or
- require a statutory audit by legislation other than the FSMA 2000 (e.g. CA06).

Therefore, if a DIF is ineligible for audit exemption, a CASS audit is needed. This is true even if the firm is not permitted to hold client assets. In this case a 'limited assurance' opinion will be required from the auditor, stating that nothing came to their attention to indicate that client assets were held in the period. This report would be due to the FCA within 4 months of the year end.

SUP 3.1 requires insurance intermediaries to undergo a CASS audit unless the intermediary only held up to but not exceeding £30,000 of client money under statutory trust.

It is the responsibility of an insurance intermediary's senior management to determine, on a continuing basis, whether the firm is exempt from the client money (CASS) audit and to appoint an auditor if management determines the firm is no longer exempt.

If you would like to discuss anything on the above regarding audit reports, please contact Katherine Lewis at [katherine.lewis@krestonreeves.com](mailto:katherine.lewis@krestonreeves.com)

## Calling all tweeters!

To keep up to date with important developments with the financial services sector, please follow us on Twitter @krestonreeves

## About Kreston Reeves

Kreston Reeves is a leading accountancy and financial services firm located across London and the South East of England. We provide a full range of accountancy, business advisory and financial services that help our UK and international clients achieve their personal and business goals, with peace of mind.

For more information visit our website: [www.krestonreeves.com](http://www.krestonreeves.com)

## Contact Us

For further information please contact a member of our team to find out how we can help you on 0330 1241 399.

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