



## CLIENTS' ASSETS REPORT AND PROCEDURES

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### INTRODUCTION

1. Where the licenceholder and its nominee companies<sup>1</sup> hold clients' assets<sup>2</sup>, the Isle of Man Financial Services Authority ('the Authority') requires a Clients' Assets Report on compliance with the relevant rules of Part 3 and, if applicable, Part 4 of the Financial Services Rule Book ('Rule Book') to be completed annually in accordance with Rule 8.23.
2. When required by the Authority, the licenceholder must arrange for its auditor<sup>3</sup> to review the Clients' Assets Report, complete the Auditor's Confirmation (Appendices D1, D2 and D3) of the report and provide the Authority with a copy of the full report in accordance with Rule 5.18.
3. To produce the Clients' Assets Report, the licenceholder will need to perform the procedures detailed in this document which are mapped to respective rules and objective(s) of the testing. Set out in Appendix A is a guide in determining the procedures applicable to the licenceholder based on the clients' assets being held and/or controlled.
4. When required by the Authority, the auditor must confirm that the testing carried out by the licenceholder has been performed by a person independent of those dealing with and reconciling clients' assets within the business and, by checking a sample of the work undertaken by the licenceholder, confirm that the testing has been properly carried out.
5. This document has been prepared by the Authority to assist licenceholders and their auditors in providing relevant and consistent information on the licenceholder's compliance with Part 3 and, if applicable, Part 4 of the Rule Book.

#### Data Protection Notice

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<https://www.iomfsa.im/terms-conditions/privacy-policy/>

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<sup>1</sup> Nominee companies which are subsidiaries of licenceholders are exempt from requiring a licence in their own right subject to their compliance with 'relevant' client money rules.

<sup>2</sup> Clients' assets – generic term encompassing clients' money (including money held for clients in a nominee bank account), trust money, relevant funds and clients' investments held by the licenceholder or an eligible custodian. Clients' assets do **not** include monies held in client company bank accounts and therefore client company bank accounts are not subject to these procedures or reporting.

<sup>3</sup> "Auditor" includes an accountant appointed by the licenceholder where the licenceholder controls clients' assets and has been excepted from the requirement to be audited by the Authority (Rule 5.1).

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### LICENCEHOLDER RESPONSIBILITIES

6. The Authority expects licenceholders to use the Clients' Assets Report as a tool to evaluate the effectiveness of the systems it has in place for the purpose of complying with Part 3 and, if applicable, Part 4 of the Rule Book. Accordingly, licenceholders should ensure that the report is integrated into its risk management framework.
7. Where the licenceholder is part of a group, the licenceholder may make the Clients' Assets Report, or parts thereof, available to other entities within the same group; and the lead or home regulator of any regulated entity within the group. The Authority and, where the report is reviewed by the auditor, the auditor do not accept any liability or responsibility for conclusions drawn by those parties. The licenceholder must not share the Clients' Assets Report reviewed by its auditor (or parts thereof) with parties other than those specified above without the prior written permission of the Authority and the auditor.
8. In accordance with Rule 8.23, the licenceholder's responsibilities relating to the Clients' Assets Report must be internally delegated to the Head of Compliance who must ensure that the final report is presented to the Board of the licenceholder. The Head of Compliance may sub-delegate the performance of the testing, however, this must<sup>4</sup> be completed by a person who is independent of those dealing with and reconciling clients' assets within the business.
9. For the avoidance of doubt, the licenceholder and its nominee companies must comply with all applicable rules in the Rule Book and not merely those covered by the procedures in this document. The procedures contained herein are not all encompassing and are expected to supplement existing compliance procedures carried out as part of the licenceholder's compliance monitoring programme to test compliance with Parts 3 and 4 of the Rule Book.
10. The procedures are to be undertaken as at the licenceholder's annual reporting date in respect of that accounting period and, when required to be reviewed by its auditor, in accordance with Rule 5.18, the licenceholder must provide a copy of the full report to the Authority no later than six months after the end of the period in question.
11. In accordance with Rule 5.5, the licenceholder and the auditor must have an engagement letter documenting the terms of the appointment which should make reference to the Clients' Assets Report and the work to be undertaken in relation to the Auditor's Confirmation (Appendices D1, D2 and D3). An engagement letter confirms the auditor's acceptance of the appointment and helps avoid misunderstanding regarding such matters as the objectives and scope of the engagement and the extent of the auditor's responsibilities. A summary of responsibilities is set out in Appendix B.

### AUDITOR RESPONSIBILITIES

12. When required, the auditor is to carry out procedures of a limited assurance nature which include reviewing a percentage of the testing (which should include both reconciliations and transaction testing) undertaken by the licenceholder, which shall be not less than 20%, and to report on factual findings. The auditor is required to complete Appendices D1, D2 and D3 of the Clients' Assets

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<sup>4</sup> Read "must" as "should" for smaller firms. Where a licenceholder has only two key staff it is accepted that this may not be possible and, although it will be noted as an exception in the Auditor's Confirmation (Appendix D1), the Authority will not automatically take further action.

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Report<sup>5</sup>. The Authority will assess the findings reported by the auditor and draw its own conclusions from the licenceholder's and auditor's work.

13. Before reviewing the procedures performed by the licenceholder, the auditor must be satisfied he has a general understanding of the following:
- (a) the nature of the services the licenceholder provides to its clients;
  - (b) the nature of transactions which the licenceholder undertakes with or on behalf of, or facilitates, or advises on, for clients and how those are executed or settled;
  - (c) the sources and destinations of cash and other assets inflows and outflows in the licenceholder's own accounts and accounts it holds or controls on behalf of the client and other parties;
  - (d) the role of sub-custodians or third party administrators;
  - (e) the role of nominee companies; and
  - (f) the systems maintained by the licenceholder to enable it to comply with Part 3 and Part 4 of the Rule Book.

### OBJECTIVES OF THE CLIENTS' ASSETS REPORT

14. The key objectives of the Clients' Assets Report are as follows:
- (a) To improve the consistency and provide transparency regarding the scope of testing on clients' assets;
  - (b) To adequately support and challenge licenceholders to test their compliance in the protection of clients' assets in accordance with the Rule Book;
  - (c) To support the objectives of the Authority regarding the effective safekeeping of clients' assets; and
  - (d) To manage the expectations of the Authority and the responsible officers of those licenceholders holding clients' assets, as to the scope of the clients' assets testing.
15. Other matters that the licenceholder and auditor should be aware of before performing the engagement include the following:
- the nature of the engagement, including the fact that only limited assurance will be expressed by the auditor;
  - the stated purpose of the engagement;
  - the rules to which the procedures will be performed;
  - the nature, timing and extent of the specific procedures to be applied; and
  - the format of the Auditor's Confirmation (Appendices D1, D2 and D3).

### PROCEDURES AND EVIDENCE

16. The primary procedures to check whether the licenceholder is complying with certain rules to ensure that client money (including money held for clients in nominee bank accounts), trust money and relevant funds are protected are as follows:

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<sup>5</sup> Where the auditor undertakes the procedures on behalf of the licenceholder, variants of Appendices C, C2, D1, D2 and D3 are available on the Authority's website for completion by the licenceholder/auditor. Appendix C3 would not be required.

## CLIENTS' ASSETS REPORT AND PROCEDURES

Procedures	Objectives
I. Client bank account and nominee bank account reconciliation and monitoring	<p>To inspect samples of bank statements, reconciliations and reconciling items to ensure that:</p> <ul style="list-style-type: none"> <li>• Reconciliations of client bank accounts have been carried out in accordance with Rule 3.12;</li> <li>• Client bank accounts have not been overdrawn;</li> <li>• It is possible to determine the client money that stands to the credit of each client;</li> <li>• Money belonging to one client was not used for another; and</li> <li>• There were no reconciling items not resolved within 5 business days from the date of reconciliation.</li> </ul>
II. Trust money account reconciliation and monitoring	<p>To inspect trustees' minutes of meetings (or other documentation) to ensure the basis of frequency of reconciliations is appropriately supported.</p> <p>To inspect samples of trust bank account ledgers, bank statements, reconciliations and reconciling items to ensure that:</p> <ul style="list-style-type: none"> <li>• Reconciliations of trust money accounts have been carried out in accordance with Rule 3.34; and</li> <li>• There were no reconciling items not resolved within 5 business days from the date of reconciliation.</li> </ul>
III. Segregated accounts <sup>6</sup> reconciliation and monitoring	<p>To inspect samples of segregated account bank statements, reconciliations and reconciling items to ensure that:</p> <ul style="list-style-type: none"> <li>• Reconciliations of relevant funds have been carried out in accordance with Rule 3.40;</li> <li>• It is possible to determine the relevant funds standing to the credit of each payment service user / electronic money holder;</li> <li>• Relevant funds belonging to one client are not used for another; and</li> <li>• The Authority was notified, with details, if a reconciling item was not resolved within 3 months from the date of reconciliation.</li> </ul>
IV. Records and transactions testing	<p>To inspect relevant documents from the samples selected and trace a sample of transactions to the relevant transaction ledgers to ensure that:</p> <ul style="list-style-type: none"> <li>• A proper record of client money, trust money and relevant funds received, paid or held by it, as required by Rule 3.10(2), 3.10(3), 3.10(4), 3.33(2), 3.33(3) and 3.39 is maintained;</li> <li>• The receipts shown on client bank account, nominee bank account, trust bank account and/or segregated account statements are either or as appropriate: <ul style="list-style-type: none"> <li>a. Client money (3.2);</li> <li>b. Trust money (3.2);</li> <li>c. Relevant funds (3.35);</li> <li>d. Money to open or to maintain client bank account (3.9(6)), (3.39(3)(a));</li> <li>e. Money used to restore an amount withdrawn in error from the account; (3.9(6)), (3.39(3)(b)); or</li> <li>f. None of the above but subsequently, and on a timely basis, withdrawn from the client bank account.</li> </ul> </li> <li>• The withdrawals from the client bank account, nominee bank account, trust bank account and/or segregated account are permitted under the Rule Book.</li> </ul>

<sup>6</sup> Segregated accounts are accounts maintained by the licenceholder to be used solely in safeguarding and controlling relevant funds.

## CLIENTS' ASSETS REPORT AND PROCEDURES

17. The primary procedures to check whether the licenceholder is complying with certain rules to ensure that clients' investments are protected are as follows:

Procedures	Objectives
V. Reconciliation, recording and monitoring of investments	<p>To inspect the documented assessment of the risks to which the safe custody assets are exposed and to inspect samples of client investment reconciliations, title documents, custodian statements and reconciling items to ensure that:</p> <ul style="list-style-type: none"> <li>• The frequency of custody reconciliations is being reviewed and evidenced annually as required by Rule 4.7(2);</li> <li>• The minimum requirement of frequency set out in Rule 4.7(3) was met;</li> <li>• Reconciliations have been carried out in accordance with Rule 4.7(4), (5), (6), (7) and (11); and</li> <li>• The Authority was notified, with details, if a reconciling item was not resolved within 3 months from the date of reconciliation.</li> </ul> <p>To inspect a sample of client investment movements during the period to ensure details of the transactions are properly reflected in the records.</p>
VI. Lending of clients' investments	<p>To inspect a sample of loan agreements and licenceholder's records to ensure that:</p> <ul style="list-style-type: none"> <li>• Transactions pertaining to lending of investments are properly authorised;</li> <li>• The lending of an investment was properly reflected in the records; and</li> <li>• Outstanding investments are being reviewed and monitored.</li> </ul>

18. In performing the primary procedures above, a checklist should be completed by the licenceholder and this should be retained on the licenceholder's records and be made available to the Authority, along with evidence, on request. The checklist will assist the licenceholders in making sure that the respective objectives in each of the procedures are met and will serve as a guide to which part of the Rule Book the auditor should refer. See Appendix C1 for the checklist. Guidance in completing the checklist is set out at the end of Appendix C1.

### SAMPLE SIZE

19. The sample sizes below should be followed by the licenceholder unless there is good reason not to do so, in which case the rationale should be documented and provided to the Authority in conjunction with the Clients' Assets Report. Where the population is smaller than the minimum sample size, the entire population should be tested. The samples are calculated in two stages -

#### ***Stage 1 - Number of bank accounts or clients' investments***

**Population** means –

- a) in relation to bank accounts, the total of each type of bank account (client/trust/segregated/nominee accounts, including dormant accounts and bank accounts with NIL balances).
- b) in relation to clients' investments, the total number of investments.

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Population	Sample Size
1 – 5 <sup>7</sup>	2
6 – 10	3
11 – 20	5
Above 20	10

### Stage 2 - Number of transactions

In relation to the sample selected above, **Population** means either:

- a) the total number of transactions (both receipts and payments) through each bank account within the full financial period that should correlate to the period that the licenceholders audited financial statements have been prepared (maximum sample size is therefore 10 bank accounts and 25 transactions in each of the 10 bank accounts selected under Stage 1, so 250 transactions); or
- b) the total number of purchases and sales of specific investments within the full financial period that should correlate to the period that the licenceholders audited financial statements have been prepared.

Population	Sample Size
1 – 15	3
16 – 50	5
51 – 100	10
101 – 250	15
251 – 500	20
Above 500	25

### Example

#### Stage 1

Type of bank account	Number of bank accounts	Sample Size
TOTAL	10	3
<i>Split as follows:</i>		
Client bank accounts	8	2
Nominee bank accounts	0	0
Subscription and/or Redemption accounts	0	0
Specified accounts	0	0
Trust money accounts	2	1
Segregated accounts	0	0

The client bank accounts are reconciled monthly, so we will select 3 reconciliations from each client bank account to sample test (to include the final reconciliation in the financial period). The trust bank account is reconciled annually, so we can only sample test 1 reconciliation.

<sup>7</sup> A multi-currency account (being a combination of foreign currency accounts under one account number) may be treated as one client money bank account.

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### Stage 2

<i>Sample selection</i>	<i>Number of transactions during the full financial period</i>	<i>Number of transactions required to be tested</i>
<i>Client Bank Account 1</i>	400	20
<i>Client Bank Account 2</i>	55	10
<i>Trust Bank Account 1</i>	20	5
<b>TOTAL</b>		35

The sample selection method is at the discretion of the licenceholder or auditor. However, the Authority would expect the licenceholder to have a procedure which identifies how it will select the sample and this should be provided to the Authority and the auditor on request.

### DOCUMENTATION

20. The licenceholder should retain documentary evidence to support the procedures undertaken, and to evidence that the review was carried out in accordance with these procedures.
21. The licenceholder should have a documented policy/procedure in place with regards sample selection methodology and this should be made available to both the auditor and the Authority on request. The type of sample methodology adopted is at the licenceholder's discretion, however, it must be appropriate to the nature of accounts. For example, where there are a number of client money bank accounts that simply receive money and make payments in relation to annual fees, there should be less weighting to this type of account.

### REPORTING ON A LIMITED ASSURANCE ENGAGEMENT RELATING TO CLIENTS' ASSETS

22. The licenceholder must provide a response to each finding, outlining the planned corrective action or how the breach/exception was rectified. These responses will form part of the Exception Log. See Appendix C3 for the sample table. Where the auditor identifies breaches or issues in Appendix D2, the licenceholder must provide a response to each breach or issue, outlining the planned corrective action.
23. The table below details those items which should or should not be included in the exception log.

<b>Exception(s)</b>	<b>To be included?</b>	<b>Licenceholder's responsibility</b>
Noted in current year and not yet rectified	Yes	To provide resolution plan with target date.
Noted in current year but also rectified in current year	Yes	To state how the exception was rectified.
Noted in prior year(s) exception log <sup>8</sup> but rectified in current year.	Yes	To state how the exception was rectified.
Noted in prior year(s) exception log and not yet rectified as of balance sheet date.	Yes	To provide resolution plan with target date.
Noted in prior year(s) exception log but rectified in prior year(s).	No	None.

<sup>8</sup> Where possible, the previous 3 years

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Details of the samples on reconciliation testing of the client bank accounts, nominee bank accounts, trust bank accounts, segregated accounts and investments as appropriate should be maintained. One of the samples should be the last reconciliation in the period in question. See Appendix C2 for a sample table.

24. The Auditor's Confirmation should be in the format as detailed at Appendices D1, D2 and D3. It should identify the procedures performed; the percentage or number of samples tested, the results of test work and, findings, if any.
  
25. As a summary, the following should be submitted to the Authority at the determined frequency:
  - Appendix C – Signed Clients' Assets Report;
  - Appendix C1 – Checklist and results of procedures performed;
  - Appendix C2 – Details of the client bank accounts, nominee bank accounts, trust bank accounts, segregated bank accounts and clients' investments inspected;
  - Appendix C3 – Exception and Best Practice log;
  - Appendix D1 – Signed Auditor's Confirmation;
  - Appendix D2 – Details of reconciliation and transaction Samples Reviewed, and Exceptions and Best Practice points identified; and
  - Appendix D3 - Details of any non-compliance with the Rule Book identified by the auditor while carrying out its review of the Clients' Assets Report and Procedures.



## CLIENTS' ASSETS REPORT AND PROCEDURES

### GUIDANCE ON APPLICABILITY OF PROCEDURES

### APPENDIX A

Scenario	Client Money/ Trust Money/ Relevant Funds				Clients' Investments		Total number of procedures to perform
	Procedure Number						
	I	II	III	IV	V <sup>9</sup>	VI	
Client money and/or trust money held in general client bank account, specified client bank account and/or client free money account only	✓			✓			2
Client money held in general client bank account, specified client bank account and/or client free money account <u>AND</u> trust money held in trust bank account	✓	✓		✓			3
Relevant funds (payment service providers and e-money)			✓	✓			2
Client money held in a general client bank account, specified client bank account and/or client free money account <u>AND</u> clients' investments held by the licenceholder's nominee company and/or other eligible custodian. No lending transactions during the year.	✓			✓	✓		3
Client money held in a general client bank account, specified client bank account and/or client free money account <u>AND</u> clients' investments held by the licenceholder's nominee company and/or other eligible custodian where there are lending transactions during the year.	✓			✓	✓	✓	4

<sup>9</sup> Applicability of sub-procedures depends on the type of investments held and where they are held.

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### SUMMARY OF RESPONSIBILITIES FOR THE CLIENTS' ASSET REPORT

### APPENDIX B

Nature, timing and extent of procedures responsibility of:	Authority
Nature, timing and extent of procedures determined in:	Terms of the engagement with reference to these Procedures
Changes to the nature, timing and extent of procedures are documented in:	Terms of engagement agreed with the licenceholder; and communicated by the auditor to the Authority in writing.
Form and content of Auditor's Confirmation:	Auditor to provide limited assurance regarding licenceholder completion of Authority specified procedures and details of any non-compliance with the Rule Book identified by the auditor while carrying out its review of the Clients' Assets Report and Procedures (Appendices D1, D2 and D3).
Records of procedures performed:	Licenceholder to maintain a record of the exact nature, timing and extent of procedures performed.
Reporting of findings:	Licenceholder to maintain a record of the exact findings resulting from each procedure performed, including errors and exceptions identified, even if rectified. See checklist and exception logs set-out in Appendix C1 and C3, respectively, for further guidance.
Assessment of actions taken or further actions to be taken to the licenceholder:	Authority

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**TEMPLATE OF A CLIENTS' ASSETS REPORT ("CAR")**

**APPENDIX C**

Isle of Man Financial Services Authority  
PO Box 58  
Finch Hill House  
Bucks Road  
Douglas  
Isle of Man  
IM99 1DT

Date:

Dear Sirs

[Licenceholder's name] – Financial [year/period] ended [date]

**Clients' Assets Report ('CAR')**

We have performed the procedures set out in Appendix C1 of this CAR as required by Rule 8.23 of the Financial Services Rule Book ('Rule Book') and we attach details of the reconciliations we have tested in Appendix C2 and any exceptions identified in Appendix C3.

We confirm that we are responsible for maintaining systems adequate to able us to comply with Part 3 and, where applicable, Part 4 of the Financial Services Rule Book throughout the period; and, we have disclosed to you all known non-compliance with Parts 3 and 4 of the Financial Services Rule Book.

We confirm that the findings of the Clients' Assets Report have/have not been presented to the Board of the licenceholder.

Yours faithfully,

*[Head of Compliance's signature] or*

*[Director's signature]*

## CLIENTS' ASSETS REPORT AND PROCEDURES

### CHECKLIST AND RESULTS OF THE PROCEDURES PERFORMED

### APPENDIX C1

#### SAMPLE SIZE TABLE

	Example		For licenceholder completion	
	Total Number of each Type of Account	Number of each Type of Account Tested	Total Number of each Type of Account	Sample Size
Client bank accounts (tested under procedure I)	10	2		
Nominee bank accounts (tested under procedure I)	0	0		
Subscription and/or Redemption accounts (tested under procedure I)	1	1		
Specified accounts (tested under procedure I)	2	1		
Trust money accounts (tested under procedure II)	3	1		
Segregated accounts (tested under procedure III)	0	0		
<b>TOTAL</b>	16	5		
<b>TOTAL SAMPLE SIZE</b>	5	5		

#### I. CLIENT BANK ACCOUNT AND NOMINEE BANK ACCOUNT RECONCILIATION AND MONITORING

RULES	CHECKLIST	RESULTS	
		Yes / No / N/A	Number of exceptions <sup>10</sup>
<b>Sub-procedure 1 – Frequency of reconciliation and Same Day Reconciliation</b>			
Inspect the reconciliation records during the period under question and ensure the following for a sample of dates <sup>11</sup> :			
3.12(1)	Reconciliations of client bank accounts and nominee bank accounts have been performed at least monthly, and if on a monthly basis not less than 15 business days apart.		
3.12(2)	Client bank accounts including nominee bank accounts, if any, were reconciled as at the same date.		
<b>Sub-procedure 2 – Reconciliation of Client Bank Accounts and Nominee Bank Accounts</b>		Yes / No / N/A	Number of exceptions
Inspect a sample of client money reconciliations carried out during the period in question.			
3.12(2)(a)	Bank statements have been reconciled to the client bank accounts and nominee bank accounts ledgers' balances.		
3.12(3)3.11(2)(b)	As at the same date used under the rule 3.12(1)(a) procedure above, the total of the balances on all client bank accounts and nominee bank accounts have been reconciled with the total of the corresponding credit balances in respect of each of its clients.		
3.12(2)(h)(i)	If the reconciliation was not carried out or was not able to be carried out as required by Rule 3.12(1), the licenceholder notified the Authority within five business days.		

<sup>10</sup> Exceptions must be detailed in Appendix C3.

<sup>11</sup> At licenceholder's discretion. One of the samples should be the last reconciliation in the period in question.

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3.11(2)(b) 3.33(2)(b)	The client money schedule in respect of each client shows how much money stands to the credit of each client and how much money stands to the credit of each trust, if trust money is intermingled with client money. If any money relates to prospective or former clients this should be identified in the exception log.		
3.11(2)(c)	There are no debit client balances in the client money schedule in respect of each client which would indicate that client money belonging to one client was used for another.		
3.9(5)	There are no overdrawn positions on the bank statements used in performing the reconciliations.		
3.12(2)(c) (d)(e)	There is evidence that the reconciliations have been checked promptly by an individual other than the person who carried out the reconciliation (four eyes principle) and that the reconciliation (including check) has been completed within 20 business days.		
<b>Sub-procedure 3 – Reconciling Items</b> <sup>12</sup>		Yes / No / N/A	Number of exceptions
Select samples of reconciling items from the reconciliations tested in Sub-procedure 2. Inspect the related documents and ensure the following:			
3.12(2)(f) and (i)	All reconciling items identified in the samples selected were resolved within 5 business days from the date of reconciliation (unless they result from normal timing differences) or the Authority was notified, with details, that the reconciling item was not corrected.		

## II. TRUST MONEY ACCOUNT RECONCILIATION AND MONITORING<sup>13</sup>

RULES		CHECKLIST	RESULTS	
<b>Sub-procedure 1 – Frequency of Reconciliation</b>			Yes / No / N/A	Number of exceptions
Select samples of trust bank account(s) and ensure the following:				
3.34(1)(a) (b)	Basis of the frequency of reconciliation is supported by one of the following: <ol style="list-style-type: none"> <li>a. At least once a year - third party document to evidence that the trust account is a fixed term account;</li> <li>b. At least 12 months – as directed by the Trustee in writing (e.g. minutes of meeting or a blanket trust minute that relates to a number of trusts); or</li> <li>c. Reconciliations were performed not more than 25 business days apart if neither (a) or (b) above apply.</li> </ol>			
<b>Sub-procedure 2 – Reconciliation</b>			Yes / No / N/A	Number of exceptions
Select samples of trust bank account(s). Inspect the samples of reconciliations selected and determine whether:				
3.34(1)	Bank statements for each trust have been reconciled to the trust ledger balances.			
3.34(2) (b)(c)(d)	There is evidence that the reconciliation was checked promptly by an individual other than the person who carried out the reconciliation (four eyes principle) and			

<sup>12</sup> Reconciling items include all the differences between the total balance of client bank account ledgers and total of client money schedule in respect of each client and the differences between the balances of client bank account ledgers and balances per bank statements. Reconciling items may be qualified as “normal timing differences” if they have not cleared or been resolved within 1 month from the date of reconciliation but if still outstanding, should be treated as discrepancies in the next reconciliation.

<sup>13</sup> If trust money is included/intermingled in the client money bank account as allowed by Rule 3.31, skip these procedures and answer N/A under results column.

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	that the reconciliation (including check) has been completed within 20 business days.		
3.34(2)(f)	If the reconciliation was not carried out or was not able to be carried out as required by 3.34(1), the licenceholder notified the Authority promptly.		
<b>Sub-procedure 3 – Reconciling Items</b>		<b>Yes / No / N/A</b>	<b>Number of exceptions</b>
Select samples of reconciling items from the reconciliations tested in Sub-procedure 2. Inspect the related documents and ensure the following:			
3.34(2)(e) and (g)	All reconciling items identified in the samples selected were resolved within 5 business days from the date of reconciliation (unless they result from normal timing differences) or the Authority was notified, with details, that the reconciling item was not corrected.		

### III. SEGREGATED ACCOUNTS RECONCILIATION AND MONITORING

RULES	CHECKLIST	RESULTS	
<b>Sub-procedure 1 – Reconciliation</b>		<b>Yes / No / N/A</b>	<b>Number of exceptions</b>
Select samples of reconciliations of segregated account(s). Inspect the samples of reconciliations selected and determine whether:			
3.40(1)	Bank statements have been reconciled with the segregated account ledger balances.		
3.40(5)(a)	If the reconciliation was not carried out or was not able to be carried out as required by 3.40(1), the licenceholder notified the Authority within five business days.		
3.40(2)	There is evidence that the reconciliations have been checked by an individual other than the person who carried out the reconciliation (four eyes principle)		
<b>Sub-procedure 2 – Relevant Funds Ledger per Client</b>		<b>Yes / No / N/A</b>	<b>Number of exceptions</b>
Select 5 days and review client ledger balances related to segregated accounts. Observe how the reports are generated, inspect the reports and determine whether:			
3.39(2)(b)	The schedule of relevant funds in respect of each client shows how much money stands to the credit of each payment service user or electronic money holder.		
3.39(2)(c)	There are no debit payment service user balances or no debit electronic money holder balances in the schedule of relevant funds in respect of any client that would indicate that relevant funds belonging to one client was used for another.		

### IV. RECORDS AND TRANSACTIONS TESTING

		Number of transactions	Sample size
<b>Number of transactions on each bank account (including nominee accounts, subscription/redemption accounts, specified accounts)</b>	<b>Account 1</b>		
	... <sup>14</sup>		
	<b>Account 10</b>		
<b>Total number of transactions on each of the trust bank accounts selected for the purposes of procedure 2</b>	<b>Account 1</b>		
	...		

<sup>14</sup> Insert additional rows as needed.

## CLIENTS' ASSETS REPORT AND PROCEDURES

	<b>Account 10</b>		
<b>Number of transactions on each segregated account (including nominee accounts)</b>	<b>Account 1</b>		
	...		
	<b>Account 10</b>		
<b>Number of transactions on each investment account (including nominee accounts)</b>	<b>Account 1</b>		
	...		
	<b>Account 10</b>		

RULES	CHECKLIST	RESULTS	
<b>Sub-procedure 1 – Receipts on Client Bank Accounts (including Nominee Bank Accounts), Trust Bank Accounts and Segregated Accounts</b>		Yes / No / N/A	Number of exceptions
Select samples of receipts from the bank account statements. Inspect the relevant supporting documents, trace the transaction to the relevant transaction ledger and determine whether:			
3.2 3.9(6) 3.35 3.39(3)	Samples of the receipts selected were either one of the following: a. Client Money (3.2); b. Trust Money (3.2) and (3.31)(2)(b); c. Relevant Funds (3.35); d. Opening of bank account (3.9(6)) (3.39(3)(a)); e. Money to restore an amount withdrawn in error from the account (3.9(6)) (3.39(3)(b)); or f. None of the above but subsequently, and on a timely basis, withdrawn from the client bank account.		
3.9(7) 3.39(4)	The receipt consists of client money. If money is not client money, has it been withdrawn as soon as the funds were cleared.		
3.10(2) 3.10(3) 3.37(5) 3.39(2)(b)	The transaction was recorded in the relevant transaction ledger with appropriate information on: a. Client on behalf of whom the money was received; b. Amount; and c. Nature / description of transaction.		
<b>Sub-procedure 2 – Payments on Client Bank Accounts (including Nominee Bank Accounts) , Trust Bank Accounts and Segregated Accounts</b>		Yes / No / N/A	Number of exceptions
Select samples of payments from the bank account statements. Inspect the relevant supporting documents, trace back the transaction to the relevant transaction ledger and ensure the following:			
3.9(8) 3.9(10) 3.38 3.39(5)	Withdrawals should be one of the following: a. Not client money, trust money or relevant funds; b. Properly required for a payment to or on behalf of a client or trust, or a payment request; c. Properly transferred to another client bank account, trust bank account or into a bank account in the client's own name; d. Licenceholder's fees or commission in accordance with the terms of relevant agreements; or e. Licenceholder's fees or commission as agreed by the client or finally determined by the court or arbitrator.  <i>(Note: A sample selected which pertains to interest earned on a client bank account which is paid into the licenceholder's own account (and it is clearly set-out in client agreement or terms of business that no interest is to be paid to the client) is <b>not</b> considered an exception.)</i>		
3.10(2) 3.10(3)	The transaction was recorded in the relevant transaction ledger with appropriate information on:		

## CLIENTS' ASSETS REPORT AND PROCEDURES

3.10(4)	a. Client or trust on behalf of whom the money paid, if applicable;		
3.37(5)	b. Amount; and		
3.39(2)(b)	c. Nature / description of transaction.		
3.40(5)(b) (ii)	Discrepancies were resolved within three months from the date of reconciliation or the Authority was notified, with details, that the reconciling item was not resolved within that period.		

## CLIENTS' INVESTMENTS

### V. RECONCILIATION, RECORDING AND MONITORING OF INVESTMENTS

RULES	CHECKLIST	RESULTS	
<b>Sub-procedure 1 – Risk Assessment and Frequency of Reconciliation</b>		Yes / No / N/A	Number of exceptions
Review the licenceholder's written assessment of risk and ensure the following:			
4.7(1) 4.7(3)	The frequency of custody reconciliation on clients' investments was stated in the risk assessment and it met the minimum requirements as set out below. <ul style="list-style-type: none"> <li>a. 25 business days if title to the investments is in electronic form and the third party records can be obtained electronically;</li> <li>b. Every 3 months or at a frequency agreed with the Authority in writing if the investments are registrable and third party records cannot be obtained electronically; and</li> <li>c. Every six months if title to the investments is in documentary form.</li> </ul>		
4.7(2)	The risk assessment of the frequency of custody reconciliations was reviewed during the period in question.		
<b>Sub-procedure 2.1 – Reconciliation of clients' investments held by the licenceholder's nominee company</b>		Yes / No / N/A	Number of exceptions
Select samples of clients' investment reconciliations held by the nominee company. Inspect the reconciliations and ensure the following:			
4.7(6)(a)	Nominee company investment schedule was reconciled against the schedule of total clients' investments in respect of each client.		
4.7(11)(a)	If the reconciliation was not carried out or was not able to be carried out as required by Rules 4.7(1), 4.7(3) and 4.7(5), confirm that the licenceholder notified the Authority within five business days.		
<b>Sub-procedure 2.2 – Title documents held by "the licenceholder's nominee company" and licenceholder's ledgers</b>		Yes / No / N/A	Number of exceptions
Select samples of title documents held by the nominee company from client investment schedules used in Sub-procedure 2.1. Inspect supporting documents, trace back the investment to the respective client ledger and determine whether:			
4.4(1) 4.7(4)(a)(b)	Samples selected were supported by third party records from a sub-custodian or by actual title in documentary form, as applicable.		
4.7(6)(a)(b)	Third party records from a sub-custodian or actual title was reconciled against the nominee company's clients' investment schedule.		
<b>Sub-procedure 3 – Reconciliation of investments held by other eligible custodians</b>		Yes / No / N/A	Number of exceptions
Select samples of reconciliations of clients' investments held by eligible custodians (other than the licenceholder's nominee company(s)). Inspect the reconciliations selected and determine whether:			



## CLIENTS' ASSETS REPORT AND PROCEDURES

4.7(6)(a)	The eligible custodian client investment schedule was reconciled against the schedule of total clients' investments in respect of each client.		
4.7(4)(c) 4.7(6)(c)	Written statement from eligible custodian was reconciled against the schedule of investment.		
4.7(11)(a)	If the reconciliation was not carried out or was not able to be carried out as required by Rules 4.7(1), 4.7(3) and 4.7(5), confirm that the licenceholder notified the Authority within five business days.		
<b>Sub Procedure 4 – Evidence of Review and Supervision</b>		<b>Yes / No / N/A</b>	<b>Number of exceptions</b>
4.7(7)(i)	Ensure that there is evidence that the reconciliations inspected in Sub-procedures 2.1, 2.2 and 3 above have been carried out, or observed and reviewed, by persons who are not responsible for the origination or maintenance of the licenceholder's records.		
4.7(7)(ii)	Ensure that there is evidence that the reconciliations inspected in Sub-procedure 2.2 above have been supervised by a responsible officer.		
<b>Sub-procedure 5 – Reconciling Items</b>		<b>Yes / No / N/A</b>	<b>Number of exceptions</b>
Select samples of reconciling items from the reconciliations tested in Sub-procedures 2.1, 2.2 and 3. Inspect the related documents and determine whether:			
4.7(8)(b) (ii)	Samples selected were resolved within three months from the date of reconciliation or Authority was notified, with details, if the reconciling item selected was not resolved within the three month period.		
<b>Sub-procedure 6 – Movements of investments during the period</b>		<b>Yes / No / N/A</b>	<b>Number of exceptions</b>
Select samples of movements (inflow and outflow) of investments within the clients' investment ledger. Inspect the relevant supporting documents of the sample selected and determine whether:			
4.3(1)(a)(b) 4.4(1)(c)(d) (e)	For the samples of investment(s) selected which are held by the licenceholder's nominee company, the investment(s) was recorded with appropriate information on the: <ul style="list-style-type: none"> <li>a. Nature of investment;</li> <li>b. Amount or notional balance of the investment;</li> <li>c. Identity of the client; and</li> <li>d. Location of any title document (D), location of any record of title (E) or the registrar and the person in whose name it is registered (R), whichever is applicable.</li> </ul>		
4.4(2)(a) 4.3(1)(a)(b)	For the samples of investments selected held by an eligible custodian other than licenceholder's nominee company, the movement was recorded with appropriate information on the: <ul style="list-style-type: none"> <li>a. Nature of investment;</li> <li>b. Amount or notional balance of the investment;</li> <li>c. Identity of the client; and</li> <li>d. Custodian holding the investment or document is held.</li> </ul>		

## CLIENTS' ASSETS REPORT AND PROCEDURES

### VI. LENDING OF CLIENTS' INVESTMENTS

RULES	CHECKLIST	RESULTS	
		Yes / No / N/A	Number of exceptions
<b>Sub-procedure 1 – Lending of clients' investments</b>			
Select samples of investments from the list of clients' investments lent during the period. Inspect the relevant supporting documents and on each sample determine whether:			
4.10(1)(b)	There is evidence that the client has – a. been made aware of any effect of the transaction on his interest; b. been recommended to seek advice on his rights in relation to the investment and his tax position; and c. expressly agreed in writing to the loan.		
4.10(1)(c)	Terms of the loan were set-out in - a. a written agreement between licenceholder and the client; and b. a written agreement between licenceholder and the borrower.		
4.10(1)(d)	There is evidence that the loan was authorised in writing by a key person approved for the purpose by the directors.		
4.10(2)	The loan was maintained in the licenceholder's records with appropriate: a. description (including amount and value) of the investment; b. the nature of the transaction and purpose for which the loan was made; c. the remuneration payable to the licenceholder (if any); d. the remuneration payable to the client; e. the identity of the borrower; f. nature and value of any security provided by the borrower; and g. in the case of a title document, a description of the document, the date the document left the possession or control of the licenceholder, whether the borrower confirmed receipt of the document and the date when the document came back into the possession or control of the licenceholder.		
4.10(3)	If the sample selected is still outstanding at the period-end under question, there is evidence that the following has been reviewed: a. the level of exposure of the parties to the transaction; b. the risk of default by the borrower; c. the value of any security provided by the borrower; and d. the effect of the transaction on the interests of the client.		

## CLIENTS' ASSETS REPORT AND PROCEDURES

<b>GUIDANCE FOR COMPLETION OF APPENDIX C1</b>	
RULES column	Set out in this column are the references to the relevant rules in the Financial Services Rule Book.
CHECKLIST column	Set out in this column are the licenceholder's 'to do list' in performing the Procedures relating to clients' assets which has been designed by the Authority.
RESULTS column	<p>This is where the licenceholder should indicate the following:</p> <ol style="list-style-type: none"> <li>a. Sample size unless it is already provided;</li> <li>b. Results of factual findings under 'YES / NO / N/A' sub-column; and</li> <li>c. Number of exceptions, if applicable.</li> </ol> <p>It is imperative that <u>all</u> white boxes should be answered properly.</p>
YES / NO / N/A sub-column	<p>The answer 'N/A' in this column <u>should only be used</u> if the procedure(s) could not be performed due to the following reasons:</p> <ol style="list-style-type: none"> <li>a. There is no population to test; and</li> <li>b. The procedure(s) is not applicable on the samples selected.</li> </ol> <p>Consequently, in the same column, N/A <u>should not be used</u> due to the following reasons:</p> <ol style="list-style-type: none"> <li>a. The sample selection could not be performed due to lack of listing ('NO' answer is more appropriate and treat it as an exception); or</li> <li>b. The procedure could not be performed due to lack of supporting documents provided by the licenceholder ('NO' answer is more appropriate then indicate the number of exception(s)).</li> </ol>
Number of exception(s) sub-column	<p>In every 'NO' response in the 'YES / NO / N/A' column, the licenceholder <u>must</u> indicate how many exception(s) were noted. Details of these exceptions should be documented in Appendix C3 of the Procedures.</p> <p>'N/A' should be answered if the response in the 'YES / NO / N/A' column is either 'YES' or 'N/A'.</p>

## CLIENTS' ASSETS REPORT AND PROCEDURES

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### APPENDIX C2

#### DETAILS OF RECONCILIATIONS

#### Client Money, Trust Money, Segregated Accounts, Nominee Bank Accounts and Clients' Investments

Select one of each of the following (where appropriate) and the type should be notated on Appendix C2:

- "D" – title of the investments in documentary form;
- "E" – title of the investments in electronic form; and
- "R" – registrable investments.

Sample Number	Full Name of Bank Account or Investment Name	Type of Account	D/ E/ R	Bank Account Currency	Date of Bank / Valuation Statement	Date of performance of Reconciliation
<i>Example</i>	<i>XYZ Client Account 12345678</i>	<i>Client Money</i>	<i>n/a</i>	<i>Sterling</i>	<i>31 January 2017</i>	<i>7 February 2017</i>
1						
2						
3						
4						
5						
6						
7						
8						
9						
10						
...						

## CLIENTS' ASSETS REPORT AND PROCEDURES

### APPENDIX C3

#### EXCEPTION LOG

[licenceholder name] the [year/period] ended [date of statement of financial position]

Column A	Column B	Column C	Column D	Column E	Column F
Item No.	Procedure and/or Rule reference(s)	Sample reference	Description of the Exception	Breach or Best Practice	Licenceholder's Comment
1					
...					

#### **Instructions for Appendix C3**

In Columns A to D of the above schedule the licenceholder, and when required the auditor, is to set out all the breaches of the Financial Services Rule Book relating to this Clients' Assets Report occurring during the period under review. These must include the breaches identified by the licenceholder, including those detailed in the licenceholder's breaches register<sup>15</sup>. In relation to any breach identified, Column D should include any information regarding the severity and duration of the breach identified and, where relevant, the frequency with which that breach has occurred.

Column C should identify the sample with the exception.

A 'nil' return for this part should be provided where no rule breaches have been identified.

In Column F the licenceholder should set out any remedial actions taken (if any) associated with the breaches cited, together with an explanation of the circumstances that gave rise to the breach in question.

<sup>15</sup> This log may be incorporated into the licenceholder's standard breaches log and the relevant extract/entries submitted as part of this return.

**CLIENTS' ASSETS REPORT AND PROCEDURES**

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**AUDITOR'S CONFIRMATION****APPENDIX D1**

Isle of Man Financial Services Authority  
PO Box 58  
Finch Hill House  
Bucks Road, Douglas  
Isle of Man, IM99 1DT

Date:

Dear Sirs

[Licenceholder's name] – Financial [year/period] ended [date]

**Auditor's Confirmation on the Clients' Assets Report**

We have been engaged to perform a limited assurance engagement in relation to the above licenceholder's compliance with Part 3 and, where applicable, Part 4 of the Financial Services Rule Book ('Rule Book') in accordance with the procedures outlined in this document for which the Authority is solely responsible.

We have reviewed the Clients' Assets Report prepared as at [date] as required by Rule 5.18 of the Rule Book and confirm that nothing has come to our attention to indicate that –

- a) the Clients' Assets Report has been prepared by a person involved in the handling of clients' money or a person responsible for undertaking reconciliations required by Parts 3 and 4 of the Rule Book as required by Rule 8.23(2)(b);
- b) the Clients' Assets Report has not been completed by a person with sufficient knowledge of how to properly safeguard clients' assets (where the performance of the procedures has been sub-delegated by the Head of Compliance);
- c) the procedures outlined in this document have not been completed appropriately; and,
- d) the licenceholder has not complied with Parts 3 and 4 of the Rule Book during the [period/year] ending [date of Statement of Financial Position].

In addition, we confirm that –

- a) review of 20% [or state % if higher] of the licenceholder's testing has been performed, details of which, together with any exceptions identified and the licenceholder's comments are listed in Appendix D2; and
- b) other than those reportable matters that the licenceholder has detailed in Appendix C3, we [did not note further non-compliance with the Rule Book] / [did note further non-compliance with the Rule Book as detailed in Appendix D3].

This report is intended solely for the Authority's use for the purpose set-out above. As the intended user of the Clients' Assets Report, it is for the Authority to assess both the procedures and factual findings to determine whether they provide, in combination with any other information obtained, a reasonable basis for any conclusions which the Authority may wish to draw on the subject matter. Distribution of this Auditor's Confirmation by the licenceholder is restricted to other entities within the licenceholder's group, and the lead or home regulator of any regulated entity within the group, (since others, unaware of the reasons for the procedures, may misinterpret the results).

Yours faithfully,

*[Auditor's signature]*

## CLIENTS' ASSETS REPORT AND PROCEDURES

### APPENDIX D2

#### AUDITOR'S SAMPLE AND EXCEPTION LOG

[licenceholder name] the [year/period] ended [date of statement of financial position]

Column A	Column B	Column C	Column D	Column E	Column F
Item No.	Procedure and/or Rule reference(s)	Sample reference <sup>16</sup>	Description of the Sample and any Exception	Breach or Best Practice	Licenceholder's Comment re any Exception
<i>Example</i>	<i>3.11 and 3.12</i>	<i>Account 12345678 testing.  Reconciliation date 7 February 2017 OR Transaction reference Receipt/payment.</i>	<i>The xyz client account had a total of 60 transactions during the year, resulting in a sample size of 10 transactions. We sampled 2 transactions (20%), 1 receipt and 1 payment. The payment related to...  We noted [no exceptions on completion of procedure IV, sub-procedures 1 and 2].</i>		<i>Not applicable</i>
1					
...					

#### **Instructions for Appendix D2**

In Columns A to D of the above schedule the auditor is to set out details of the samples reviewed and any breaches of the Financial Services Rule Book identified, excluding exceptions identified and recorded by the licenceholder and notified to the Authority. In relation to any breach identified, Column D should include any information regarding the severity and duration of the breach identified and, where relevant, the frequency with which that breach has occurred.

Where no rule breaches or issues are identified, this should be stated.

In Column F the licenceholder should set out any remedial actions taken (if any) associated with the breaches cited, together with an explanation of the circumstances that gave rise to the breach in question.

<sup>16</sup> This should detail either the account reference and reconciliation date or the account reference and the transaction reference

**CLIENTS' ASSETS REPORT AND PROCEDURES**

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**APPENDIX D3**

**Details of any other non-compliance with the Rule Book identified by the Auditor while carrying out the Procedures**

<b>Column A</b>	<b>Column B</b>	<b>Column C</b>	<b>Column D</b>
<b>Item No.</b>	<b>Rule Reference(s)</b>	<b>Breach identified</b>	<b>Licenceholder's Comment</b>
1			
...			