



CP25/37: TARGETED CLARIFICATIONS OF HANDBOOK MATERIALS

Issued 27 January 2026

ICAEW welcomes the opportunity to comment on the *CP25/37: Targeted Clarifications of Handbook Materials* published by the Financial Conduct Authority (FCA) on 9 December 2025, a copy of which is available from this [link](#).

ICAEW welcomes the proposed changes to the CASS rules, which we consider generally sensible and pragmatic, providing firms with operational flexibility, including for external custody reconciliations, the use of EUI's IFS System Record, and the treatment of firm-owned interest.

However, some wording is ambiguous and may introduce "new" judgments, increasing operational risk and potentially creating inconsistencies between firms. In particular, terms such as "reasonable endeavours" and "expectation of receipt," the frequency of communications with credit institutions, and interactions with existing rules would benefit from further clarification.

While reporting on Consumer Duty is not within the current scope of CASS audit reporting, we also note that excluding references to Consumer Duty from the CASS audit scope may create practical challenges in assessing compliance holistically. Clearer guidance on these points and other areas (including allowing alternative custodians in addition to the specific EUI's IFS noted), would allow for future-proofing and support consistent, proportionate, and effective implementation across the industry.

We welcome continued collaboration and stand ready to assist through our member base and technical working groups.

ICAEW

Chartered Accountants' Hall Moorgate Place London EC2R 6EA UK
T +44 (0)1908 248 250 F +44 (0)20 7920 0547 icaew.com

The Institute of Chartered Accountants in England and Wales (ICAEW) incorporated by Royal Charter (RC000246)
Registered office: Chartered Accountants' Hall Moorgate Place London EC2R 6EA UK

This response of 27 January 2026 has been prepared by the ICAEW Financial Services Faculty with support from ICAEW's CASS Working Party. The ICAEW Financial Services Faculty is a leading centre for thought leadership on financial services, the faculty brings together different interests and is responsible for representations on behalf of ICAEW on governance, regulation, risk, auditing and reporting issues facing the financial services sector. The faculty draws on the expertise of its members and more than 25,000 ICAEW members involved in financial services.

ICAEW is a world-leading professional body established under a Royal Charter to serve the public interest. In pursuit of its vision of a world of sustainable economies, ICAEW works with governments, regulators and businesses and it leads, connects, supports and regulates more than 172,000 chartered accountant members in over 150 countries. ICAEW members work in all types of private and public organisations, including public practice firms, and are trained to provide clarity and rigour and apply the highest professional, technical and ethical standards.

© ICAEW 2026

All rights reserved.

This document may be reproduced without specific permission, in whole or part, free of charge and in any format or medium, subject to the conditions that:

- it is appropriately attributed, replicated accurately and is not used in a misleading context;
- the source of the extract or document is acknowledged and the title and ICAEW reference number are quoted.

Where third-party copyright material has been identified application for permission must be made to the copyright holder.

For more information, please contact: Financial Services – fsf@icaew.com

ANSWERS TO SPECIFIC QUESTIONS

Question 3: Do you agree with our proposals relating to the use of EUI's IFS System Record for external custody reconciliations – including the proposed conditions to ensure accuracy and reliability, and the guidance that daily reconciliations would represent best practice? If not, please explain your views and suggest any changes we should consider.

1. ICAEW agrees with the proposal to permit the use of EUI's IFS System Record for external custody reconciliations, subject to conditions ensuring accuracy and reliability, noting that previous FCA rules required explicit permission for its use. We also agree that updating 6.6.39G (2) and identifying daily reconciliations as best practice is appropriate.
2. However, we note that the proposed rules apply to a narrow and specific scenario by referencing a named third-party organisation, which is unusual within the CASS framework. ICAEW therefore encourages the FCA to consider whether the rules could be future-proofed to allow the use of other central securities depositories or exchanges, subject to equivalent conditions.
3. In addition, ICAEW considers it important that the FCA clearly articulates the role of such entities within the external custody reconciliation process, to avoid any perception that core CASS responsibilities are being delegated. This risk could be mitigated by requiring regulated firms to perform periodic due diligence over the IFS System, including a focus on discrepancy identification, reporting, and compliance with relevant written agreements.

Question 4: Do you agree with our proposal to amend the rules to permit a firm to conduct the external custody reconciliation less frequently for client assets where it can demonstrate it is unable to obtain third party statements on at least a monthly basis? If not, please explain why.

4. ICAEW agrees that the proposal to allow less frequent external custody reconciliations where third-party statements cannot be obtained monthly is proportionate and pragmatic.
5. However, we note that the use of the term "reasonable endeavours" in proposed rule 6.6.40CR(1) lacks clarity and may result in inconsistent interpretation by firms and auditors. ICAEW therefore considers it would be helpful for the FCA to provide further guidance on the minimum steps and expected frequency of follow-ups required to meet this standard, to promote consistent application and supervisory outcomes across the industry.

Question 6: Do you agree with our proposal to amend CASS 6.4 to clarify that firms must comply with the Duty when gaining consent for and using retail clients' safe custody assets for SFTs? If not, please explain why, including alternative approaches.

6. ICAEW notes that the proposed amendment to CASS 6.4.1BAR(4), as drafted, limits the use of retail client custody assets to securities financing transactions. We consider that, without further clarification, this could inadvertently create uncertainty for firms when settling retail client trades through omnibus account structures within commercial settlement systems.
7. When the existing CASS 6.4 rules were introduced, the FCA addressed this point in PS17/14, acknowledging that, in respect of commercial settlement systems, firms may use retail client assets for settlement purposes where the client has given express prior consent, provided appropriate measures are in place to prevent unauthorised use of client assets.
8. ICAEW therefore encourages the FCA to clarify the proposed rule to reflect this existing position, to ensure that firms can continue to settle client transactions through commercial settlement systems with express client consent, and to avoid unintended restrictions or inconsistent interpretations.

Question 7: Do you agree that the changes to CASS 6.4 and 7.11 should be excluded from the scope of the CASS audit? If not, please explain why.

9. ICAEW agrees that Consumer Duty should not be brought into the scope of the CASS audit. Referencing Consumer Duty within CASS rules can create practical challenges for auditors in determining what is auditable. ICAEW recognises that CASS auditors are not Consumer Duty specialists, and that forming audit judgments on matters such as the appropriateness of interest paid to retail clients would be challenging in the absence of further guidance.
10. A clearer approach may be for the FCA to specify the outcomes or considerations it expects firms to address, which would then allow auditors to review compliance against clearly defined requirements, rather than introducing obligations that are difficult to audit directly.
11. We also note that carving out elements of the CASS Rulebook from the auditor's opinion carries some risk of inconsistent approaches, as auditors may still review these areas in practice and report breaches where identified. While there is precedent under SUP 3.10.5 for excluding certain rules from the auditor's opinion, providing further clarity on the intended scope would help promote consistent audit outcomes across firms.

Question 8: Do you agree with our proposal to permit receipt of firm owed interest into client bank accounts (when not as part of a mixed remittance) in limited circumstances and subject to conditions? If not, please explain why, including alternative approaches

12. ICAEW agrees that the proposal to permit the receipt of firm-owned interest into client bank accounts in limited circumstances, subject to conditions, is sensible and pragmatic.
13. However, we consider that certain aspects of the drafting would benefit from further clarification to support consistent application.
14. In particular, the reference in proposed CASS 7.13.19AR(1) to both "any receipt" and an "expectation of receipt" of bank interest is unclear and may give rise to differing interpretations, as one suggests prospective arrangements while the other may imply retrospective action. Further guidance on the intended meaning of "expectation of receipt" would therefore be helpful.
15. Clarification would also be welcomed on the expected frequency of communications with credit institutions under proposed CASS 7.13.19AR(2), for example whether this is expected at account opening, upon changes to arrangements, or on a periodic basis.
16. ICAEW also notes potential inconsistencies between the proposed drafting and existing CASS requirements, including the interaction between proposed CASS 7.13.19AR(3) and CASS 7.11.25R, and encourages the FCA to consider aligning the wording and guidance to reduce the risk of divergent interpretations.

Question 9: Do you agree with our proposal to allow firms to elect to treat bank interest received into a client bank account as 'unallocated client money' from the point of receipt, where the firm has agreed that some or all of the interest will become due and payable to the client at a future date? If not, please explain your concerns.

17. ICAEW agrees that the proposed rules appear sensible and provide firms with appropriate flexibility to structure interest receipts in line with their operational approach.
18. We note, however, that the proposed rules introduce a number of additional requirements for regulated firms, which could increase the risk of non-compliance and appears to run counter to the stated aim of CP25/37 to simplify the regulatory burden.
19. Regulated firms may also need to consider the implications of these changes for their existing Terms & Conditions and client communications, which is likely to require additional implementation effort and some associated cost.