Audit Readiness for the Safeguarding Supplementary Regime

A Helpsheet for Members of The Payments Association

The implementation of the Safeguarding Supplementary Regime on 7 May 2026 represents a paradigm shift in the regulatory landscape for the UK's payment and e-money sectors. This regime, codified primarily within the Financial Conduct Authority's ('FCA') Client Assets Sourcebook ('CASS') as Chapter 15, moves the industry from a system of high-level statutory requirements supplemented by the FCA's Approach Document toward a prescriptive, rules-based framework akin to the regime governing investment firms for almost two decades.

For members of The Payments Association ('TPA'), this transition demands a fundamental overhaul of internal governance, operational controls, and evidence-gathering methodologies. This helpsheet provides an exhaustive technical analysis of the steps required to achieve "audit readiness" under the new regime, leveraging the 'insolvency mindset' and detailing the practical application of CASS 15 and SUP 3A rules.

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1. The Context and Origin of the Supplementary Regime

The evolution of the safeguarding framework is rooted in systemic concerns regarding the efficacy of protection for client funds within the payments sector. Historical failures, underscored by high-profile payment firm insolvencies, revealed that the high-level requirements set out in the Electronic Money Regulations 2011 ('EMRs') and Payment Services Regulations 2017 ('PSRs') often resulted in significant shortfalls during winding-up processes. The average shortfall for failed payments firms between 2018 and 2023 was estimated at 65%, highlighting a critical risk to consumer protection and market integrity.

The Supplementary Regime serves as an interim stage before a *potential* "Post-Repeal Regime," which would eventually replace existing legislation with a full statutory trust model. The Supplementary Regime, effective from 7 May 2026, aims to standardise record-keeping, mandate daily reconciliations, and introduce compulsory annual safeguarding audits by qualified auditors for most firms. By embedding these requirements into the CASS sourcebook, the FCA ensures that the "relevant funds regime" is subject to the same level of oversight and assurance as the investment sector.

Key Feature of the Supplementary Regime	**Regulatory Reference**	**Implementation Outcome**
Mandatory Annual Safeguarding Audit	SUP 3A	Reasonable assurance on adequacy of systems during the period and end-of-period compliance.
CASS 10A Resolution Pack	CASS 10A	Immediate or 48-hour retrieval period for critical insolvency documentation.
Safeguarding Reconciliations	CASS 15.8	Daily verification of safeguarding resource vs. requirement and external reconciliations.
Statutory CASS Oversight Officer	CASS 15.2.4R	Personal accountability at director/senior manager level.
Standardised Acknowledgement Letters	CASS 15.7	Mandatory template usage to put third parties on notice.

2. The Impact of the Audit on Firm Compliance

The transition to a **reasonable assurance engagement** under SUP 3A marks the end of "best practice" safeguarding audits. Firms must now prepare for a rigorous evaluation by qualified external auditors who are bound by the Financial Reporting Council's ('FRC')'s auditing standards.

The Centrality of the Insolvency Mindset

The **"insolvency mindset"** is the foundational principle of the new regime, derived from the FRC CASS Assurance Standard (2019). It requires firms to view their operations through the lens of a "worst-case scenario." Under this framework, the adequacy of systems is not judged merely by their performance in business-as-usual (BAU), but by their ability to protect client rights in the event of a firm's failure.

In practical terms, the FRC's Interim Guidance and CASS 15 rules dictate that firms must be able to identify client entitlements "at any time and without delay." Regulatory history proves that the FCA does not wait for a loss of funds to take action; some of the largest CASS fines have been levied where systems simply failed to provide adequate protection, thereby putting client funds at risk.

Professional Scepticism and Internal Challenge

Under the FRC CASS Assurance Standard (2019) and the Interim Guidance, auditors are required to exercise **"professional scepticism"**. This means they will not simply verify the existence of a document at the period-end, they will look for **evidence of the control environment** that manages that document **throughout the year**.

For example, a firm might have an Acknowledgement Letter (as required by CASS 15.7). However, the auditor's focus is not just on the letter itself, but on the firm's ability to demonstrate that the letter is subject to regular review. They will investigate what triggers a refresh (e.g., a change in bank legal name or account type) and whether the firm has a "timely" process to rectify deficiencies. The audit demands proof of operating effectiveness throughout the entire period, as per SUP 3A.9.

The audit environment demands that firms prove the operating effectiveness of their controls throughout the entire period, not just at the period-end date.

The Zero-Materiality Threshold

A significant impact of the new safeguarding audit regime is the concept of "zero-materiality" in breach reporting. In a standard financial audit, a small discrepancy might be disposed of as immaterial. However, in a safeguarding audit under SUP 3A, every breach of a CASS 15 rule, no matter how small in monetary value (e.g. £1), must be recorded on the auditor's breaches schedule.

This absolute standard necessitates a high level of technical precision in daily operations. A failure to segregate even £1 correctly is a reportable event (in an audit report) that will lead to a qualified audit opinion, while more significant and pervasive matters will lead to an adverse audit opinion.

Safeguarding Culture

Safeguarding auditors adopting the FRC's Client Assets Standard marks a significant shift in regulatory focus, extending beyond mere compliance with technical rules and internal controls to place an emphasis on a firm's internal culture. This standard mandates that firms managing client assets must be evaluated not just on the adequacy of their procedures and controls, but crucially on the embedded culture within the organisation that governs the safeguarding of relevant funds.

This cultural evaluation is intended to ensure that customer protection is treated as a fundamental priority, rather than a peripheral compliance task. Auditors, in their assessment under the FRC standard, are therefore required to look for evidence that a "safeguarding culture" is pervasive. This includes reviewing:

- **Tone from the Top**: Whether senior management and the board demonstrate a clear and unwavering commitment to protection relevant funds, setting the ethical standard for the rest of the firm.

- **Accountability and Governance**: The mechanisms in place to assign responsibility for client asset risks and the effectiveness of the governance framework in challenging and overseeing relevant activities.

- **Staff Awareness and Training**: The quality and frequency of training provided to employees at all levels to ensure they understand their responsibilities regarding safeguarding of relevant funds and the serious implications of non-compliance.

- **Risk Management Integration**: How safeguarding risks are identified, assessed, and managed within the firm's broader risk framework, ensuring they are not viewed in isolation.

- **Internal Communication**: The openness and effectiveness of channels for reporting concerns or breaches related to safeguarding of relevant funds without fear of retribution.

By focusing on culture, the FRC aims to drive a sustained change in behaviour, ensuring that client asset protection is ingrained in the firm's day-to-day operations and decision-making processes, thereby offering a more robust and enduring layer of protection for relevant funds.

3. Actionable Steps for Preparation: The Readiness Roadmap

Achieving audit readiness before your first safeguarding audit under the new regime requires a phased approach that begins with technical analysis and culminates in operational embedding.

Step 1: Technical Gap Analysis and Rule Mapping

Firms should have conducted an exhaustive gap analysis comparing their current "as-is" safeguarding practices against the requirements of the EMRs, PSRs, CASS 1, CASS 15, CASS 10A, and SUP 3A ('the Requirements').

- **Scope Determination:** Establish which parts of the firm's business gives rise to "relevant funds". This includes funds received in exchange for e-money and funds received for the execution of payment transactions.
- **Rule-by-Rule Assessment:** Document compliance against each specific rule within the Requirements. This necessitates a granular assessment, rather than a high-level review, detailing the firm's methodology for satisfying requirements pertaining to receipt and allocation of relevant funds, issuance of acknowledgement letters, performance of daily reconciliations, etc.
- **Method Selection:** Formally document whether the firm is using the "segregation method" or the "insurance or guarantee method," ensuring all conditions for the chosen method in CASS 15.4 or 15.5 are met.
- **Policy Document:** Under CASS 15, firms must have a formal Safeguarding Policy Document. This is not merely a restatement of the Handbook; it is a critical record of the firm's interpretation of the rules and their specific application to its unique business and operating model.

Step 2: Comprehensive Risk Mapping and Control Matrix ('RACM')

The risk assessment process is a critical element of CASS governance. Firms must identify specific "CASS risks" or events that could lead to a breach of the rules or loss of relevant funds.

- **Risk Identification**: Beyond general operational risk, firms must identify risks specific to safeguarding, such as the failure of a reconciliation system, data issues in bank feeds, or the insolvency of a safeguarding credit institution.
- **Controls Mapping**: For every identified risk and every regulatory obligation in CASS 15, the EMRs and PSRs, the firm must map a corresponding control. This mapping forms the Risk and Control Matrix ('RACM'), which serves as the primary roadmap for the auditor during the engagement.
- **Control Effectiveness Testing:** Before the audit period begins, the firm's internal audit or compliance function should conduct a "dry run" of control testing, assessing both the design of the control and its operating effectiveness.

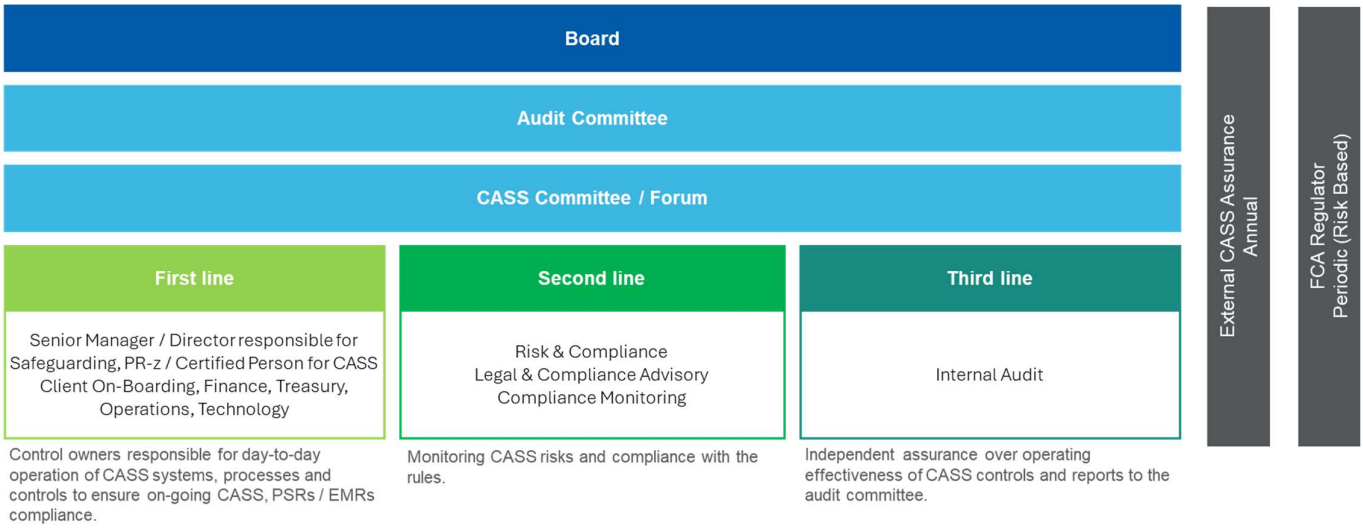
Step 3: Governance and Accountability Structuring

The FCA expects firms to have CASS-specific governance arrangements that involve the "three lines of defence".

- **Senior Management Responsibility:** Under CASS 15.2.4R, firms must allocate responsibility for oversight of operational compliance to a single director or senior manager. This individual must have sufficient skill, authority, and resources to ensure the regime is followed.

- **The Safeguarding Committee:** Establishing a dedicated safeguarding committee is considered best practice. This committee should have formal terms of reference and receive high-quality Management Information ('MI') e.g. on reconciliation breaks, breach trends, and third-party due diligence.

- **Accountability Matrix:** Firms should create a clear accountability matrix that defines CASS roles and responsibilities across the organisation, ensuring that escalation chains are well understood.



Step 4: Resource and Training Assessment

The transition to a prescriptive regime requires a higher level of technical knowledge than the legacy regime.

- **Skill Audit:** Firms should assess whether their existing finance and compliance teams have the necessary expertise in CASS rules and an awareness of insolvency law.

- **Formal Training Programme:** All staff involved in the safeguarding chain, from treasury to technology, as well as those charged with governance (i.e. Board), second line (compliance) and third line (internal audit) - should receive training on the "relevant funds regime" and the implications of the "insolvency mindset". This is further elaborated in Section 6 below.

- **Resource Planning:** Ensure that the teams responsible for daily reconciliations have sufficient capacity to meet the strict funding deadlines and have sufficient cover during periods of high volume.

4. Checklist of “Audit-Ready” Evidence

An organised repository of evidence is essential for a smooth audit process. This documentation must be readily available for inspection and, where applicable, stored within the CASS 10A Resolution Pack.

CASS 15.2 Organisational and Governance Requirements

The auditor’s assessment of the "control environment" begins here. Governance is not just about having meetings; it is about demonstrating that safeguarding is an embedded priority with clear accountability and challenge within the committee meetings.

1. **Individual Accountability:** Evidence of the specific individual who has been allocated the prescribed responsibility for safeguarding. This includes their job description and statement of responsibilities.

2. **Board or Safeguarding Committee:** Minutes and packs from committee meetings. Auditors will look for evidence of meaningful challenge, oversight of reconciliation breaks, and monitoring of third-party risks.

3. **The Safeguarding Policy Document:** As noted in Step 1, this is your "Interpretive Framework." It must document the firm’s specific application of the rules to its business model. Auditors will test whether the firm actually follows its own written policy.

4. **Procedure documents**: Documentation of the firm’s key procedures relating to safeguarding reconciliations, identification and allocation of relevant funds, etc. will need to be made available to support the auditor’s work.

5. **Management Information (‘MI’):** Samples of the MI provided to the Board or Safeguarding Committee. This should include data on the value of funds safeguarded, number and age of reconciliation breaks, and any identified breaches.

6. **Breach Management & The Breaches Schedule:** A central log of all rule breaches, regardless of materiality. For audit readiness, this must include the "root cause analysis" and evidence of the "timely" remediation to prevent recurrence.

7. **Staff Training Records:** Evidence that all staff involved in the safeguarding chain (from Treasury to Operations) have received technical training on **CASS 15** and the "Insolvency Mindset."

CASS 15.3 Segregation of Relevant Funds

The "Insolvency Mindset" dictates that relevant funds must be immediately identifiable and legally ring-fenced from the firm’s own corporate funds.

1. **Account Designation Evidence**: Recent bank statements or online banking screenshots showing that all safeguarding accounts are clearly named to include terms such as "safeguarding," "customer funds," or "client funds," in line with CASS 15.2 which is further elaborated in the FCA's Approach Document para 10.45.

2. **Definition of When Safeguarding Begins and Ends**: Documented logic explaining exactly when the firm considers funds to have been "received" and thus subject to safeguarding. This is a common area for auditor challenge, especially regarding "internal" unified banking model transfers or payment settlements to determine when safeguarding ends.

3. **Segregation Logic and "Sweeping" Procedures**: If the firm uses a "sweep" or "estimation" method to move funds from a settlement account to a safeguarding account, the auditor will require a detailed process map and evidence on the basis of calculating the "estimate".

4. **Prevention of Co-mingling**: Evidence of controls that prevent firm money from staying in safeguarding accounts.

5. **Segregation of Duties ('SoD')**: A matrix showing that the individuals who perform the reconciliations are different from those who have the authority to move or withdraw funds from the safeguarding accounts.

6. **Flow of Funds Charts**: Clear diagrams showing the flow of funds from the customer, through various intermediaries, to the final safeguarding account, identifying any "points of risk" where funds are not yet segregated and how they are mitigated by the firm's internal controls.

CASS 15.6 Third-Party Oversight and Due Diligence

Audit readiness extends beyond the firm's internal systems to its oversight of third parties.

1. **Due Skill, Care, and Diligence**: Firms must document the grounds upon which they satisfied themselves regarding the selection and appointment of a bank, custodian, or insurer. This includes evaluating their market reputation, creditworthiness, and the proportionality of client funds compared to the third party's capital.

2. **Periodic Reviews**: Firms must conduct periodic reviews (at least annually) of their third-party arrangements, documenting the considerations and conclusions.

3. **Diversification Analysis**: A new requirement in CASS 15.6.5R is that firms must "periodically review whether it is appropriate to diversify" the third parties they use. If a firm chooses to hold all its relevant funds at a single bank, it must have a documented rationale for why this does not represent an unacceptable risk to consumers.

4. **TPA Access Rights**: If a firm outsources safeguarding operations (including to group affiliates), the contract must explicitly grant the firm's auditor rights of access to the TPA's books and records.

CASS 15.7 Acknowledgement Letters

Standardised acknowledgement letters are a mandatory requirement to ensure the legal enforceability of safeguarding status.

1. **Template Compliance**: Firms must use the mandatory template in CASS 15 Annex 1. Any alteration to the "Fixed Text" will render the letter non-compliant.

2. **Countersigned Originals**: The firm must hold letters countersigned by an authorised individual at the approved bank or custodian.

3. **Evidence of Authority**: Documentation or evidence showing that the individual who countersigned the letter had the legal authority to bind the bank or custodian to those terms.

4. **Annual Review Log**: Records showing that the firm has reviewed each acknowledgement letter annually (or upon changes to the relationship) to ensure accuracy.

5. **Retention Evidence**: Evidence that letters are retained for at least five years after the account is closed.

CASS 15.8 Reconciliation Records

Reconciliations are the primary mechanism for ensuring the accuracy of safeguarded funds. Firms must maintain a robust trail of evidence and record for every reconciliation conducted.

1. **Daily Reconciliation Logs**: For every reconciliation day, firms must record the time and date of the process, the actions taken, and the outcome - together with access to all the underlying reports used in producing the reconciliations. Auditors typically seek to re-perform the reconciliations using underlying data and any mismatches in underlying data will give rise to issues.

2. **Internal Safeguarding Reconciliation**: Evidence of the comparison between the "safeguarding resource" (the funds held based on internal records) and the "safeguarding requirement" (the amount owed to clients).

3. **D+1 Comparison**: Where applicable to the firm, evidence of the comparison between the "D+1 resource" (the funds held based on internal records per Item A and Item C - see further details in Section 5 below) and the "D+1 requirement" (the total amount of relevant funds that should be held by a safeguarding institution in accordance with regulation 21(2) of the Electronic Money Regulations or regulation 23(6) of the Payment Services Regulations).

4. **External Safeguarding Reconciliation**: Comparison between the firm's internal records (i.e. safeguarding resource) and the statements or confirmations received from the safeguarding bank or custodian.

5. **Discrepancy Resolution Logs**: Where differences are identified, the firm must document the reason for the discrepancy and the steps taken to resolve it, including evidence of any "top-up" payments from the firm's own funds to cover any shortfalls.

6. **Non-Standard Method Documentation**: If a firm uses a non-standard reconciliation method, it must seek a qualified auditor's design-effectiveness report before adopting a non-standard method as required by CASS 15.8.37R.

IT General Controls ('ITGCs') Evidence

The FRC's Interim Guidance identifies ITGCs as a critical element of safeguarding assurance, especially for tech-reliant payment firms.

1. **System Inventory**: Documentation identifying all key IT systems, applications, and automated procedures that support safeguarding activities (e.g., reconciliation engines, ledger systems, payment systems).

2. **Access Management**: Evidence of controls over access to safeguarding data, including user access reviews, password policies, and logs showing the de-provisioning of staff.

3. **Change Control**: Audit trails for changes or developments, demonstrating that development was authorised, tested, and approved before going live.

4. **Data Integrity and Interfaces**: Evidence of automated controls over data feeds between banks, TPAs, and internal ledgers, ensuring no data loss occurs during transit.

5. **Backup and Recovery**: Documentation of regular data backups and successful "restore" tests to ensure data accessibility in the event of a system failure.

6. **SOC Reports**: Where CASS functions are outsourced to a TPA, the firm should provide the provider's System and Organisation Control ('SOC') report on effectiveness of their controls to support the firm's compliance. The firm must also document its own assessment of the TPA's controls based on this report. Remember: It can outsource operational activities but the firm remains responsible to ensure on-going compliance with the relevant funds regime.

CASS 10A Resolution Pack Components

The Resolution Pack is a "living document" that must enable an IP to retrieve all critical information either “immediately” or within 48 hours.

Resolution Pack Key Categories	Specific Item Required	Rule Reference
Master Document	Information sufficient to retrieve every other document in the pack.	CASS 10A.2.1R(1)
Institution List	Full name, address, and account numbers for every bank, custodian and insurers.	CASS 10A.2.1R(2) and (4); CASS 10A.2.3R
Executed Agreements	Copies of all contracts and side letters relating to safeguarding.	CASS 10A.2.1R(3) and (5)
Agent/Distributor List	A comprehensive document identifying every agent and distributor.	CASS 10A.2.1R(6)
Outsourcing (Group and Third Parties)	List of outsource providers which supports the firm’s safeguarding operations.	CASS 10A.2.1R(7) and (8)
Operational Procedures	Procedures for the management, recording, and transfer of funds.	CASS 10A.2.1R(9)
Critical Personnel	List of individuals critical to the performance of CASS functions.	CASS 10A.2.1R(10)
Reconciliations	The most recent internal and external reconciliation records.	CASS 10A.3.1R

5. Technical Nuances of the Standard Method of Reconciliation

The "Standard Method of Internal Safeguarding Reconciliation" is a critical technical requirement under CASS 15.8.26R. Understanding its components is essential for both daily operations and audit readiness.

The Safeguarding Resource (Items A to D)

The "safeguarding resource" represents the total amount of funds and assets the firm has actually protected.

- **Item A:** The aggregate balance held in relevant funds bank accounts, including settlement accounts at the Bank of England.
- **Item B:** Relevant funds that have been segregated but not yet deposited into a bank account (e.g., cash in transit or funds held by agents).
- **Item C:** The aggregate value of "relevant assets" (secure, liquid investments) based on the previous day's closing valuation.
- **Item D:** The aggregate value of relevant funds protected using the insurance or guarantee method.

The Safeguarding Requirement

The "safeguarding requirement" represents the total amount the firm *should* be holding for its clients.

- **Individual Safeguarding Balances:** The sum of all individual client entitlements, ignoring any negative balances.
- **Unallocated Receipts:** Any funds received that are identified as relevant funds but have not yet been allocated to a specific client.

D+1 Comparison

This daily comparison of the resource (Items A and C) against the requirement (the total amount of relevant funds that should be held by a safeguarding institution in accordance with regulation 21(2) of the Electronic Money Regulations or regulation 23(6) of the Payment Services Regulations) is required where relevant funds are held in an account which is not a relevant funds bank account (e.g. segregated bank account or in an account with other PSPs).

Remediation of Discrepancies

- **Shortfalls:** If the resource is lower than the requirement, a shortfall exists. The firm must "top-up" the safeguarding account by the end of the day on which the reconciliation is performed.
- **Excesses:** If the resource is higher than the requirement, the excess should be withdrawn to ensure that firm funds are not unnecessarily mixed with client funds.
- **Timing:** The reconciliation must be based on records as at a fixed "reconciliation point" (e.g. close of business), which must be consistent every day.
- **Investigation:** Where discrepancies arise, the firm must determine the reason for the discrepancy, document an explanation and include an audit trail of the steps taken by the firm to resolve them without undue delay.

6. Comprehensive Safeguarding Training Program Ensuring CASS 15 Compliance

A robust and comprehensive safeguarding training program is absolutely paramount to achieving and maintaining full compliance with the regulatory requirements set out in the CASS 15 safeguarding rules.

Key Objectives of the Training:

- **Technical Understanding of Safeguarding Rules (CASS 15, PSRs and EMRs)**: The primary objective is to ensure that all relevant staff members possess a deep, technical understanding of CASS 15, the PSRs and EMRs regarding safeguarding. This includes the precise requirements for segregating client funds, the execution of the safeguarding method (e.g., separate bank accounts, insurance method), and ongoing oversight and governance. Staff must clearly understand the trigger points for safeguarding, when safeguarding begins and ends, timely and accurate reconciliations and the standard method.

- **Identification of Relevant Staff**: The scope of training must extend beyond frontline operations. It must include:

    - Operational staff directly involved in handling, calculating, or administering client funds.

    - Compliance and Legal personnel responsible for interpreting the rules and monitoring adherence, particularly the daily reconciliation process.

    - Senior Management and Directors, who hold ultimate responsibility for the firm's compliance culture and safeguarding risk framework.

    - Staff in supporting functions (e.g., Treasury, IT, HR) whose roles may impact the segregation and protection of relevant funds.

- **Operational Procedures and Controls**: Training must translate the regulatory safeguarding requirements into practical, day-to-day operational procedures. This involves detailed instruction on:

    - The firm's established process for segregating and identifying relevant funds immediately upon receipt (the "as frequently as practicable throughout the day" requirement).

    - The control framework designed to ensure the integrity of the safeguarding accounts and prevent co-mingling.

  - Specific procedures for daily safeguarding reconciliation and D+1 comparison, ensuring the balance of safeguarded funds precisely matches the firm's liability to its customers.

- **Risk Awareness and Escalation**: Staff must be trained to recognize potential breaches or non-compliance risks related to safeguarding. This includes fostering a culture where staff feel empowered and obliged to promptly escalate any concerns, discrepancies in reconciliation, or ambiguous situations through defined internal channels.

Training Standards and Frequency:

- **High Standard**: The training must be delivered to a demonstrably high standard, utilising expert content and facilitators (e.g. compliance specialists). It should include practical examples, case studies, and assessments to verify comprehension.

- **Mandatory Initial Training**: All new relevant staff must complete the core CASS 15 training as part of their induction.

- **Ongoing Refresher Training**: Due to the complexity and the potential for rule changes, mandatory refresher training must be conducted at least annually. This ensures knowledge remains current and addresses any recurring issues identified through compliance monitoring, internal audit and the annual safeguarding audit.

- **Documentation**: Comprehensive records of all training content, attendance, and assessment results must be maintained to provide an audit trail demonstrating the firm's commitment to competence and compliance.

Firms can confidently manage this transition and meet the high standards expected of the UK's top payment institutions by taking these measures. This approach also ensures that client interests are protected in the face of increased regulatory scrutiny and heightened FCA standards.

7. Maintain a Comprehensive Breaches Log to Ensure Robust Root-Cause Analysis and Continuous Improvement

It is a mandatory requirement to maintain a meticulously detailed and consistently updated **Breaches Log**. This log serves as a critical central repository for all identified safeguarding breaches, near-misses, and significant incidents.

Purpose of the Breaches Log

- **Systematic Tracking:** Provides a chronological and categorised record of all safeguarding breaches. This is required by the safeguarding audit to include into the breaches schedule.

- **Root-Cause Analysis ('RCA'):** The log is the primary source material for conducting thorough Root-Cause Analysis. By documenting the *what*, *when*, *where*, and *how* of the breach, it enables the identification of systemic weaknesses, process failures, or human errors that led to the incident.

- **Risk Mitigation and Prevention:** The insights gained from RCA, facilitated by the log, are essential for developing and implementing effective corrective actions and preventative measures to reduce the likelihood of recurrence. This will assist firms when formulating their management responses to the safeguarding audit's breaches schedule.

- **Compliance and Audit Readiness:** A well-maintained log demonstrates due diligence and commitment to safeguarding standards, providing essential evidence for internal and external audits.

- **Trend Analysis:** Over time, the log allows the identification of recurring issues, patterns, and emerging threats, informing strategic policy and training updates.

Example Essential Data Fields

1. **Unique Incident ID:** A sequential, traceable reference number.

2. **Rule Reference:** Identification of the relevant regulation and / or rule that was breached.

3. **Date of Discovery:** When the breach was first identified.

4. **Date of Occurrence:** When the breach actually happened.

5. **Impact on Customers:** How many clients were impacted and monetary amounts involved.

6. **Description of the Incident:** A clear, factual summary of what went wrong and what should have happened if it was carried out correctly.

7. **Affected Area/System/Personnel:** Specify which parts of the organisation or which teams were impacted.

8. **Severity Level:** Classification of the breach (e.g., Low, Medium, High, Critical) based on potential impact and whether it is reportable to the FCA without delay per CASS 15.8.60 R or Principle 11.

9. **Immediate Actions Taken:** Steps taken immediately upon discovery (e.g., funding of shortfall, initial client notification, etc.).

10. **Detailed Root-Cause Analysis Findings:** The documented result of the investigation into the underlying causes.

11. **Corrective and Preventative Actions Plan:** The specific measures implemented or planned to fix the immediate issue and prevent future occurrences.

12. **Person(s) Responsible:** Assignee(s) tasked with ensuring the actions are completed.

13. **Date of Completion:** The date all corrective actions were verified and closed.

14. **Status:** Current state of the incident (e.g., Open, Draft or Under Investigation, Close).

8. The Audit Submission Lifecycle and Opinion Types

Firms must understand the procedural aspects of the safeguarding audit as defined in SUP 3A.

The Submission Timeline

Under normal circumstances, the safeguarding report must be delivered to the FCA within four months of the end of the reporting period. However, for the first audit submission ending within 12 months of the 7 May 2026 start date, the deadline is extended to six months after the period-end.

Period Type	Submission Deadline	Outcome
First Audit (Transition)	6 months from Year-End	Extended window for first-year transition.
Subsequent Audits	4 months from Year-End	Reversion to standard CASS reporting timelines.
Delay Notification	Before deadline expiry	Notification to FCA explaining the reason for delay.

Hybrid Opinions in the First Year

Because many firms have financial years that do not align with 7 May, the first audit report could be a "hybrid". This report will opine on compliance with the "legacy regime" (PSRs / EMRs + FCA Approach Document) for the period up to 6 May 2026, and compliance with the "relevant funds regime" (PSRs / EMRs + CASS 15) for the remainder of the year.

Categorisation of Audit Opinions

The auditor will issue one of three primary opinion types.

- **Unmodified Opinion:** This is issued where the firm has maintained adequate systems throughout the period and was in compliance at the end of the period - and no exceptions were identified, i.e. zero breaches.

- **Qualified ("Except For") Opinion:** Issued when there were breaches (e.g., a single missed reconciliation) that were not systemic.

- **Adverse Opinion:** Issued when the auditor concludes that one or more weaknesses are "systemic or pervasive" (e.g. the firm failed to use the correct reconciliation methodology for six months or a consistent shortfall in relevant funds).

9. Conclusion and Final Recommendations

The 7 May 2026 start date for the Safeguarding Supplementary Regime is a milestone that marks the "professionalisation" of the UK payments sector's relevant funds protections. Achieving audit readiness is not a one-time exercise but an ongoing commitment to the principles of segregation, accuracy, and accountability.

Eight Actionable Recommendations for TPA Members:

1. **Finalise GAP Analysis:** Finalise rule-by-rule review of CASS 15 against legacy PSRs / EMRs practices.

2. **Embed the RACM:** Develop a Risk and Control Matrix that maps every CASS 15 obligation to a risk assessment and a specific, testable control.

3. **Appoint the Safeguarding Officer:** Formally allocate oversight responsibility to a senior individual and establish a Safeguarding Committee.

4. **Second line and third line involvement:** Embed controls and get compliance and internal audit teams involved in evaluating operating effectiveness of controls prior to the first external audit under the FRC's Interim Guidance.

5. **Automate Reconciliations:** Given the zero-materiality threshold for breaches, manual spreadsheets may represent an unacceptable risk.

6. **Stress-Test the Resolution Pack:** Conduct a dry-run where the CASS officer must produce all documents in the CASS 10A pack either immediately or within 48 hours.

7. **Review Acknowledgement Letters:** Ensure all letters use the mandatory CASS 15 Annex 1 template and are countersigned by authorised bank officials.

8. **Engage Auditors Early:** Discuss the overall audit approach, sampling sizes, scope of IT General Controls and third-party access rights well before the first audit cycle.