

threesixty

November 2018

Charles Stanley & Co Ltd

Assessment report



Charles Stanley & Co Ltd

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Purpose of this Assessment report

This report is designed to assist intermediaries in carrying out their due diligence assessment prior to using the services of a discretionary fund manager (DFM), and on the regular review of such arrangements.

It is important to note the aim of the work undertaken by threesixty services LLP (threesixty), is to assess, at a high level, the adequacy of the controls and procedures the firm has established to mitigate the regulatory and business risks arising from the provision of its discretionary management service to intermediaries. The focus of the assessment is to review controls and procedures, and therefore it is only part of the overall assessment that an intermediary should carry out when looking to use the services of a DFM.

Due Diligence: What is it, and why is it so important?

Research and due diligence is seen as one of the three pillars of ensuring delivery of good outcomes and advice to clients i.e.

1. Competence: ensuring advisers are competent on the subject of the product or service concerned.
2. Research and due diligence: the FCA uses these terms to refer to the processes used to assess:
 - a) The nature of the product or service e.g. both investment structure and performance
 - b) The risks and benefits
 - c) The provider – to establish whether it is appropriate to entrust the provider with client assets
3. Assessing suitability: where advisers are competent and understand the individual products or service, they should be able to assess for each client if the solution is suitable.

In relation to looking at any services to be provided by a DFM, intermediaries need to understand the above factors in order to assess whether the proposed solution is suitable for their clients.

In early February 2016 the FCA issued its findings following a thematic review into firms' research and due diligence processes ([FCA - TR16/1: Assessing suitability: Research and due diligence of products and services](#)). It has provided some useful pointers for firms on what helps to ensure appropriate research and due diligence processes are in place. The review covered how firms select products, funds, platforms as well as the services of DFMs.

Whilst the FCA's findings are high level comments, the particular references that have relevance to the assessment of discretionary management services are as follows:

1. The key driver of good research and due diligence is a corporate culture of challenge. The FCA commented 'The better firms had either in-built challenge in the process and/or individuals who were knowledgeable, enthusiastic and challenged the firm's approach. Where there was no culture of challenge within the firm, the research and due diligence process showed weaknesses'.
2. The size of a firm is not a barrier to carrying out good research and due diligence.
3. Processes and tools used in research and due diligence will vary depending on the circumstances, and the FCA does not set out specific requirements. The emphasis is on the firm to take reasonable steps to ensure the solutions are suitable for their clients.
4. Research and due diligence needs robust systems and controls in order to be effective.
5. Firms need to be structured in their research and due diligence process in order to ensure that information is up to date and challenged adequately.
6. Research and due diligence should be an objective process and 'not a case of retro-fitting due diligence to justify the outcome the firm had already previously decided upon.'

The Due Diligence process

As noted previously the FCA has not set out a defined process for firms to follow when assessing the services of a discretionary fund manager. The approaches taken will vary in different circumstances, and to a large extent are influenced by the type of service the intermediary is seeking from the DFM. It is also possible that the solutions you identify for your clients may involve the services of more than one DFM. However, whether you are seeking to merely refer your clients to a DFM and choose to let them take responsibility for the suitability of advice, or you intend to advise your clients on a model portfolio operated by the DFM, in which you take responsibility for the suitability of advice, the process should encompass the following stages:

1. Define why you need a DFM
2. Set out the key criteria by which you will assess the DFM
3. Identify and list the DFMs that you will research
4. Reduce/filter the list based on your key criteria
5. Gather information – multiple sources and of various types e.g.
 - Companies House/ FCA register checks
 - Accounts
 - Website and other internet information
 - 3rd party reports e.g. threesixty, ARC
 - Research databases e.g. defaqto
 - DFM's own material – Due Diligence packs or brochures
 - A due diligence questionnaire sent to the DFM
6. Meet the shortlist of firms
7. Decide on which one or more DFMs to use – document why and the approval process followed by your firm's senior management
8. Monitor and record performance of the DFM(s)
9. Periodic review of DFM(s) and report findings to senior management

It is important to document each stage of the process so that you are able to demonstrate the process if called upon to do so.

The threesixty assessment: Our methodology

The assessment consists of a combination of an onsite visit to the DFM which generally takes 2 to 3 days, and a review of various documented procedures and papers supplied by the DFM prior to the visit and during the visit.

During the visit our Business Risk Consultant conducts a series of meetings with key management within the DFM from different sectors of the business to allow them to explain in more detail how their firm operates and the controls and procedures that are in place. In general the visits involve meetings with senior representatives from Investment Management, Operations, Compliance, Risk Management, Human Relations, Training and Competence and I.T.

On occasions the DFM will inform us that certain documents that we request are not available due to the confidential nature of the information they contain. In cases in which this has occurred we simply note that the document could not be provided due to the confidential nature of the information.

The threesixty assessment: The report format

The report that follows is divided into the various subject headings as follows:

- Corporate Governance/ Systems and Control
- Client and Referring Intermediary Arrangements and Financial Promotions
- Recruitment
- Training & Competence
- Discretionary Fund Management Procedures
- Outsourcing
- Financial Crime
- Complaints
- Business Continuity

The aim is that the review of the combination of different areas of the business ensures that all the key aspects of the business are reviewed. In each section our overall focus is to attempt to explain what procedures the DFM firm has put in place to control its business, and to manage the risks so as to ensure good client outcomes can be achieved.

The threesixty assessment: How to use it

As noted above the threesixty report is only part of the information that you will need to gather within the overall due diligence process. In part it aims to provide some independent verification for you that certain key procedures and controls are in place within the DFM. However, it will also hopefully help you to construct further questions that you may wish to ask the DFM during the due diligence process.

Assessment report

threesixty has only reviewed those documents made available on our review. We have not investigated their efficacy and practical use. All reasonable precautions have been taken to ensure that the information contained is correct, threesixty services LLP does not accept any responsibility for errors, inaccuracies, omissions or any inconsistencies. This information should not be relied upon by third parties, and should not be considered as an endorsement as to individual suitability of the firm for a financial adviser's clients.

Charles Stanley & Co Ltd: Key details

Firm name	Charles Stanley & Co Ltd
Turnover	£150.8m as at 31 March 2018
Established since	Charles Stanley's origins date back to January 1792
Funds under management	£13bn as at 30 June 2018 for the firm's discretionary business
Contact details	Steve Hill - Head of Intermediary Sales steve.hill@charles-stanley.co.uk
Useful links	www.charles-stanley.co.uk LinkedIn Twitter

Assessment findings

A. Corporate governance and systems & controls

This section explains how the business is structured and managed. It seeks to explain the key procedures that control the risks within the overall business.

Review findings

1. Charles Stanley & Co Ltd is a wholly owned subsidiary of Charles Stanley Group PLC, a public company whose shares are listed on the London Stock Exchange.
2. The governance structure of Charles Stanley & Co Ltd (hereafter referred to as Charles Stanley) is spearheaded by a board of directors which is charged with the responsibility to oversee, govern and direct the operation of Charles Stanley in line with the Group's strategy. The Board consists of a number of non-executive directors which help provide an objective oversight and challenge to the company's activities. It is understood that the Board meets around 6 to 8 times per year, but the minutes and management information were not reviewed due to the confidential nature of these documents.
3. Charles Stanley has a number of committees which report in to the Board and these are:
 - 3.1 Joint Audit Committee
 - 3.2 Joint Remuneration Committee
 - 3.3 Joint Risk Committee
 - 3.4 Nomination Committee
4. Charles Stanley also has an Executive Committee which itself has a number of committees reporting into it, and these include:
 - 4.1 Treasury Committee
 - 4.2 Enterprise Risk Committee (which also has the Market Enterprise Committee and the Policy Review Committee reporting into it)
 - 4.3 Products and Services Committee
 - 4.4 Conduct and Culture Committee
 - 4.5 CASS Committee
5. Compliance reports are prepared by the Head of Compliance and submitted to the Board on a monthly basis, and we were shown a recent report submitted to the Board. The report seen as part of this assessment adopts both a backward and forward looking approach, and this is considered important from a Board perspective. Areas covered by this report includes:
 - 5.1 Key matters
 - 5.2 Regulatory engagement
 - 5.3 Regulatory developments

- 5.4 Compliance monitoring
 - 5.5 Financial crime
 - 5.6 Complaints
 - 5.7 Staffing
 - 5.8 Internal audit
6. Charles Stanley has an Annual Compliance Risk Assessment (ACRA) and its purpose is to consider the current Conduct of Business risks facing the group as well as regulatory risks including:
- 6.1 Systems and controls
 - 6.2 Protection of client assets
 - 6.3 Financial crime
- The results from the ACRA feeds into the Compliance monitoring programme noted below.
7. A Compliance monitoring programme for 2018/19 is in place which is constructed as follows:
- 7.1 The programme is split between surveillance, which seeks to ensure that the key regulatory activities are being monitored in accordance with the firm's policies and procedures, and thematic based activities, which are targeted around specific risks, processes and topical regulatory issues.
 - 7.2 Each activity is rated using a traffic light system in order to prioritise the relevance and impact of each activity.
 - 7.3 We were informed by the Head of Compliance that there are a series of spreadsheets which sit in the background behind the programme and provide the detail behind what is then contained within the programme.
8. An Annual Compliance Plan for 2018/19 is also in place and this plan is part of the key second line of defence structure noted above. The Head of Compliance confirmed that the Compliance Monitoring Plan effectively 'bolts' into the Annual Compliance Plan.
9. Charles Stanley has a Conduct Risk Policy in place (dated April 2017) which seeks to comply with its obligations regarding the management of conduct risk, the effectiveness of which reflects the Group's culture.
- Charles Stanley defines people and conduct risk as 'The risk that clients or the wider market, as opposed to the Group, suffer detriment as a result of the Group's services, products or activities'
10. The firm has established a set of conduct outcomes and these are a set of statements of best practice which provide clarity for all group staff and are grouped into the following:
- 10.1 Our client outcomes
 - 10.2 Our people outcomes
 - 10.3 Our outcomes for markets

11. Key risk indicators are gathered as part of a Conduct Dashboard with the dashboard being overseen and reviewed by the Culture and Conduct Committee and elements are escalated to the Executive Committee and Board when required. We were shown the dashboard as part of this assessment.
12. An Operational Risk Dashboard has also been put in place and is one of a suite of measures alongside the Board Risk Appetite and Conduct Risk Dashboard.
13. The Head of Risk informed us that in July 2018, the suite of dashboards was further enhanced by the introduction of an Incident Dashboard which captures aspects such as breaches and dealing errors.
14. We were shown the Group Risk Register by the Head of Risk, and this highlights the current top risks, and a risk score is created based on a traditional impact versus probability assessment, and this then progresses along the lines of inherent, to residual, through to mitigation in order to show how the risk is either irradiated, minimised, and managed.
15. The firm's policy in relation to risk management and its risk governance framework is captured within its Group Risk Policy, and this has a number of policies sitting underneath it:
 - 15.1 Risk appetite statement
 - 15.2 Group operational risk policy
 - 15.3 Group credit risk policy
 - 15.4 Group liquidity risk policy
 - 15.5 Group conduct risk policy
 - 15.6 Risk and Control Self-Assessment minimum standards which ensures material activity and process level risks are identified and managed, including the effectiveness of key controls. This assessments occur every six months
 - 15.7 Risk and events reporting and escalation minimum standards
 - 15.8 Group/divisional 'top risks' minimum standards
16. The firm's risk culture is based on a number of principles including the fact that the management of risks is considered to be everyone's responsibility.
17. The Board (via the Joint Risk Committee) has formal ownership of the framework, sets risk appetite and approves policies and processes.
18. The risk management framework is focussed around the three lines of defence model, where the lines are clearly identified as:
 - 18.1 1st Line – responsible for the day to day risk management. The personnel in this line includes the Chief Executive Officer, Business/Divisional Management, and personnel, supporting functions, and all staff excluding those within the risk and compliance functions.

18.2 2nd Line – responsible for establishing and overseeing the Group’s risk management framework in which the business operates, including the Chief Risk Officer, Risk Team, and Compliance Team.

18.3 3rd Line – responsible for independent assurance of the risk management process, covering the preceding two lines of defence. This would include internal audit and also the Boards, Audit and Risk Committee.

We understand that there are plans to ensure that the three lines of defence are further embedded into the roles and responsibilities of staff during the 2018/19 business year.

19. The Compliance monitoring programme also includes a review programme of each branch or desk. Each review results in a compliance rating and the report is issued to the branch/desk and copied to both the relevant divisional Private Client Investment Management (PCIM) Director and the Head of PCIM. All actions are discussed, logged and tracked accordingly.
20. The firm’s Pillar 3 Disclosure is available from the firm’s website and includes a section headed ‘Remuneration Disclosure’. This confirms that terms of reference exist for the Joint Remuneration Committee and that this committee is chaired by an independent non-executive director and comprises two further independent non-executive directors. None of the Committee members have any personal financial interests in the Group (other than as shareholders) or conflicts of interest arising from cross directorships or day-to-day involvement in running the business.
21. Conflicts of interest is driven by a Conflicts Management Policy together with two corresponding registers which are separated to provide information on those conflicts which are deemed to be enduring in nature, and also specific actual conflicts. These registers are maintained by the Compliance Department. The policy, which is dated March 2018, identifies three ways that can mitigate potential conflicts, and these include Independence Policy & Segregation of Duties, Remuneration Policies, and Chinese Walls. Due to its confidential nature, threesixty were only shown a brief view of the firm’s conflicts of interest registers.
22. An annual mandatory questionnaire incorporating questions relating to, amongst other aspects, conflicts of interests is issued to Charles Stanley staff for completion.
23. We were provided with a summary of the firm’s Order Execution Policy dated March 2018, which itself was detailed, and this describes the position at Charles Stanley being that all clients, whether they are considered to be Retail or Professional, are relying on Charles Stanley to obtain the best outcome for their orders, based on the relationship being that of an agent/client nature.

The decisions made regarding execution venues are made through the Market Exposure Committee and Dealing Department, and the committee is responsible for issuing an annual report to the Board in respect of best execution.

The policy outlines the six main execution factors: price; costs; speed; likelihood of execution and settlement; size and nature of the order; and any other consideration relevant to the execution of the order.

24. There is also a separate document titled 'Main Execution Venues' which provides detail as to the specific venues that could be utilised by Charles Stanley. This is publically available via the firm's website.
25. The numerous policies and procedures are for all members of staff to view courtesy of Charles Stanley's central portal - 'PolicyHub'.
26. In 2017 Charles Stanley established its core values – Caring, Fair and Progressive. These provide an overarching framework within which Charles Stanley operates, supporting its underlying strategy to always work in its clients' best interests and offer a truly personal service.
27. The firm has in place a Business Change Risk Assessment which formalises the process of having risk reviews on major changes and initiatives e.g. new products or new operating systems. However, such an assessment would not include regulatory changes (such as the recent GDPR) as these are dealt with elsewhere within the management framework.
28. It is understood that appropriate professional indemnity insurance is in place but threesixty were not able to view this as it was deemed to be of a confidential nature.

threesixty were not given access to the minutes of management committee meetings and detailed management information, due to the confidentiality of the information contained. However, it was evident from discussions with various members of the team, including the Head of Compliance and also the Head of Risk, it appears that Charles Stanley has a comprehensive framework of risk management and monitoring in place for the business.

B. Client and referring/introducing intermediary arrangements and financial promotions

This section looks at how the DFM deals with clients and what are the legal and procedural arrangements with introducing intermediaries. It looks at the contracts and on boarding procedure and what checks they will do on the intermediary business. It seeks to identify whether or not the process, and the responsibilities of all parties are clear.

This section also looks at how the DFM markets itself, and what controls it has to ensure that promotions are clear, fair and not misleading.

Review findings

Arrangements for introducing intermediary firms

1. Charles Stanley provide a range of services to clients of intermediaries and these include:
 - 1.1 Bespoke Discretionary Managed Service – where a dedicated investment manager will work with the intermediary (or for introduced business, the client) directly in order to construct a portfolio appropriate to the client’s objectives, and this could include direct equities, bonds, and collective investments. This service can either be where the intermediary introduces their investor, with the investor becoming a direct client of Charles Stanley (and where agreed the intermediary receiving copies of reports) or else where the intermediary is acting in the capacity of ‘agent as client’, although we understand that the majority of engagements will be on an ‘agent as client’ basis. The minimum investment would tend to be at least £250,000.
 - 1.2 Model Portfolio Service – this includes a range of Multi-Manager, Blended Managed, and also Dynamic Passive Portfolios. The Multi-Manager and Blended Managed ranges are made up of 5 total return and 5 income strategies, whilst the Dynamic Passive Portfolios are based on 5 low-cost models. The minimum investment is £150,000 when using Charles Stanley directly or if using a wrap or platform, the minimum will be dictated by the wrap or platform used.
 - 1.3 Inheritance Tax Portfolios – this is a discretionary investment management service which is designed to help mitigate a potential IHT liability whilst providing the possibility for equity related returns. The minimum investment for this service is £100,000.
2. When the intermediary is using the Bespoke Discretionary Managed Service in an agent as client capacity, the account will be classified as a Retail Client. This will also apply to the Model Portfolio service, where accounts are held on the Charles Stanley platform. However, when accessing Charles Stanley model portfolios via an external platform, the intermediary will be classified as a per se Professional Client. The roles of Charles Stanley and the intermediary are detailed within the ‘Financial adviser indirect (agent as client) service summary’ where it outlines the support being provided, the responsibilities of both parties, and the sign-up process. The key points within this document are:
 - 2.1. The intermediary will be responsible for obtaining the information necessary to enable it to make a recommendation as to the selection of a specific Charles Stanley service

- and corresponding product wrapper. This information includes know your client information, investment objectives, attitude to risk and also capacity for loss.
- 2.2. Charles Stanley will be responsible for the management of the portfolio in line with the mandate provided by the intermediary. The primary contact for Charles Stanley will be the intermediary.
 3. To engage the services of Charles Stanley will require the completion of a Financial Adviser Indirect (Agent as Client) Terms of Business. This document was last updated in October 2017 and covers the following areas:
 - 3.1. Responsibilities
 - 3.2. Suitability
 - 3.3. Anti-Money Laundering
 - 3.4. Confidentiality
 - 3.5. Communications
 - 3.6. Complaints
 - 3.7. Termination
 - 3.8. Liability
 - 3.9. Jurisdiction
 4. It is understood that the investment managers would encourage a meeting with the intermediary and also the investing client, especially as Charles Stanley do not believe in having a relationship manager style role and hence providing direct access to the investment manager if this is the wish of the intermediary and the client.
 5. Prior to entering into an agreement with the intermediary, it is customary for there to have been discussions between the intermediary and the Intermediary Sales Team within Charles Stanley in order to gain a full appreciation of how the intermediary operates and how Charles Stanley can add value to the intermediary.
 6. Once the agreement has been completed, Charles Stanley will carry out a check of the FCA Register to ensure that the intermediary has the required permissions and no adverse disciplinary history.
 7. On an ongoing basis, an annual review is carried out to confirm that the intermediary has carried out a review with the client to confirm the ongoing suitability of the portfolio being managed by Charles Stanley. This process is managed by the Private Client Investment Management team at branch level.
 8. The Intermediary Sales Team has almost doubled over the last year and is evidence of the desire by Charles Stanley to provide greater support and coverage to intermediaries.

From a review of various documents provided during the assessment and discussions held with the Head of Intermediary Sales and also an investment manager within the Charles Stanley team, the respective roles and responsibilities of both parties are clearly established.

Client Communications & Financial Promotions

1. Charles Stanley have procedures in place to approve all forms of communications and financial promotions and this ensures that they are fair, clear and not misleading. A new set of procedures were introduced in August 2018 which incorporates the previous overview flowchart, together with guidance, examples of considerations, and an approvals checklist. Together this provides a good depth of information for the staff at Charles Stanley which outlines the steps that would be taken prior to the approval of a financial promotion, and these include:
 - 1.1 Marketing Department review the document and then complete the first part of the shared log.
 - 1.2 If the document is not deemed a financial promotion, Marketing would complete it and Compliance would not be required to approve the document.
 - 1.3 If it is deemed to be a financial promotion, it is then submitted to Compliance who will then complete the second part of the shared log.
 - 1.4 If amendments are required to the document, Compliance will liaise with the individual, and keep Marketing informed, until such time as they are in a position to approve the document.
 - 1.5 Approving entities could also include legal, business entities, operations, and the business owner.
 - 1.6 Once approved, the shared log is updated and the final version of the document is scanned to a shared folder.
 - 1.7 The original paperwork is then returned to Marketing.
2. We understand that a financial promotions register is in place but it was not reviewed as part of this assessment.

From a review of the documentation provided by Charles Stanley, it appears that a clear process is in place for the submission and review of financial promotions and marketing documentation that could be used by intermediaries with their clients.

C. Recruitment

This section aims to illustrate what procedures the DFM has in place to ensure that staff it employs are fit and proper. It looks at how the recruitment process works, and how staff are inducted into the business to ensure that they are aware of company procedures.

It will also look at remuneration policies to see if these have been clearly defined.

Review findings

1. An overview of the firm's recruitment procedures for Charles Stanley was provided by a recruitment consultant who works within the HR department and this included an explanation of how staff are vetted and recruited by the business. The procedures include the following steps:
 - 1.1 The hiring manager places a requisition request together with a formal job description if there isn't a standard job specification in existence for the role.
 - 1.2 The TALEO system is used which is linked to Oracle to store the requisition.
 - 1.3 This request is then submitted to the member of the Executive Committee within the appropriate division to provide first line approval.
 - 1.4 The requisition is then submitted to the Head of HR for second line of approval, and the Chief Executive Officer may undertake a cross check, but it is not a formal requirement to approve every requisition.
 - 1.5 The role is then posted via a wide variety of means, including agencies, Charles Stanley website, advertised internally, and other media.
 - 1.6 The first line review of candidates is completed by the recruitment team and those that are successful, are passed to the hiring manager for his/her assessment.
 - 1.7 The recruitment team arrange for the interviews to take place, and this will always include at least one interviewer.
 - 1.8 The second interview would tend to be with team members and also include possible scenario testing.
 - 1.9 A third interview may be held, and is likely to be dependent upon the role and possibly who attended the previous interviews.
 - 1.10 An offer is then made to the successful candidate verbally and followed up in writing.

The only fundamental change since last year's assessment has been the introduction of a privacy notice which is issued to the potential candidate to inform him or her that their details will be retained by the business for 18 months before being destroyed/deleted.

2. We were informed by Charles Stanley's recruitment consultant that the recruitment of non-executive positions is handled by external recruitment consultants.

3. The interview framework is competency based and a document is used to help with this, which was provided as part of this assessment. We were informed that this document is not prescriptive but is available to be used as a guide as appropriate.
4. Referencing for all new prospective candidates is managed externally and this would include credit and DBS checks and is collated in a factual manner for HR to make their decision.
5. We understand that there is an ongoing programme of interview skills training in place, in order that those who are involved as potential interviewers have been appropriately trained.
6. We were informed that whilst the minimum entry level for an investment manager is a level 6 qualification, Charles Stanley encourage individuals to strive to level 7, Chartered status.
7. We understand that wherever possible, Charles Stanley are keen to recruit internally.

Based on the discussions with the representative from the HR team who provided an insight into how an individual would be recruited by Charles Stanley, there appears to be a clearly defined process in place.

The assessment did not involve a review of individual staff files due to the confidentiality of the information contained therein, and we cannot therefore comment on whether the above process is being followed.

D. Training & Competence (T&C)

This section looks at how the DFM sets out its training and competence regime, and reviews what processes are in place to train, assess and monitor staff and investment managers in particular in their role of dealing with clients introduced from intermediaries.

Review findings

1. Charles Stanley has a Master T&C Scheme which is supported by a number of appendices which apply to each of the business divisions. The Master Scheme contains the following sections:
 - 1.1. Principles
 - 1.2. Governance
 - 1.3. Scope
 - 1.4. Senior management functions
 - 1.5. Classification
 - 1.6. Recruitment
 - 1.7. Attaining competence
 - 1.8. Maintaining competence
 - 1.9. Training and CPD
 - 1.10. Supervision – with reference to spans of control but no specific numbers
 - 1.11. Record keeping

threesixty was provided with sight of the Master Scheme (dated September 2017) and the relevant corresponding appendices, with the latter being refreshed in September 2018.
2. Discussions with a Recruitment Consultant from Charles Stanley provided an insight into the firm's induction process and this involves time with HR and importantly to integrate immediately within the individual's designated team. There is also a monthly induction morning with sessions provided by the Chief Executive Officer and Chief Financial Officer and other senior members of each business division.
3. There is an internal permissions portal which facilitates the assessment and sign off process for an investment manager and the aim is for this to be incorporated within the new system currently being built.
4. threesixty understands that full records of investment manager names and qualifications are held and maintained by the Learning and Development Team, which is part of the firm's HR function.
5. threesixty was informed that a new T&C system is currently being built which will capture record keeping, the annual appraisal process, and also with an eye on next year's Senior Managers and Certification Regime.

6. In terms of supervision, we understand that the firm's investment managers have branch or desk heads reporting to the Directors of PCIM Development, who in turn report to the Head of PCIM. Competency sign off is operated through a workflow tool that requires multiple levels of sign off, including Compliance.
7. It is also understood that the supervisory team is being enhanced by the introduction of a new quality assurance team which will be tasked with monitoring client files and call recordings.
8. There is an annual performance review process where the needs of an investment manager are identified and addressed accordingly. Discussion with a Charles Stanley investment manager confirmed that this process is followed through.
9. Each investment manager uses the CISI portal for CPD recording and also to carry out refresher training which could be requested centrally or on an individual basis.
10. CPD is monitored and reported by the Learning and Development team on a quarterly basis. As noted earlier, the aim is for the new system being built to capture the majority of Charles Stanley's T&C records other than certain aspects where CISI will continue to be used.

threesixty's review of T&C was limited to discussions with the Head of Compliance, an investment manager, and the Learning and Development Manager. Due to the confidential nature of employee records threesixty were not given access to specific files to verify that procedures were being implemented in practice.

E. Discretionary management procedures

This section looks at the procedures and controls the DFM has put in place to carry out the DFM service. It aims to assess how they arrive at decisions when managing funds, and how do they record and monitor the process. It looks at the structure of the process including the firm's investment philosophy, investment committees, research, how decisions are implemented and the controls in place to minimise the risk of errors and loss to clients.

Review findings

Charles Stanley has documented procedures in place which provide the framework for the provision of discretionary investment management services to intermediaries and their clients. This is an important aspect as the bespoke discretionary investment management service provides portfolios which are tailored to the client's financial circumstances and objectives with no single approach being imposed by the firm as to how client funds should be managed.

1. The firm has a set of core investment principles upon which the resulting portfolios are based, and these include the following:
 - 1.1. Controlling the overall volatility of portfolios underpins the firm's approach to risk.
 - 1.2. Aim to meet investment objectives with a suitable level of risk.
 - 1.3. Risk is more than just a volatility measure, it includes gauging the likelihood and extent of permanent loss of capital.
 - 1.4. Market returns are driven by a number of identifiable factors and market prices often deviate significantly from fundamental or intrinsic value in the short run.
 - 1.5. A good investment process combines a number of core elements which need to be used flexibly e.g. Macro, Valuation and Momentum.
 - 1.6. The fact that asset prices can diverge from fair value supports the case for active management.
 - 1.7. Diversification is essential in order to spread investment risk. The firm builds portfolios with assets that have a low correlation to each other that it then expects to generate positive real returns after taking inflation into account.
2. There is an Investment Management Practice Manual (IMPM) which is owned by the Head of Investment Management, and the Head of Compliance referred to this as a 'live' document. The IMPM is divided into three distinct sections:
 - 2.1 Establishing a client relationship – this covers know your client, the services being provided, client classification, risk profiling, and capacity for loss.
 - 2.2 Handling a discretionary or advisory managed relationship – this covers how a portfolio is monitored. It also covers the post MiFID II requirement to inform clients of a 10% depreciation in the value of their investment portfolios.
 - 2.3 Terminating a client relationship – this covers how a client is disengaged from Charles Stanley but also covers how the death of a client will be sympathetically handled.
3. The process of creating a bespoke discretionary portfolio begins by using BITA software to generate a sample portfolio. The next step is for the investment manager to produce an

investment proposal (again using BITA) for consideration by the client. Guidance is taken from the Investment Strategy Committee, and BITA helps to maintain an allocation within risk and volatility parameters. The investment manager is responsible for collating all the necessary information, and there is a document check carried out by Quality Assurance prior to any investment being conducted.

4. Charles Stanley avoids the use of relationship managers in favour of a client having a direct relationship with the investment manager who will be managing their investments for them.

In the event that a client's investment manager is not available, the client will be looked after by another investment manager within the local team.

5. A number of measures are used to monitor client portfolios, specifically risk outliers and concentration risk. Management information is pro-actively used by the Private Client Investment Management Team.
6. Charles Stanley has an Investment Strategy Committee (ISC) which meets on a regular basis, normally every 6 weeks, to provide non-prescriptive guidance to the Investment Managers. The ISC is chaired by the firm's Chief Global Strategist and includes the Chief Investment Officer, the Chief Executive Officer, Technical Analyst, two Collectives Analysts, the head Bond Analyst, four Senior Investment Managers and two research analysts. As the ISC guidance is 'non-prescriptive' in nature, the Investment Managers are not obligated to follow its findings if they feel a different approach is required in managing a client's portfolio.

The ISC findings is used in a more prescriptive manner when considering this as part of the method of construction of the firm's model portfolios.

threesixty were shown copies of recent ISC meeting minutes as part of this review and they provide commentary on the following aspects:

- 6.1 A summary of ISC views on asset allocation.
 - 6.2 Rating changes - growth and inflation, risks, currencies, Europe, US, and the UK.
 - 6.3 There is also a table providing an overview of the current position in relation to cash, global equities, global bonds, commodities, alternative assets and each shows where the ISC feels they should be with corresponding reasons, which would be either aggressively overweight, overweight, in line, underweight, or aggressively underweight.
7. The firm has an internal research team totalling 8 staff at the time of this assessment and the team provides support in the following areas:
 - 7.1. Equity Analysis – the research for this asset class has been externally sourced and is overseen by the UK Equity Committee (see below)
 - 7.2. Fixed Interest Analysis - Institutional Fixed Interest Team
 - 7.3. Collectives - Team of Collective Investment Specialists
 - 7.4. Quantitative Analysis - Chief Global Economist's market view, outlook and strategic overview.

The firm also makes use of external research where this will complement or ratify existing research.

8. The UK Equity Committee has responsibility for the selection and ongoing management of direct equity investments for the UK equity sector. The committee is comprised of members of the Research Team, the investment management team, the Chief Investment Officer, and is chaired by the Head of Equity Research.

The above committee also reviews the ongoing appropriateness of third party research.

9. A 'Preferred Funds List' is maintained which combines both quantitative and qualitative analysis and also includes operational due diligence by monitoring a fund's policy and procedures. There is an annual rolling cycle of sector reviews which are carried out monthly.
10. Research meetings are held at 9am every morning and are hosted by the Chief Investment Officer and the Chief Global Strategist. The meetings are attended by both the Asset Management and the PCIM teams and is a good example of the collaborative approach taken by the business.
11. Investment managers are free of any obligations or pressure to invest clients' assets into in-house funds or products, but in the event that they are, it is understood that there would be no element of double charging. In relation to the model portfolios, the position is very clear in that they do not invest in in-house funds.
12. The default benchmark for a bespoke discretionary managed portfolio is an appropriate MSCI WMA Private Investor Index, depending on the portfolio's risk profile. For Professional Clients, the firm may use alternative indices agreed with the client or the intermediary.
13. Charles Stanley subscribes to Asset Risk Consultants (ARC) for its bespoke portfolios. This includes some model portfolios held on its own platform although the majority of model accounts are on external platforms.
14. Periodic reports are prepared and issued on a quarterly basis and the client also has the option to have online access to their portfolio and valuations, through a dedicated portal - 'My Charles Stanley'. Clients can also elect for transaction details (contract notes) and reports to be sent by email rather than in hard copy.
15. The firm has a dealing error log which appears to be structured and comprehensive in nature.
16. The firm is in the process of finalising a Product Distribution Policy designed to provide a controlled framework for the distribution of products by the firm's investment managers. This is due for release in quarter four of 2018.

The assessment by threesixty did not include a detailed review of the workings of the various committees or the controls noted above. However, it would appear from discussions with the Chief Investment Officer and the Head of Portfolio Management and Model Portfolios that Charles Stanley has a structured process in place designed to manage and control the risks of its discretionary investment management services.

F. Outsourcing

This section looks at the extent that a DFM outsources key tasks to 3rd parties, and if it does what processes are in place to monitor this activity and minimise any adverse impact to clients. This section is not relevant to all firms as not all firms outsource key tasks to 3rd parties.

Review findings

1. We were informed that the management of third parties is documented by the Group Procurement Policy, and this includes the engagement of third party platforms, which would not tend to be deemed as material outsourcing. Due to their confidential nature, threesixty were unable to view these documents as part of this assessment.
2. There is an Enterprise Risk Committee (ERC) which oversees the management of Charles Stanley's third party relationships and is chaired by the Chief Risk Officer.

The ERC is a sub-committee of the Executive Committee and this meets monthly to oversee operational risk across the Group.

3. There are a number of controls in place to ensure that there is appropriate oversight over the Group's material outsourcing arrangements and contracts. We were provided with an outline of what these controls would consist of and these are noted below, but it is appreciated that this is not an exhaustive list:
 - 3.1. The business sponsor defines the Group's business requirements and creates a case for the outsourcing
 - 3.2. A Relationship Manager is nominated who is responsible for overseeing / coordinating the day-to-day relationship
 - 3.3. An assessment of the materiality of the arrangement to the Group (and its clients / stakeholders) needs to be undertaken, using a Materiality Assessment
 - 3.4. A written contract must be in place with the service provider which is reviewed by Charles Stanley's legal department
 - 3.5. The financial strength of the service provider is assessed on an ongoing basis, together with the IT security arrangements if relevant
 - 3.6. A Service Level Agreement is in place to monitor the performance of the service, with appropriate Key Performance Indicators (KPIs)
 - 3.7. Regular meetings with the service provider need to take place to review risks, issues, performance etc.
 - 3.8. A review of the supplier's business continuity plan arrangements needs to be undertaken
 - 3.9. Exit / contingency plans must be in place in the event of supplier failure / termination etc.

As stated above, threesixty did not review the documents relating to the outsourcing arrangements as part of this assessment. However, from details provided during the visit it

appears that Charles Stanley has procedures in place to monitor their outsourcing arrangements.

G. Financial crime, anti-money laundering, data security, fraud and the Bribery Act

This looks at how the DFM assesses its risks of being subject to financial crime and how they mitigate the risks by way of business controls and procedures, monitoring, training and reporting.

Review findings

1. We were informed by Charles Stanley's Information and Cyber Security Manager that he leads a team of five and they are tasked with overseeing the core areas of:
 - 1.1. Information Security
 - 1.2. Cyber security
 - 1.3. Business Continuity
2. We understand that the area of information security covers policies, procedures, training and awareness, and also the various registers. The area of cyber security covers aspects including firewalls, penetration testing, patching, and end point security.
3. The firm has in place a Financial Crime Policy, which was last updated in February 2018, and this policy confirms that the Charles Stanley Group has zero appetite or tolerance for financial crime. The Head of Compliance is also the MLRO and is responsible for ensuring an adequate financial crime prevention framework is in place.
4. In support of this, the business has a comprehensive suite of policies in place which we were provided with sight of but were unable to review in any detail. The suite is in excess of 20 policies and these include:
 - 4.1. Information Security Policy
 - 4.2. Data Protection
 - 4.3. Market Abuse and Insider Dealing Policy
 - 4.4. Handling Market Rumours Policies and Procedures
 - 4.5. Computer/Internet Acceptable Use
 - 4.6. Fraud Prevention Policy Statement
 - 4.7. Fraud Reporting Procedures
 - 4.8. Anti-Bribery and Corruption Policy
 - 4.9. Anti-Money Laundering and Counter Terrorist Financing Manual

It is understood from the MLRO and Information and Cyber Security Manager that the suite of policies is updated regularly, and every two years as a minimum.

5. All staff are required to complete relevant elements of mandatory e-learning before completion of their probation period.
6. There is an Annual Financial Crime Risk Assessment process and the related controls are regularly reviewed by the MLRO and Senior Management across the group.

7. Compliance with the provisions of the firm's Financial Crime Policy will be monitored by Compliance and Internal Audit departments.
8. The firm has an Anti-Bribery and Corruption Policy which outlines 6 key principles that are looked at to decide if adequate procedures are in place.
9. There is also a separate procedure – Client Due Diligence and Verification of Identity Procedures Manual – which covers how clients should be classified including those deemed high risk and PEPs. We were informed that there is a corresponding PEP Register in place which is reviewed on an annual basis by the Financial Crime Team within Compliance.
10. threesixty understands from the Information and Cyber Security Manager that Charles Stanley is following the same requirements and standards as those set by ISO27001.
11. ID3 Global is used for client identification purposes and its outputs are checked by Quality Assurance prior to an investment being made.
12. At the time of the assessment, an IT General Controls and Information Security audit was being carried out by Grant Thornton, and we understand this takes place on an annual basis. Earlier in the year a Cyber Security Audit was also carried out by Grant Thornton.
13. All new staff are required to complete relevant elements of mandatory e-learning before completion of their probation period.
14. All existing staff are required to complete mandatory modules as part of the annual CPD minimum standards, and for 2018/19 these include:
 - 13.1 Anti-money laundering
 - 13.2 Cybercrime
 - 13.3 Information security and data protection
15. A new Products and Services Committee has been established and we understand that financial crime related concerns have been added to the committee's standard review template.
16. The annual Money Laundering Reporting Officers Report for the year ending 31 March 2018 confirmed that no significant successful frauds or reportable breaches were recorded during 2017/18.

The report also confirms that sanctions and PEP screening via Regulatory Data Corp (RDC) and screening of the current client database across all entities is performed on a daily basis.
17. There is a Gifts and Hospitality Policy in place with controls where gifts and hospitality above a certain level need to be pre-approved by senior management. The corresponding register is reviewed quarterly by Compliance.
18. The Board is responsible for the group's policy and for oversight of the strategy in action. A member of the Charles Stanley Board is responsible for anti-bribery and corruption systems and controls management.

From our discussion with the firm's Information and Cyber Security Manager and the Money Laundering Reporting Officer, and with access to a number of documents, it appears that Charles

Stanley considers financial crime as a high priority as seen through the various measures including the ongoing training provided to all staff.

H. Complaints

This looks at how the DFM handles complaints and ensures that they are independently handled and that the process is fair and clear.

Depending on the arrangement the intermediary has with the DFM this may be a case of assessing how the DFM deals with complaints from the intermediaries clients, or if there is no dedicated investment manager working with investor clients how would the DFM deal with any potential complaints from the intermediary as a professional client.

Review findings

1. Charles Stanley have detailed complaints procedures in place designed for both internal and external use and this takes the form of a Complaints Management Policy. This policy is dated March 2018.
2. The Head of Compliance is responsible for overseeing the firm's complaints handling procedures and is also the complaints contact as shown on the FCA register.
3. Within the Compliance team there are two members of staff dedicated to handling complaints for Charles Stanley.
4. Each complaint is captured within a complaints register which covers all areas of Charles Stanley and this provides a comprehensive level of information. We understand that a proportionately low number of complaints have been referred to the FOS in the last year, of which less than a handful have been upheld.
5. Appropriate training on complaints is provided to all staff as part of their induction programme and refreshers will be provided by the Complaints team through email or video updates.
6. As part of a method to detect aspects outside of obvious trends, the Monitoring and Complaints teams meet on a regular basis.

From a review of policies provided and a discussion with the Head of Compliance, it would appear that Charles Stanley have appropriate systems and resources in place for handling complaints from clients. We were provided with a brief glimpse of the complaints register, which appeared to be comprehensive in nature, but we were not provided with access to sample complaints files due to the confidential nature of this information. We are therefore unable to comment as to how the procedures are operating in practice.

I. Business continuity/disaster recovery

This section looks at the arrangements the DFM has put in place to ensure that if a disaster did occur they could respond quickly, and either maintain their service to clients, or restore the service in an acceptable time frame in order to minimise any risk of loss.

Review findings

1. threesixty was informed by the firm's Information and Cyber Security Manager that his team looks after the area of business continuity and key elements of this include the following:
 - 1.1. The firm has its own dedicated service continuity site based in the south of England and a small team of staff are permanently located there.
 - 1.2. Each office has a nominated site where the above service continuity site may not necessarily be required.
 - 1.3. There is a business continuity plan in place for the London office and also each branch office has its own business continuity plan and procedures.
 - 1.4. Business impact assessments are completed on each business area.

The Business Continuity Plan was last updated in April 2018 after undergoing a major overhaul and this plan appears comprehensive in nature.
2. There is also a business continuity plan and procedure framework which is made up of three distinct stages:
 - 2.1. Strategic – which involves the Board and ExCo and seeks to establish 'What are we going to do?'
 - 2.2. Tactical – this involves a member of ExCo or a branch manager and looks to determine 'How are we going to do it?'
 - 2.3. Operational – which involves managers and team leaders and these are the people who will implement the plan
3. At a strategic level is the Business Continuity Incident Management Team Plan and Procedures.
4. The firm's PolicyHub contains all business continuity related policies and relevant documents are also stored on the smartphones of appropriate individuals for purposes of accessibility.
5. The firm has two datacentres based outside of London and virtualised servers have been utilised for some time which minimise reliance upon physical servers and this effectively means that no data is held in London.
6. There is a mass notification system in place which can be used to inform staff should an event occur and they should do under such circumstances. This system is tested on a quarterly basis and the results are utilised as team management information.

7. Each department has an individual designated in relation to business continuity whose role it is to embed the business continuity message within the department on an ongoing basis.
8. Training is delivered on an annual basis and the firm's Information and Cyber Security Manager believes that the business continuity message is better received if delivered personally, and threesixty understands that this is completed whenever possible.

To support this further Charles Stanley's intranet contains examples, hints and tips, plans and procedures, with the aim to try to make it as easy as possible for staff to be engaged with the business continuity process.

9. threesixty understands that there is a three year rolling programme of exercises designed to test the written plans in place. The Information and Cyber Security Manager confirmed that desktop exercises are run with ExCo as part of the incident response procedure. This exercise is repeated on an annual basis.

threesixty were not provided with a copy of Charles Stanley's Business Continuity Plan or evidence of the local testing programme with their associated outcomes. However, from our discussion with the Information and Cyber Security Manager, the firm appears to have given business continuity and disaster recovery arrangements a high priority.