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Our ref ASIC CP 291 submission paper 0817

Katie Ryder
Senior Lawyer
Market Integrity Group
Australian Securities and Investments
Commission
Level 5, 100 Market Street
Sydney NSW 2000

2 August 2017

Dear Katie

KPMG response to Consultation Paper 291 - Reporting Rules: Derivative retail client money (July 2017)

We are pleased to have the opportunity to respond to ASIC's Consultation Paper 291, Reporting Rules: Derivative retail client money (July 2017), and the application of the proposed ASIC Client Money Reporting Rules 2017 (Draft) (the **Rules**).

Comments have been provided in relation to three specific proposals:

- The requirement to prepare reconciliations both for each client and in total;
- The requirement to prepare reconciliations as at a specific time (7pm); and
- The level of audit assurance as required by the Rules, and timing of the proposed audit report.

Attachment A to this letter provides KPMG's detailed response to selected proposals in the Rules and Consultation Paper.

We would be pleased to discuss our comments with you. Should you wish to do so please contact me on (03) 9288 5942 or Richard Philip, Associate Director and relevant technical specialist on (02) 9335 7612.

Yours sincerely

Dean Waters
Partner



**Attachment A to KPMG response to Consultation Paper 291 - Reporting Rules:
 Derivative retail client money (July 2017) – Questions in the Consultation Paper
 and specific comments**

We outline in the table below our response to selected questions in the Consultation Paper. Where we have provided no response to questions, we consider that the proposed rules and requirements are more operational in nature and that Licensees dealing with, and holding, client money in relation to retail derivatives are best placed to provide feedback.

Proposal	Feedback
<p>B3 For the purpose of the client money reporting rules, we propose that an AFS licensee must:</p> <p>(a) complete—by 7 pm on the business day following the business day to which the reconciliation relates—an accurate reconciliation of:</p> <p>(i) the amount of reportable client money held in a client money account for each client, and on a total basis, as at 7 pm on each business day; and</p> <p>(ii) the corresponding amount of reportable client money recorded for each client, and on a total basis, in the licensee’s records, which are kept in accordance with the requirements in proposal B2(a);</p>	<p><u>Requirement to reconcile for each client, and on a total basis</u></p> <p>We note the proposed rules include separate requirements for account reconciliations for each client, and in total.</p> <p>While more a matter for Licensees, we note Licensees are permitted to maintain a single trust account which holds money for more than one client. From an operational perspective, we understand such accounts are reconciled in aggregate.</p> <p>Based on current drafting, it is not clear whether the current practice of performing one reconciliation on the trust account would meet the requirement of the Rules or result in a breach and possible audit opinion modification.</p> <p>We recommend that ASIC provide additional clarity in relation to its expectations and consider whether the total reconciliation supported by system records identifying individual client balances satisfactorily meet the requirement.</p> <p><u>Timing of reconciliations</u></p> <p>The Rules propose that reconciliations are prepared “as at 7pm”, and require these to be completed by 7pm the following day.</p> <p>While the requirement to prepare a reconciliation “as at” a specified time is more operational in nature, we note this is more prescriptive than Market Integrity Rules which do not identify a specific point in time for the reconciliation. While some Licensees may close their records at this time this may not be uniform across this industry.</p>

	<p>From an auditing perspective, we note the following:</p> <ul style="list-style-type: none"> • We are concerned that it may be onerous for the Licensee to extract and provide sufficient evidence for each component in the reconciliation from the various sources in order to opine that the reconciliations are prepared as at the specified time; • As a result, it may not be feasible to provide an opinion to such a level of detail; and • While we support the objective of having processes to reconcile the balances daily, we question to need to have this performed at a specified time. <p>We recommend ASIC align the requirement more closely to the Market Integrity Rule and/or consult further with industry to confirm the practicality of the requirement.</p>
<p>B4 For the purpose of the client money reporting rules, we propose that an AFS licensee must:</p> <p>(b) prepare and give to ASIC within three calendar months of the end of each financial year:</p> <p>(ii) an external auditor’s report that states whether, in the auditor’s opinion, the licensee has systems that have enabled it to comply with the client money reporting rules.</p>	<p>We note the proposed Rule does not specify whether the opinion is to be based on reasonable or limited assurance. Current ASFL opinions in relation to internal controls require a reasonable level of assurance.</p> <p>The current audit opinion (FS71) includes an opinion on the operating effectiveness of internal controls to comply with Division 2 of Part 7.8 of the Act. We note the Rules are to be made under a new section of the Act within this Division 2. This may give rise to some confusion where it may be considered that the two cover the same topic area.</p> <p>Further, the proposed audit report is required to be provided within three months of the financial year end. We note the FS71 opinion can, for non-disclosing entities, be submitted up to four months after year end</p> <p>For the purpose of efficiency, we recommend ASIC explore methods by which the new opinion can be incorporated into the existing FS71, and also consider aligning the rules in relation to timing of submission of the reports.</p> <p>Alternatively, we recommend ASIC prescribe a format for the new opinion, in a manner similar to the prescribed FS71. We would be happy to consult further in relation to this.</p>