

Chapter 13

Claims management: client money

13.10 Records, accounts and reconciliations

Records and accounts

- 13.10.1 **R** (1) A *firm* must keep such records and accounts as are necessary to enable it, at any time and without delay, to distinguish *client money* held for one *customer* from *client money* held for any other *customer*, and from its own *money*.
- (2) A *firm* must allocate in its books and records any *client money* it receives to an individual *customer* promptly and, in any case, no later than two *business days* following the receipt.
- (3) Pending a *firm's* allocation of a receipt of *client money* to an individual *customer* under (2), it must record the received *client money* in its books and records as "unallocated client money".
- 13.10.2 **G** In accordance with **■ CASS 13.10.1R**, a *firm* must maintain internal records and accounts of the *client money* it holds (for example, a cash book and client ledger accounts). These internal records are separate to any external records it has obtained from *approved banks* with whom it has deposited *client money* (for example, bank statements).
- 13.10.3 **R** A *firm* must maintain its records and accounts in a way that ensures their accuracy and, in particular, their correspondence to the *client money* held for individual *customers*.
- 13.10.4 **R** A *firm* must maintain up-to-date records that detail all payments received for, or on behalf of, *customers* and all payments to, from, or made on behalf of, *customers*.

Internal client money reconciliation

- 13.10.5 **R** A *firm* must carry out an *internal client money reconciliation* each *business day*.
- 13.10.6 **R** An *internal client money reconciliation* requires a *firm* to check whether its *client money* resource, as determined by **■ CASS 13.10.8R**, on the previous *business day*, was at least equal to the *client money* requirement, as determined by **■ CASS 13.10.9R**, as at the close of business on that day.

13.10.7 **R** In carrying out an *internal client money reconciliation*, a *firm* must use the values contained in its internal records and ledgers (for example, its cash book or other internal accounting records), rather than the values contained in the records it has obtained from *approved banks* with whom it has deposited *client money* (for example, bank statements).

Calculating the client money resource

13.10.8 **R** The *client money* resource for *client money* held in accordance with **■ CASS 13.10.6R** is the aggregate of the balances on the *firm's client bank accounts*, as at the close of business on the previous *business day*.

Calculating the client money requirement

13.10.9 **R**

- (1) The *client money* requirement is the sum of:
 - (a) the aggregate of all individual *customer* balances calculated in accordance with **■ CASS 13.10.13R** and **■ CASS 13.10.14R**;
 - (b) the amount of any unallocated *client money* under **■ CASS 13.10.1R(3)**;
 - (c) the amount of any unidentified *client money* under **■ CASS 13.6.6R(2)R**; and
 - (d) any other amounts of *client money* included in the calculation under (2).
- (2) For the purposes of (1)(d), the *firm* must consider whether there are amounts of *client money*, other than those in (1)(a) to (c), to which the requirement to segregate applies and that it is appropriate to include in the calculation of its *client money* requirement and, if so, adjust the calculation accordingly.

13.10.10 **G** The *client money* requirement calculated in accordance with **■ CASS 13.10.9R** should represent the total amount of *client money* a *firm* is required to have segregated in *client bank accounts* under **■ CASS 13**.

13.10.11 **G** *Firms* are reminded that, under **■ CASS 13.9.3R**, if a *firm* has drawn any cheques, or other payable orders, to discharge its fiduciary duty to its *clients* (for example, to return *client money* to the *client*), the sum concerned must be included in the *firm's* calculation of its *client money* requirement until the cheque or order is presented and paid.

13.10.12 **G**

- (1) The following *guidance* applies where a *firm* receives *client money* in the form of cash, a cheque or other payable order.
- (2) In carrying out the calculation of the *client money* requirement, a *firm* may initially include the amount of *client money* received as cash, cheques or payment orders that has not yet been deposited in a *client bank account* in line with **■ CASS 13.6.5R**. If it does so, the *firm* should ensure, before finalising the calculation, that it deducts these amounts to avoid them giving rise to a difference between the *firm's* *client money* requirement and *client money* resource.

- (3) In carrying out the calculation of the *client money* requirement, a *firm* may alternatively exclude the amount of *client money* received as cash, cheques or payment orders that has not yet been deposited in a *client bank account* in line with ■ CASS 13.6.5R. If it does so, the *firm* is reminded that it must separately record the receipt of the *money* in the *firm's* books and records under ■ CASS 13.6.5R(3).
- (4) A *firm* that receives *client money* in the form of cash, a cheque or other payable order is reminded that it must pay that *money* into a *client bank account* promptly and no later than on the *business day* after it receives the *money* (see ■ CASS 13.6.5R).

13.10.13 **R** The individual *customer* balance for each *client* must be calculated as follows:

- (1) the amount received for or on behalf of the *customer* by the *firm*;
plus
- (2) the amount of any interest, and any other sums, due from the *firm* to the *customer*; less:
- (3) the aggregate of the amount of *money*:
 - (a) paid to that *customer* by the *firm*; and
 - (b) due and payable by the *customer* to the *firm*; and
 - (c) due by the *customer* to a third party in accordance with the contractual arrangements in place between the *firm* and the *customer*.

13.10.14 **R** Where the individual *customer* balance calculated in respect of an individual *client* under ■ CASS 13.10.13R is a negative figure (because the amounts received for or on behalf of, or due, to a *client* under ■ CASS 13.10.13R(1) and ■ CASS 13.10.13R(2) are less than the amounts paid by, or due and payable by, that *customer* under ■ CASS 13.10.13R(3), that individual *customer* balance should be treated as zero for the purposes of the calculation of the *firm's* *client money* requirement in ■ CASS 13.10.9R.

Reconciliation differences and discrepancies

13.10.15 **R** When an *internal client money reconciliation* reveals a difference between the *client money* resource and its *client money* requirement a *firm* must:

- (1) identify the reason for the difference;
- (2) ensure that any shortfall in the amount of the *client money* resource as compared to the amount of the *client money* requirement is made up by a payment into the *firm's* *client bank accounts* by the end of the *business day* following the day on which the difference was discovered; and
- (3) ensure that any excess in the amount of the *client money* resource as compared to the amount of the *client money* requirement is withdrawn from the *firm's* *client bank accounts* by the end of the *business day* following the day on which the difference was discovered.

External client money reconciliation

13.10.16 **G** The purpose of the reconciliation process required by **■ CASS 13.10.17R** is to ensure the accuracy of a *firm's* internal accounts and records against those of any third parties by whom *client money* is held.

13.10.17 **R** A *firm* must perform an *external client money reconciliation*:

- (1) each *business day*; and
- (2) as soon as reasonably practicable after the relevant *internal client money reconciliation*;

to ensure the accuracy of its internal accounts and records by comparing its internal accounts records against those of *approved banks* with whom *client money* is deposited.

13.10.18 **G** An *external client money reconciliation* requires a *firm* to conduct a reconciliation between its internal accounts and records and those of any *approved banks* by whom *client money* is held.

13.10.19 **R** When any discrepancy is revealed by an *external client money reconciliation*, a *firm* must identify the reason for the discrepancy and correct it as soon as possible, unless the discrepancy arises solely as a result of timing differences between the accounting system of the party providing the statement or confirmation and that of the *firm*.

13.10.20 **R** While a *firm* is unable to resolve a discrepancy arising from an *external client money reconciliation*, and one record or a set of records examined by the *firm* during the reconciliation process indicates that there is a need to have greater amount of *client money* than is in fact the case, the *firm* must assume, until the matter is finally resolved, that the record or set of records is accurate and pay its own *money* into a relevant *client bank account*.

Notification requirements

13.10.21 **R** A *firm* must inform the *FCA* in writing without delay if:

- (1) its internal records and accounts of client money are materially out of date or materially inaccurate so that the *firm* is no longer able to comply with the requirements in **■ CASS 13.10.1R** to **■ CASS 13.10.4R**; or
- (2) it will be unable to or materially fails to conduct an *internal client money reconciliation* in compliance with **■ CASS 13.10.5R**; or
- (3) after having carried out an *internal client money reconciliation* in accordance with **■ CASS 13.10.5R** it will be unable to, or materially fails to, pay any shortfall into (or withdraw any excess from) a *client bank account* so that the *firm* is unable to comply with **■ CASS 13.10.15R**; or
- (4) it will be unable to or materially fails to conduct an *external client money reconciliation* in compliance with **■ CASS 13.10.17R**; or

- (5) after having carried out an *external client money reconciliation* in accordance with ■ CASS 13.10.17R it will be unable to, or materially fails to, identify the reason for any discrepancies and correct them in accordance with ■ CASS 13.10.19R; or
- (6) it becomes aware that, at any time in the preceding 12 *months*, the amount of *client money* segregated in its *client bank accounts* materially differed from the total aggregate amount of *client money* the *firm* was required to segregate in *client bank accounts* in accordance with the segregation requirements in ■ CASS 13.6.