

Chapter 7

Client money rules

7.13 Segregation of client money

Application and purpose

7.13.1 **G** The segregation of *client money* from a *firm's own money* is an important safeguard for its protection.

7.13.2 **R** Where a *firm* establishes one or more *sub-pools*, the provisions of **■ CASS 7.13** (Segregation of client money) shall be read as applying separately to the *firm's general pool* and each *sub-pool* in line with **■ CASS 7.19.3 R** and **■ CASS 7.19.12 R**.

Depositing client money

7.13.3 **R** A *firm*, on receiving any *client money*, must promptly place this *money* into one or more accounts opened with any of the following:

- (1) a central bank;
- (2) a *CRD credit institution*;
- (3) a bank authorised in a *third country*;
- (4) a *qualifying money market fund*.

[Note: article 4(1) of the *MiFID Delegated Directive*]

7.13.4 **G** A *firm* should ensure that any *money* other than *client money* that is deposited in a *client bank account* is promptly paid out of that account unless such *money* is a minimum sum required to open the account, or to keep the account open.

Approaches for the segregation of client money

7.13.5 **G** The two approaches that a *firm* can adopt in discharging its obligations under this section are:

- (1) the 'normal approach'; or
- (2) the 'alternative approach' (see **■ CASS 7.13.54 G** to **■ CASS 7.13.69 G**).

The normal approach

7.13.6 **R** Unless otherwise permitted by any other *rule* in this chapter, a *firm* using the normal approach must ensure that all *client money* it receives is paid directly into a *client bank account* at an institution referred to in **■ CASS 7.13.3 R (1)** to **■ CASS 7.13.3 R (3)**, rather than being first received into the *firm's* own account and then segregated.

7.13.7 **G** *Firms* should ensure that *clients* and third parties make transfers and payments of any *money* which will be *client money* directly into the *firm's client bank accounts*.

Selection, appointment and review of third parties

7.13.8 **R** (1) A *firm* that does not deposit *client money* with a central bank must exercise all due skill, care and diligence in the selection, appointment and periodic review of the *CRD credit institution*, bank or *qualifying money market fund* where the *money* is deposited and the arrangements for the holding of this *money*.

(2) The *firm* must consider the need for diversification as part of its due diligence under (1).

[Note: article 4(2) first sub-paragraph of the *MiFID Delegated Directive*]

7.13.9 **G** *Firms* should ensure that their consideration of a *CRD credit institution*, bank or *qualifying money market fund* under **■ CASS 7.13.8 R** focuses on the specific legal entity in question and not simply that *person's* group as a whole.

7.13.10 **R** When a *firm* makes the selection, appointment and conducts the periodic review of a *CRD credit institution*, a bank or a *qualifying money market fund*, it must take into account:

(1) the expertise and market reputation of the third party with a view to ensuring the protection of *clients' rights*; and

(2) any legal or regulatory requirements or market practices related to the holding of *client money* that could adversely affect *clients' rights*.

[Note: article 4(2) second sub-paragraph of the *MiFID Delegated Directive*]

7.13.11 **G** In complying with **■ CASS 7.13.8 R** and **■ CASS 7.13.10 R**, a *firm* should consider, as appropriate, together with any other relevant matters:

(1) the capital of the *CRD credit institution* or bank;

(2) the amount of *client money* placed, as a proportion of the *CRD credit institution* or bank's capital and deposits, and, in the case of a *qualifying money market fund*, compared to any limit the fund may place on the volume of redemptions in any period;

(3) the extent to which *client money* that the *firm* deposits or holds with any *CRD credit institution* or bank incorporated outside the *UK* would

be protected under a deposit protection scheme in the relevant jurisdiction;

- (4) the credit-worthiness of the *CRD credit institution* or bank; and
- (5) to the extent that the information is available, the level of risk in the investment and loan activities undertaken by the *CRD credit institution* or bank and *affiliated companies*.

Client bank accounts

7.13.12 **R** A *firm* must take the necessary steps to ensure that *client money* deposited, in accordance with **■ CASS 7.13.3 R**, in a central bank, a *credit institution*, a bank authorised in a *third country* or a *qualifying money market fund* is held in an account or accounts identified separately from any accounts used to hold *money* belonging to the *firm*.

[**Note:** article 2(1)(e) of the *MiFID Delegated Directive*]

7.13.13 **R**

- (1) An account which the *firm* uses to deposit *client money* under **■ CASS 7.13.3 R (1)** to **■ CASS 7.13.3 R (3)** must be a *client bank account*.
- (2) In respect of each *client bank account* used by a *firm* to satisfy its obligation under **■ CASS 7.13.3R(1)** to (3):
 - (a) the relevant bank's contractual counterparty must be the *firm* itself; and
 - (b)) subject to paragraph (3A), the *firm* must be able to make withdrawals of *client money* promptly and, in any event, within one *business day* of a request for withdrawal.

Transitional provision **■ CASS TP 1.1.10AR** applies to (2).

(3) [deleted]

(3A) Where the requirement under sub-paragraph (2)(b) is not satisfied and provided that the *client bank account* is not included in a *sub-pool*, a *firm* may use a *client bank account* from which it will be unable to make a withdrawal of *client money* until the expiry of a period lasting:

- (a) up to 30 *days*; or
- (b) provided the *firm* complies with **■ CASS 7.13.14AR**, from 31 to 95 *days*.

(4) Paragraphs (2)(b) and (3A) do not apply in respect of *client money* received by a *firm* in its capacity as a *trustee firm*.

7.13.14 **G** **■ CASS 7.13.13 R (2)(b)** and **■ CASS 7.13.13R(3A)** do not prevent a *firm* from depositing *client money* on terms under which a withdrawal may be made before the expiry of a fixed term or a notice period (whatever the duration), including where such withdrawal would incur a penalty charge to the *firm*.

7.13.14A **R** A *firm* may only use one or more *client bank accounts* under **■ CASS 7.13.13R(3A)(b)** if:

- (1) prior to using any such *client bank accounts*, it:
 - (a) produces a written policy that sets out:
 - (i) for each of its business lines, the maximum proportion of the *client money* held by the *firm* that the *firm* considers would be appropriate to hold in such *client bank accounts* having regard to the need to manage the risk of the *firm* being unable to access *client money* when required;
 - (ii) the *firm's* rationale for reaching its conclusion(s) under (i); and
 - (iii) the measures that it will put into place to comply with sub-paragraph (2)(a) of this *rule*, having regard to
 - CASS 7.13.14CE; and
 - (b) provides each of its *clients* with a written explanation of the risks that arise as a result of the longer notice period for withdrawals that:
 - (i) is clear, fair and not misleading; and
 - (ii) in respect of the medium of the explanation, satisfies whichever of ■ COBS 6.1.13R (Medium of disclosure) or ■ COBS 6.1ZA.19EU (Medium of disclosure) applies to the *firm* in respect of its obligations to provide information to the *client*; and
- (2) while the *firm* uses any such *client bank accounts*, it:
 - (a) takes appropriate measures to manage the risk of the *firm* being unable to access *client money* when required;
 - (b) keeps its written policy under sub-paragraph (1)(a) under review, amending it where necessary; and
 - (c) provides any of its *clients* to whom it has not previously provided the explanation under sub-paragraph (1)(b) with such a written explanation before it starts to hold or receive *client money* for them.

7.13.14B **R**

- (1) A *firm* must make and retain a written record of:
 - (a) the written policy it produces under ■ CASS 7.13.14AR(1)(a); and
 - (b) each subsequent version of the written policy it produces as a result of ■ CASS 7.13.14AR(2)(b).
- (2) The *firm* must make the record:
 - (a) under sub-paragraph (1)(a) on the date it produces the written policy; and
 - (b) under sub-paragraph (1)(b) on the date it produces the new version of the written policy.
- (3) The *firm* must keep each record under this *rule* for a period of five years after the earlier of:
 - (a) the date on which the version of the policy to which the record relates was superseded; and
 - (b) the date on which the *firm* ceased to use *client bank accounts* under ■ CASS 7.13.13R(3A)(b).

- 7.13.14C** E
- (1) Appropriate measures under ■ CASS 7.13.14AR(2)(a) include the *firm* considering the need to make, and making where appropriate, quarterly or more frequent adjustments to the amount of *client money* held in *client bank accounts* under ■ CASS 7.13.13R(3A)(b), taking into consideration the following factors:
 - (a) historic and expected future *client money* receipts and payments;
 - (b) the *firm's* own analysis of its exposure to the risk of being unable to meet instructions from its *clients* in relation to *client money* that it holds, applying an appropriate set of time horizons and stress scenarios; and
 - (c) the content of the *firm's* written policy under ■ CASS 7.13.14AR(1)(a)(i) and (ii).
 - (2) Compliance with (1) may be relied on as tending to establish compliance with ■ CASS 7.13.14AR(2)(a).
 - (3) Contravention of (1) may be relied on as tending to establish contravention of ■ CASS 7.13.14AR(2)(a).
- 7.13.14D** G
- (1) Under ■ CASS 7.13.14AR(2)(b) a *firm* should consider whether amendments to its written policy under ■ CASS 7.13.14AR(1)(a) are needed for any reason, including in light of the *firm's* analysis in the course of its measures under ■ CASS 7.13.14AR(2)(a).
 - (2) Each time a *firm* amends its written policy under ■ CASS 7.13.14AR(1)(a), it should also update the rationale for the amended policy under ■ CASS 7.13.14AR(1)(a)(ii).
 - (3) The stress scenarios under ■ CASS 7.13.14CE(1)(b) should include a variety of severe yet plausible institution-specific and market-wide liquidity shocks.
- 7.13.14E** G
- (1) If a fixed term or notice period for a withdrawal from a *client bank account* is scheduled to expire on a *day* on which a *firm* would expect to be unable to make the withdrawal, and the result is that the total period for which the withdrawal is prevented is longer than that permitted under ■ CASS 7.13.13R(3A)(a) or (b), then the *firm* would be in breach of that *rule*.
 - (2) Such a situation could arise because the fixed term or notice period expires on a *day* which is not a *business day* for the relevant bank.
 - (3) *Firms* should therefore schedule their withdrawals from *client bank accounts* under ■ CASS 7.13.13R(3A)(a) and (b) to avoid such breaches.
- 7.13.14F** G *Firms* that hold *client money* using a *client bank account* under ■ CASS 7.13.13R(3A)(b) and to which ■ SUP 16.14 (Client money and asset return) applies may need to fill in their *CMARs* in the way set out at ■ SUP 16.14.7R (Reporting of 'unbreakable' client money deposits).

- 7.13.15 **G** ■ CASS 7.13.13 R does not prevent a *firm* from depositing *client money* in overnight money market deposits which are clearly identified as being *client money* (for example, in the *client bank account* acknowledgment letter).
- 7.13.16 **G** *Firms* are reminded of their obligations under ■ CASS 7.18 (Acknowledgment letters) for *client bank accounts*. *Firms* should also ensure that *client bank accounts* meet the requirements in the relevant *Glossary* definitions, including regarding the titles given to the accounts.
- 7.13.17 **G** A *firm* may open one or more *client bank accounts* in the form of a general *client bank account*, a *designated client bank account* or a *designated client fund account* (see ■ CASS 7A.2.1 G (Failure of the authorised firm: primary pooling event)). The requirements of ■ CASS 7.13.13 R (2) and ■ CASS 7.13.13 R (3) apply for each type of *client bank account*.
- 7.13.18 **G** A *designated client bank account* may be used for a *client* only where that *client* has consented to the use of that account. If a *firm* deposits *client money* into a *designated client bank account* then, in the event of a *secondary pooling event* in respect of the relevant bank, the account will not be pooled with any *general client bank account* or *designated client fund account*.
- 7.13.19 **G** A *designated client fund account* may be used for a *client* only where that *client* has consented to the use of that account and all other *designated client fund accounts* which may be pooled with it. For example, a *client* who consents to the use of bank A and bank B should have his *money* held in a different *designated client fund account* at bank B from a *client* who has consented to the use of banks B and C. If a *firm* deposits *client money* into a *designated client fund account* then, in the event of a *secondary pooling event* in respect of the relevant bank, the account will not be pooled with any *general client bank account* or *designated client bank account*.

Diversification of client money

- 7.13.20-A **G**
- (1) In ■ CASS 7.13.20R to ■ CASS 7.13.25R *client money* means *money* deposited under ■ CASS 7.13.3R and therefore includes *money* deposited under ■ CASS 7.13.3R:
 - (a) in an account opened with a *qualifying money market fund*; or
 - (b) invested in units or shares of a *qualifying money market fund*.
 - (2) But *client money* held under ■ CASS 7.14.2R does not fall within the scope of the diversification provisions at ■ CASS 7.13.20R to ■ CASS 7.13.25R.
- 7.13.20 **R** Notwithstanding the requirement at ■ CASS 7.13.22 R a *firm* must limit the funds that it deposits or holds with a relevant group entity or combination of such entities so that the value of those funds do not at any point in time exceed 20 per cent of the total of all the *client money* held by the *firm* under ■ CASS 7.13.3R.
- [Note: article 4(3) first sub-paragraph of the *MiFID Delegated Directive*]

7.13.21 **R** For the purpose of **■ CASS 7.13.20 R** an entity is a relevant group entity if it is:

- (1) (a) a *CRD credit institution*; or
a bank authorised in a *third country*; or
a *qualifying money market fund*; or
the entity operating or managing the *qualifying money market fund*; and
- (2) a member of the same *group* as that *firm*.

[**Note:** article 4(3) first sub-paragraph of the *MiFID Delegated Directive*]

7.13.21A **R** (1) A *firm* need not comply with **■ CASS 7.13.20R** if, following an assessment, it is able to demonstrate that the requirement under that *rule* is not proportionate, in view of:

- (a) the small balance of *client money* that it holds;
- (a) the nature, scale and complexity of its business; and
- (a) the safety offered by the relevant third parties referred to under **■ CASS 7.13.20R**.

(2) A *firm* must review any assessment it makes under (1) periodically.

(3) A *firm* must notify its assessment under (1) and its reviewed assessments under (2) to the *FCA* in accordance with **■ CASS 7.13.21CR**.

[**Note:** article 4(3) second sub-paragraph of the *MiFID Delegated Directive*]

7.13.21B **G** (1) In relation to the requirement to take account of a *firm's* "small balance" of *client money* at **■ CASS 7.13.21AR(1)(a)**:

- (a) the *FCA* expects a *firm* that would not qualify to be a *CASS small firm* under the *rules* in **■ CASS 1A.2**, ignoring any *safe custody assets* that it holds, to have difficulty in justifying using the approach in **■ CASS 7.13.21AR(1)**;
- (b) a *firm* should calculate its *client money* balance for these purposes in the same way required under **■ CASS 1A.2.3R**, and base its assessment under **■ CASS 7.13.21AR(1)(a)** on either:
 - (i) the highest total amount of *client money* that it held during the year ending on the date of the assessment; or
 - (ii) if it did not hold *client money* in the previous calendar year, the highest total amount of *client money* that the *firm* projects it will hold during the year starting on the date of the assessment;
- (c) this means that it may be possible for a *CASS medium firm* or a *CASS large firm* to justify using the approach in **■ CASS 7.13.21AR(1)** on the basis of small *client money* balances; and
- (d) in any case, a *firm* seeking to take that approach should also consider the points at **■ CASS 7.13.21AR(1)(b)** and (c) as part of its assessment.

- (2) In relation to the requirement under ■ CASS 7.13.21AR(2) to review the assessment under ■ CASS 7.13.21AR(1):
 - (a) a *firm* should undertake a review and, where appropriate, consider whether to cease to use the approach in ■ CASS 7.13.21AR(1) when it becomes aware of a change in the circumstances that might have led the *firm* to a different conclusion on its previous assessment; and
 - (b) in any case a *firm* should undertake a review at least one year after its previous assessment until it ceases to use the approach in ■ CASS 7.13.21AR(1).
- (3) A *firm* may, subject to paragraph (2)(a), wish to perform the assessment and any periodic reviews under ■ CASS 7.13.21AR when the obligations under ■ CASS 1A.2.9R arise.
- (4) *Firms* are reminded that, independent of ■ CASS 7.13.21AR, each *firm* is required by ■ CASS 1A.2.2R to determine once every year whether it is a *CASS large firm*, *CASS medium firm* or *CASS small firm*.

7.13.21C **R**

Where a *firm* decides following an assessment under ■ CASS 7.13.21AR(1) that it intends to use the approach under that *rule*, the *firm* must give the *FCA* notice of this upon reaching that decision and before it starts to use that approach.

Where, following a review under ■ CASS 7.13.21AR(2) a *firm* decides that it will either cease to use the approach under ■ CASS 7.13.21AR(1) or continue to use it, it must give the *FCA* notice of this upon reaching that decision.

7.13.22 **R**

Subject to the requirement at ■ CASS 7.13.20 R, and in accordance with *Principle 10* and ■ CASS 7.12.1 R, a *firm* must:

- (1) periodically review whether it is appropriate to diversify (or further diversify) the third parties with which it deposits some or all of the *client money* that the *firm* holds; and
- (2) whenever it concludes that it is appropriate to do so, it must make adjustments accordingly to the third parties it uses and to the amounts of *client money* deposited with them.

[**Note:** article 4(2) first sub-paragraph of the *MiFID Delegated Directive*]

7.13.23 **G**

In complying with the requirement in ■ CASS 7.13.22 R to periodically review whether diversification (or further diversification) is appropriate, a *firm* should have regard to:

- (1) whether it would be appropriate to deposit *client money* in *client bank accounts* opened at a number of different third parties;
- (2) whether it would be appropriate to limit the amount of *client money* the *firm* holds with third parties that are in the same *group* as each other;

- (3) whether risks arising from the *firm's* business models create any need for diversification (or further diversification);
- (4) the market conditions at the time of the assessment; and
- (5) the outcome of any due diligence carried out in accordance with
 - CASS 7.13.8 R and ■ CASS 7.13.10 R.

7.13.24 **G** The rules in ■ SUP 16.14 provide that *CASS large firms* and *CASS medium firms* must report to the *FCA* in relation to the identity of the entities with which they deposit *client money* and the amounts of *client money* deposited with those entities. The *FCA* will use that information to monitor compliance with the diversification *rule* in ■ CASS 7.13.20 R.

- 7.13.25** **R**
- (1) A *firm* must make a record of the grounds upon which it satisfies itself as to the appropriateness of its selection and appointment of a bank or a *qualifying money market fund* under ■ CASS 7.13.8 R. The *firm* must make the record on the date it makes the selection or appointment and must keep it from that date until five years after the *firm* ceases to use that particular *person* for the purposes of depositing *client money* under ■ CASS 7.13.3 R.
 - (2) A *firm* must make a record of each periodic review of its selection and appointment of a bank or a *qualifying money market fund* that it conducts under ■ CASS 7.13.8 R, its considerations and conclusions. The *firm* must make the record on the date it completes the review and must keep it from that date until five years after the *firm* ceases to use that particular *person* for the purposes of depositing *client money* under ■ CASS 7.13.3 R.
 - (3) A *firm* must make a record of each periodic review that it conducts under ■ CASS 7.13.22 R, its considerations and conclusions. The *firm* must make the record on the date it completes out the review and must keep it for five years from that date.

Qualifying money market funds

7.13.26 **R** Where a *firm* deposits *client money* with a *qualifying money market fund*, the *firm's* holding of those units or shares in that fund will be subject to any applicable requirements of the *custody rules*.

[**Note:** recital 4 to the *MiFID Delegated Directive*]

7.13.27 **G** A *firm* that places *client money* in a *qualifying money market fund* should ensure that it has the *permissions* required to invest in and hold units in that fund and must comply with the *rules* that are relevant for those activities.

- 7.13.28** **R**
- (1) A *firm* must inform a *client* that *money* placed with a *qualifying money market fund* will not be held in accordance with the requirements for holding *client money*.

- (2) A *firm* must ensure that, having provided the information to the *client* under (1), the *client* gives its explicit consent to the placement of their *money* in a *qualifying money market fund*.

[Note: article 4(2) third sub-paragraph to the *MiFID Delegated Directive*]

7.13.29 **G** [deleted]

7.13.29A **G** A *firm* may comply with **■ CASS 7.13.28 R(1)** by informing the *client* that the units or shares in the *qualifying money market fund* will be held as *safe custody assets*.

Segregation in different currency

7.13.30 **R** A *firm* may segregate *client money* in a different currency from that in which it was received or in which the *firm* is liable to the relevant *client*. If it does so the *firm* must ensure that the amount held is adjusted each *day* to an amount at least equal to the original currency amount (or the currency in which the *firm* has its liability to its *clients*, if different), translated at the previous day's closing spot exchange rate.

Mixed remittance

7.13.31 **R** Except in the circumstances described in **■ CASS 7.13.72 R (1)(a)**, where a *firm* using the normal approach receives a *mixed remittance* it should:

- (1) in accordance with **■ CASS 7.13.6 R**, take necessary steps to ensure the *mixed remittance* is paid directly into a *client bank account*; and
- (2) promptly and, in any event no later than one *business day* after the payment of the *mixed remittance* into the *client bank account* has cleared, pay the *money* that is not *client money* out of the *client bank account*.

Physical receipts of client money

7.13.32 **R** Where a *firm* receives *client money* in the form of cash, a cheque or other payable order, it must:

- (1) pay the *money* in accordance with **■ CASS 7.13.6 R**, promptly, and no later than on the *business day* after it receives the *money* into a *client bank account*, unless either:
 - (a) the *money* is received by a business line for which the *firm* uses the alternative approach, in which case the *money* must be paid into the *firm's* own bank account promptly, and no later than on the *business day* after it receives the *money*; or
 - (b) the *firm* is unable to meet the requirement in (1) because of restrictions under the *regulatory system* or law regarding the receipt and processing of *money*, in which case the *money* must be paid in accordance with **■ CASS 7.13.6 R** as soon as possible;
- (2) if the *firm* holds the *money* in the meantime before paying it in accordance with **■ CASS 7.13.6 R** (or in the case of (1)(a), into its own

bank account), hold it in a secure location in line with *Principle 10*; and

- (3) in any case, record the receipt of the *money* in the *firm's* books and records in line with ■ CASS 7.15 (Records, accounts and reconciliations).

7.13.33

R

Where a *firm* receives *client money* in the form of a cheque that is dated with a future date, unless the *firm* returns the cheque it must:

- (1) pay the *money* in accordance with ■ CASS 7.13.6 R, promptly, and no later than the date on the cheque if the date is a *business day* or the next *business day* after the date on the cheque;
- (2) in the meantime, hold it in a secure location in accordance with *Principle 10*; and
- (3) record the receipt of the *money* in the *firm's* books and records in accordance with ■ CASS 7.15 (Records, accounts and reconciliations).

Appointed representatives, tied agents, field representatives and other agents

7.13.34

R

A *firm* must ensure that *client money* received by its *appointed representatives, tied agents, field representatives* or other agents is:

- (1) received directly into a *client bank account* of the *firm*, where this would have been required if such *client money* had been received by the *firm* otherwise than through its *appointed representatives, tied agents, field representatives* or other agents (see ■ CASS 7.13.6 R and ■ CASS 7.13.7 G); or
- (2) if it is received in the form of a cheque or other payable order:
 - (a) paid into a *client bank account* of the *firm* promptly and, in any event, no later than the next *business day* after receipt; or
 - (b) forwarded to the *firm* or, in the case of a *field representative*, forwarded to a specified business address of the *firm*, to ensure that the *money* arrives at the specified business address promptly and, in any event, no later than the close of the third *business day*.

7.13.35

G

Under ■ CASS 7.13.34 R (2)(b), *client money* received on *business day* one should be forwarded to the *firm* or specified business address of the *firm* promptly and, in any event, no later than the next *business day* after receipt (*business day* two) in order for it to reach that *firm* or specified business address by the close of the third *business day*. Procedures requiring the *client money* in the form of a cheque to be sent to the *firm* or the specified business address of the *firm* by first class post and, in any event, no later than the next *business day* after receipt, would fulfil ■ CASS 7.13.34 R (2)(b).

Allocation of client money receipts

7.13.36

R

- (1) A *firm* must allocate any *client money* it receives to an individual *client* promptly and, in any case, no later than ten *business days* following the receipt (or where subsequent to the receipt of *money* it

has identified that the *money*, or part of it, is *client money* under ■ CASS 7.13.37 R, no later than ten *business days* following that identification).

- (2) Pending a *firm's* allocation of a *client money* receipt to an individual *client* under (1), it must record the received *client money* in its books and records as "unallocated client money".

7.13.37 **R** If a *firm* receives money (either in a *client bank account* or an account of its own) which it is unable to immediately identify as *client money* or its own *money*, it must:

- (1) take all necessary steps to identify the *money* as either *client money* or its own *money*;
- (2) if it considers it reasonably prudent to do so, given the risk that *client money* may not be adequately protected if it is not treated as such, treat the entire balance of *money* as *client money* and record the *money* in its books and records as "unidentified client money" while it performs the necessary steps under (1).

7.13.38 **G** If a *firm* is unable to identify *money* that it has received as either *client money* or its own *money* under ■ CASS 7.13.37 R, it should consider whether it would be appropriate to return the *money* to the person who sent it or to the source from where it was received (for example, the banking institution).

Money due to a client from a firm

7.13.38A **R** ■ CASS 7.13.39R and ■ CASS 7.13.40G do not apply to a *firm* following a *primary pooling event*.

7.13.38B **G** ■ CASS 7A.2.10AR and ■ CASS 7A.2.10BG (Money due to a client from a firm after a primary pooling event) apply to a *firm* following a *primary pooling event* in respect of *money* due to a *client* from a *firm*.

7.13.39 **R** Pursuant to the *client money segregation requirements*, a *firm* that is operating the normal approach and is liable to pay *money* to a *client* must promptly, and in any event no later than one *business day* after the *money* is due and payable, pay the *money*:

- (1) to, or to the order of, the *client*; or
- (2) into a *client bank account*.

7.13.40 **G** Where the *firm* has payment instructions from the *client* the *firm* should pay the *money* to the order of the *client*, rather than into a *client bank account*.

Prudent segregation

7.13.40A **R** (1) Subject to paragraph (2), ■ CASS 7.13.41R to ■ CASS 7.13.49R do not apply to a *firm* following a *primary pooling event*.

(2) If, at the time of a *primary pooling event*, a *firm* has retained money in a *client bank account* for the purposes of ■ CASS 7.13.41R, that money remains *client money* for the purposes of the *client money rules* and the *client money distribution and transfer rules*.

7.13.41 **R** If it is prudent to do so to prevent a *shortfall* in *client money* on the occurrence of a *primary pooling event*, a *firm* may pay money of its own into a *client bank account* and subsequently retain that money in the *client bank account* (*prudent segregation*). Money that the *firm* retains in a *client bank account* under this rule is *client money* for the purposes of the *client money rules* and the *client money distribution and transfer rules*.

7.13.42 **G** A *firm* must make and retain an up-to-date record of all payments made under ■ CASS 7.13.41 R. (See further ■ CASS 7.13.50 R to ■ CASS 7.13.53 R: the prudent segregation record.)

7.13.43 **R** If a *firm* intends to pay its own money into a *client bank account* under ■ CASS 7.13.41 R it must establish a written policy that is approved by its *governing body* (and retain such policy for a period of at least five years after the date it ceases to retain such money in a *client bank account* under ■ CASS 7.13.41 R) detailing:

- (1) the specific anticipated risks in relation to which it would be prudent for the *firm* to make such payments into a *client bank account*;
- (2) why the *firm* considers that the use of such a payment is a reasonable means of protecting *client money* against each of the risks set out in the policy; and
- (3) the method that the *firm* will use to calculate the amount required to address each risk set out in the policy.

7.13.44 **R** The *firm* may amend its written policy to reflect changes in the specific anticipated risks in relation to which it would be prudent for the *firm* to make payments into a *client bank account* under ■ CASS 7.13.41 R.

7.13.45 **R** The *firm's* written policy must not conflict with the *client money rules* or the *client money distribution and transfer rules*. If there is a conflict, the *client money rules* and the *client money distribution and transfer rules* will prevail.

7.13.46 **G** In the event the *firm* faces a risk not contemplated under its current policy it will not be prevented from prudently segregating money as *client money* in accordance with these rules but the policy must be created or amended, as applicable, as soon as reasonably practicable.

7.13.47 **G** Examples of the types of risks that a *firm* may wish to provide protection for under ■ CASS 7.13.41 R include systems failures and business that is conducted on *non-business days* where the *firm* would be unable to pay any anticipated *shortfall* into its *client bank accounts*.

7.13.48 **R** To the extent that the *firm* no longer considers it prudent to retain *money* in its *client bank account* pursuant to **■ CASS 7.13.41 R** in order to ensure that *client money* is protected, the *firm* may cease to treat that *money* as *client money*.

7.13.49 **R** Any *money* that the *firm* ceases to treat as *client money* pursuant to **■ CASS 7.13.48 R** must be withdrawn from its *client bank account* as an excess under **■ CASS 7.15.29 R** as part of its next reconciliation.

Prudent segregation record

7.13.49A **R**

- (1) Subject to paragraph (2), **■ CASS 7.13.50R** to **■ CASS 7.13.52G** do not apply to a *firm* following a *primary pooling event*.
- (2) Where a *firm* holds a *prudent segregation record* under **■ CASS 7.13.53R** following a *primary pooling event*, the *prudent segregation record* must continue to satisfy the requirements set out in **■ CASS 7.13.51R**.

7.13.50 **R** A *firm* must create and keep up-to-date records so that the amount of *money* paid into *client bank accounts* and retained as *client money* pursuant to **■ CASS 7.13.41 R** or withdrawn pursuant to **■ CASS 7.13.49 R**, and the reasons for such payment, retention and withdrawal can be easily ascertained (the *prudent segregation record*).

7.13.51 **R** The *prudent segregation record* must record:

- (1) the outcome of the *firm's* calculation of its *prudent segregation*;
- (2) the amounts paid into or withdrawn from a *client bank account* pursuant to **■ CASS 7.13.41 R** or **■ CASS 7.13.49 R**;
- (3) why each payment or withdrawal is made;
- (4) in respect of the *firm's* written policy required by **■ CASS 7.13.43 R** the *firm* must record, as applicable, either:
 - (a) that the payment or withdrawal is made in accordance with that policy; or
 - (b) that the policy will be created or amended to include the reasons for this payment or withdrawal;
- (5) that the *money* was paid by the *firm* in accordance with **■ CASS 7.13.41 R** or withdrawn by the *firm* in accordance with **■ CASS 7.13.49 R**; and
- (6) the up-to-date total amount of *client money* held pursuant to **■ CASS 7.13.41 R**.

7.13.52 **G** *Firms* are reminded that payments and records made in accordance with **■ CASS 7.13.51 R** should not be used as a substitute for a *firm* keeping accurate and timely records in accordance with **■ CASS 7.15** (Records, accounts and

reconciliations) and requirements under ■ SYSC 4.1.1 R (General requirements) and ■ SYSC 6.1.1 R (Compliance).

- 7.13.53 **R** The *prudent segregation record* must be retained for five years after the *firm* ceases to retain *money as client money* pursuant to ■ CASS 7.13.41 R.

The alternative approach to client money segregation

- 7.13.53A **R** (1) Subject to paragraphs (2) and (3), ■ CASS 7.13.59R, ■ CASS 7.13.62R(3), ■ CASS 7.13.62R(4) and ■ CASS 7.13.63R to ■ CASS 7.13.67R do not apply to a *firm* following its *failure*.

(2) If, at the time of a *primary pooling event*, a *firm* has retained money in a *client bank account* for the purposes of *alternative approach mandatory prudent segregation* under ■ CASS 7.13.65R, that money remains *client money* for the purposes of the *client money rules* and the *client money distribution and transfer rules*.

(3) Where a *firm* holds an *alternative approach mandatory prudent segregation record* under ■ CASS 7.13.68R following a *primary pooling event*, the *alternative approach mandatory prudent segregation record* must continue to satisfy the requirements set out in ■ CASS 7.13.67R.

- 7.13.54 **G** (1) In certain circumstances, use of the normal approach for a particular business line of a *firm* could lead to significant operational risks to *client money* protection. These may include a business line under which *clients'* transactions are complex, numerous, closely related to the *firm's* proprietary business and/or involve a number of currencies and time zones. In such circumstances, subject to meeting the relevant criteria and fulfilling the relevant notification and audit requirements, a *firm* may use the alternative approach to segregating *client money* for that business line.

(2) Under the alternative approach, *client money* is received into and paid out of a *firm's* own bank account. A *firm* that adopts the alternative approach to segregating *client money* should (in line with ■ CASS 7.15.16 R (2)) carry out an *internal client money reconciliation* on each *business day* ('T0') and calculate how much *money* it either needs to withdraw from, or place in from its own bank account or its *client bank account* as a result of any discrepancy arising between its *client money requirement* and its *client money resource* as at the close of business on the previous *business day* ('T-1').

(3) The *alternative approach mandatory prudent segregation* required under ■ CASS 7.13.65 R is designed to address the risks that:

(a) *client money* in a *firm's* own bank account may not be available to be pooled for distribution to *clients* on the occurrence of a *primary pooling event*; and

(b) at the time of a *primary pooling event* the *firm* may not have segregated in its *client bank account* a sufficient amount of *client money* to meet its *client money requirement*.

- 7.13.55** **R** A *firm* that wishes to adopt the alternative approach for a particular business line must first establish, and document in writing, its reasons for concluding, that:
- (1) adopting the normal approach would lead to greater operational risks to *client money* protection compared to the alternative approach;
 - (2) adopting the alternative approach (including complying with the requirements for *alternative approach mandatory prudent segregation* under **■ CASS 7.13.65 R**), would not result in undue operational risk to *client money* protection; and
 - (3) the *firm* has systems and controls that are adequate to enable it to operate the alternative approach effectively and in compliance with *Principle 10* (Clients' assets).
- 7.13.56** **R** A *firm* must retain any documents created under **■ CASS 7.13.55 R** in relation to a particular business line for a period of at least five years after the date it ceases to use the alternative approach in connection with that business line.
- 7.13.57** **R** At least three *months* before adopting the alternative approach for a particular business line, a *firm* must:
- (1) inform the *FCA* in writing that it intends to adopt the alternative approach for that particular business line; and
 - (2) if requested by the *FCA*, make any documents it created under **■ CASS 7.13.55 R** available to the *FCA* for inspection.
- 7.13.58** **R**
- (1) In addition to the requirement under **■ CASS 7.13.57 R**, before adopting the alternative approach, a *firm* must send a written report to the *FCA* prepared by an independent auditor of the *firm* in line with a *reasonable assurance engagement*, stating the matters set out in (2).
 - (2) The written report in (1) must state whether, in the auditor's opinion:
 - (a) the *firm's* systems and controls are suitably designed to enable it to comply with **■ CASS 7.13.62 R** to **■ CASS 7.13.65 R**; and
 - (b) the *firm's* calculation of its *alternative approach mandatory prudent segregation* amount under **■ CASS 7.13.65 R** is suitably designed to enable the *firm* to comply with **■ CASS 7.13.65 R**.
- 7.13.59** **R**
- (1) A *firm* that uses the alternative approach must review, at least on an annual basis and with no more than one year between each review, whether its reasons for adopting the alternative approach for a particular business line, as documented under **■ CASS 7.13.55 R**, continue to be valid.
 - (2) If, following the review in (1), a *firm* finds that its reasons for adopting the alternative approach are no longer valid for a particular business line, it must stop using the alternative approach for that

business line as soon as reasonably practicable, and in any event within six months of the conclusion of its review in (1).

7.13.60 **R** A *firm* that uses the alternative approach must not materially change how it will calculate and maintain the *alternative approach mandatory prudent segregation* amount under **■ CASS 7.13.65 R** unless:

- (1) an auditor of the *firm* has prepared a report that complies with the requirements in **■ CASS 7.13.58 R (2)(b)** in respect of the *firm's* proposed changes; and
- (2) the *firm* provides a copy of the report prepared by the auditor under (a) to the *FCA* before implementing the change.

7.13.61 **G** A *firm* is reminded that, under **■ SUP 3.4.2 R**, it must take reasonable steps to ensure that its auditor has the required skill, resources and experience to perform its function.

7.13.62 **R** A *firm* that uses the alternative approach for a particular business line must, on each *business day* ('T0'):

- (1) receive any *money* from and pay any *money* to (or, in either case, on behalf of) *clients* into and out of its own bank accounts;
- (2) perform the necessary reconciliations of records and accounts required under **■ CASS 7.15** (Records, accounts and reconciliations);
- (3) adjust the balances held in its *client bank account* (by effecting transfers between its own bank account and its *client bank account*) to address any difference arising between its *client money requirement* and its *client money resource* as at the close of business on the previous *business day* ('T-1'), so that the correct amount reflected in the reconciliations under (2) is segregated in its *client bank account*; and
- (4) subject to CASS 7.13.63R below, keep segregated in its *client bank account* the balance held under (3) until it has performed a reconciliation on the following *business day* ('T+1') and as a result of that reconciliation is undertaking further adjustments under (3).

7.13.63 **R** During the period between the adjustment in **■ CASS 7.13.62 R (3)** and the completion of the next reconciliations in **■ CASS 7.13.62 R (2)**, a *firm* that uses the alternative approach for a particular business line may:

- (1) increase the balance held in its *client bank account* by making intra-day transfers (during T0) from its own bank account to its *client bank account* before the completion of the internal client money reconciliation under **■ CASS 7.13.62 R (2)** (that is expected sometime later on T0) only if:
 - (a) the *firm* reasonably expects that the *client money requirement* for the previous *business day* (T-1) will increase above the *client money resource* currently (during T0) held in its *client bank account*; and

- (b) such reasonable expectations are based on the working calculation of the *client money requirement* relating to the previous *business day* (T-1) that the firm has already determined on that *business day* (during T0) (as part of the process of completing its internal *client money reconciliation*); or
- (2) decrease the balance held in its *client bank account* by making intra-day transfers (during T0) from its *client bank account* to its own bank account before the completion of the internal *client money reconciliation* under ■ CASS 7.13.62 R (2) (that is expected sometime later on T0) only if:
 - (a) the *firm* reasonably expects that the *client money requirement* for the previous *business day* (T-1) will decrease below the *client money resource* currently held (during T0) in its *client bank account*; and
 - (b) such reasonable expectations are based on the working calculation of the *client money requirement* relating to the previous *business day* (T-1) that the *firm* has already determined on that *business day* (during T0) (as part of the process of completing its *internal client money reconciliation*).

However, in doing so, a *firm* must act prudently and should take appropriate steps to manage the risk of not having segregated an amount that appropriately reflects its actual *client money requirement* at any given time.

7.13.64 G It is anticipated that ■ CASS 7.13.63 R may be used by *firms* which maintain *client bank accounts* in a number of different time zones and making adjustments to the balances of those *client bank accounts* is dependent on meeting cut off times for money transfers in those time zones.

7.13.65 R

- (1) A *firm* that uses the alternative approach must, in addition to ■ CASS 7.13.62 R, pay an amount (determined in accordance with this rule) of its own *money* into its *client bank account* and subsequently retain that *money* in its *client bank account* (*alternative approach mandatory prudent segregation*). The amount segregated by a *firm* in its *client bank account* under this rule is *client money* for the purposes of the *client money rules* and the *client money distribution and transfer rules*.
- (2) The amount required to be segregated under this rule must be an amount that a *firm* reasonably determines would be sufficient, at the time it makes the determination, to protect *client money* against the risk that at any time in the following three months the following categories of *client money* may not have been fully segregated in its *client bank account* or may not be (or become) available for pooling under ■ CASS 7A.2.4R (1), were a *primary pooling event* to occur:
 - (a) *client money* that is received and held by the *firm* in its own bank account during the period between:
 - (i) the *firm's* adjustment of *client bank account* balances under ■ CASS 7.13.62 R (3) on a particular *business day*; and
 - (ii) the *firm's* subsequent adjustments under ■ CASS 7.13.62 R (3) on the following *business day*; and

- (b) *money* received and held by the *firm* in its own bank account which the *firm* does not initially identify as part of its *client money requirement*, but which subsequently does become part of its *client money requirement*;

with the effect that the *firm's alternative approach mandatory prudent segregation* under this *rule* will reduce, as far as possible, any *shortfall* that might have been produced as a result of (a) or (b) on the occurrence of a *primary pooling event*.

- (3) (a) Subject to (c), in reaching its determination under (2) of the amount of *money* that would be sufficient to address the risks referred to in (2) for the forthcoming three months, a *firm* must take into account the following in respect of each business line for which it uses the alternative approach, and for at least the previous three months:
- (i) the *firm's client money requirement* over the course of that prior period (excluding any amount that was required to be segregated under this *rule* during that prior period for the purposes of *alternative approach mandatory prudent segregation*);
 - (ii) the daily adjustment payments that the *firm* made into its *client bank account* under ■ CASS 7.13.62 R (3) during that prior period; and
 - (iii) the amount of *money* received by the *firm* in its own bank account which it did not initially identify as part of its *client money requirement*, but which subsequently, and during that prior period, became part of its *client money requirement*;
- as shown in its internal records.
- (b) In reaching its determination under (2) a *firm* must also take into account, but at all times having regard to the requirement under (2), any impact that particular events, the seasonal nature of each relevant business line, or any other aspect of those business lines may have on:
- (i) the *firm's client money requirement* during the forthcoming three months for which the amount of *alternative approach mandatory prudent segregation* required under this *rule* is being determined;
 - (ii) the daily adjustment payments that the *firm* is likely to make into its *client bank account* under ■ CASS 7.13.62 R (3) in that same period; and
 - (iii) the amount of unidentified receipts of *money* that the *firm* is likely to receive into its own bank account and which will subsequently, in that same period, become part of its *client money requirement*.
- (c) If, at the time of its determination under (2), the *firm* has not been trading for three months in a business line for which it is using the alternative approach, then it must use the records that are available to it and must also factor in reasonable forecasts, as required under (b), to establish a three-month reference period.
- (4) (a) A *firm* must, at regular intervals that are at least quarterly, repeat and complete the combined process of:

- (i) determining the amount that it is required to segregate for the purposes of *alternative approach mandatory prudent segregation* under (2) and (3);
 - (ii) making necessary adjustments to its records to reflect any changes to its *client money requirement* (in accordance with ■ CASS 7.16.16 R (3) and ■ CASS 7.16.17 R (2)); and
 - (iii) paying any additional amounts of its own *money* into its *client bank account* to increase the *firm's alternative approach mandatory prudent segregation* or withdrawing any excess amounts from its *client bank account* to decrease the *firm's alternative approach mandatory prudent segregation* after it has adjusted its records under (ii).
- (b) The combined process of (a)(i) to (iii) must take no longer than ten *business days*.
- (c) To the extent that a *firm's* compliance with (a)(i) and (ii) results in there being an excess in the *firm's client bank account*, the *firm* may cease to treat that *money* as client money.
- (5) A *firm* must ensure that the individual responsible for CASS oversight under ■ CASS 1A.3.1 R, ■ CASS 1A.3.1A R or ■ CASS 1A.3.1C R (as appropriate) reviews the adequacy of the amount of the *firm's alternative approach mandatory prudent segregation* maintained under this *rule* at least annually.

7.13.66 **R** A *firm* must create and keep up-to-date records so that any amount of *money* that is, pursuant to ■ CASS 7.13.65 R:

- (1) paid into a *client bank account* and retained as *client money*; or
- (2) withdrawn from a *client bank account*;

can be easily ascertained (the *alternative approach mandatory prudent segregation record*).

7.13.67 **R** The *alternative approach mandatory prudent segregation record* under ■ CASS 7.13.66 R must record:

- (1) the date of the first determination under ■ CASS 7.13.65 R (2) and each subsequent review undertaken under ■ CASS 7.13.65 R (4), and the total amount that the *firm* determined was required to be segregated under ■ CASS 7.13.65 R (2) as at that date;
- (2) the date of any payment of the *firm's own money* into a *client bank account*, or withdrawal of any excess from a *client bank account* under ■ CASS 7.13.65 R, and for each such occasion:
 - (a) the amount of the payment or withdrawal;
 - (b) the fact that the *money* was paid or withdrawn by the *firm* in accordance with ■ CASS 7.13.65 R; and
 - (c) as at that date, the total amount actually segregated by the *firm* under ■ CASS 7.13.65 R.

7.13.68 **R** The *alternative approach mandatory prudent segregation record* must be retained for five years after the *firm* ceases to segregate any *money* in accordance with **■ CASS 7.13.65 R**.

7.13.69 **G** Nothing in **■ CASS 7.13.54 G** to **■ CASS 7.13.68 R** prevents a *firm* from also making use of the *prudent segregation* rule in **■ CASS 7.13.41 R**.

Use of the normal approach in relation to certain regulated clearing arrangements

7.13.70 **G** **■ CASS 7.13.72 R** sets out the circumstances under which a *firm*, that would otherwise be required to comply with the requirement in **■ CASS 7.13.6 R** to receive *client money* directly into a *client bank account*, must receive (or is permitted to receive) *client money* into its own bank account.

7.13.71 **R** A *firm* that is also a *clearing member* that is using the normal approach in connection with *regulated clearing arrangements* must use reasonable endeavours to ensure it is not required under its arrangements with an *authorised central counterparty* to receive *mixed remittances* from or pay *mixed remittances* to the *authorised central counterparty* through a single bank account.

7.13.72 **R** (1) If, notwithstanding its reasonable endeavours in accordance with **■ CASS 7.13.71 R**, the *firm* is required under its arrangements with an *authorised central counterparty* to:

(a) receive *mixed remittances* from the *authorised central counterparty* into a single bank account and pay *mixed remittances* to the *authorised central counterparty* from that bank account; or

(b) pay *mixed remittances* to the *authorised central counterparty* using a single bank account;

then such arrangements for *client money* are permitted if the *firm* complies, as applicable, with (2) and **■ CASS 7.13.73 R**.

(2) (a) In either or both of the circumstances described in (1):

(i) the *firm* must pay any *mixed remittances* to the *authorised central counterparty* from its own bank account; and

(ii) the *firm* is permitted to pay any remittances to the *authorised central counterparty* that consist only of *client money* from that same bank account.

(aa) In the circumstances described in (1)(a), the *firm* is permitted to receive any remittances that consist only of *client money* from the *authorised central counterparty* into the same bank account that it uses under (2)(a), if it complies with (b).

(b) Where, in the circumstances described in (1)(a), a *mixed remittance* or a remittance that consists only of *client money* from an *authorised central counterparty* is received into a *firm's* own account, the *firm* must transfer any *client money* element of the remittance to its *client bank account* promptly and, in any event, no later than the next *business day* after receipt.

7.13.72A **R**

- (1) Subject to paragraphs (2) and (3), ■ CASS 7.13.73R to ■ CASS 7.13.75R do not apply to a *firm* following a *primary pooling event*.
- (2) If, at the time of a *primary pooling event*, a *firm* has retained *money* in a *client bank account* for the purposes of *clearing arrangement mandatory prudent segregation* under ■ CASS 7.13.73R, that *money* remains *client money* for the purposes of the *client money rules* and the *client money distribution and transfer rules*.
- (3) Where a *firm* holds a *clearing arrangement mandatory prudent segregation record* under ■ CASS 7.13.76R following a *primary pooling event*, the *clearing arrangement mandatory prudent segregation record* must continue to satisfy the requirements set out in ■ CASS 7.13.75R.

7.13.73 **R**

- (1) Where the circumstances described in ■ CASS 7.13.72 R (1)(a) apply to a *firm* it must pay an amount (determined in accordance with this *rule*) of its own *money* into its *client bank account* and retain that *money* in its *client bank account* (*clearing arrangement mandatory prudent segregation*). The amount segregated by a *firm* in its *client bank account* under this *rule* will be *client money* for the purposes of the *client money rules* and the *client money distribution and transfer rules*.
- (2) The amount required to be segregated under this *rule* must be an amount that a *firm* reasonably determines would be sufficient, at the time it makes the determination, to protect *client money* against the risk that at any time in the following three months *client money* received from the *authorised central counterparty* and held by the *firm* in its own bank account following receipt of these monies under ■ CASS 7.13.72 R (1)(a) and until their transfer in accordance with ■ CASS 7.13.72 R (2)(b) may not have been fully segregated in its *client bank account* or may not be (or become) available for pooling under ■ CASS 7A.2.4R (1), were a *primary pooling event* to occur with the effect that the *firm's clearing arrangement mandatory prudent segregation* under this *rule* will reduce, as far as possible, any *shortfall* that might have been produced as a result of this risk on the occurrence of a *primary pooling event*.
- (3) (a) Subject to (c), in reaching its determination under (2) of the amount of *money* that would be sufficient to address the risks referred to in (2) for the forthcoming three months, a *firm* must take into account the following for at least the previous three months:
 - (i) the *firm's client money requirement* over the course of that prior period (excluding any amount that was required to be segregated under this *rule* during that prior period for the purposes of *clearing arrangement mandatory prudent segregation*); and
 - (ii) the payments that the *firm* made into its *client bank account* under ■ CASS 7.13.72 R (2)(b) during that prior period;
 as shown in its internal records.
- (b) In reaching its determination under (2) a *firm* must also take into account, at all times having regard to the requirement under (2),

any impact that particular events, the seasonal nature of each relevant business line, or any other aspect of those business line(s) may have on:

- (i) the *firm's client money requirement* during the forthcoming three months for which the amount of *clearing arrangement mandatory prudent segregation* required under this rule is being determined; and
 - (ii) the payments that the *firm* is likely to make into its *client bank account* under ■ CASS 7.13.72 R (2)(b).
- (c) If, at the time of its determination under (2), the *firm* has not been trading for three months in a business line for which it is using the normal approach in connection with *regulated clearing arrangements*, then it must use the records that are available to it and must also factor in reasonable forecasts, as required under (b), to make up a three-month reference period.
- (4) (a) A *firm* must, at regular intervals that are at least quarterly, repeat and complete the combined process of:
- (i) determining the amount that it is required to segregate for the purposes of *clearing arrangement mandatory prudent segregation* under (2) and (3);
 - (ii) making necessary adjustments to its records to reflect any changes to its *client money requirement* in accordance with ■ CASS 7.16.16 R (3) and ■ CASS 7.16.17 R (1); and
 - (iii) paying any additional amounts of its own *money* into its *client bank account* to increase the *firm's clearing arrangement mandatory prudent segregation* or withdrawing any excess amounts from its *client bank account* to decrease the *firm's clearing arrangement mandatory prudent segregation* after it has adjusted its records under (ii).
- (b) The combined process of (a)(i) to (iii) must take no longer than ten *business days*.
- (c) To the extent that a *firm's* compliance with (a)(i) and (ii) results in there being an excess in the *firm's client bank account*, the *firm* may cease to treat that *money* as *client money*.
- (5) A *firm* must ensure that the individual responsible for CASS oversight under ■ CASS 1A.3.1 R, ■ CASS 1A.3.1A R or ■ CASS 1A.3.1C R (as appropriate) reviews the adequacy of the amount of the *firm's clearing arrangement mandatory prudent segregation* maintained under this rule at least annually.

Clearing arrangement mandatory prudent segregation record

7.13.74

R

A *firm* must create and keep up-to-date records so that any amount of *money* that is, pursuant to ■ CASS 7.13.73 R:

- (1) paid into a *client bank account* and retained as *client money*; or
- (2) withdrawn from a *client bank account*;

can be easily ascertained (the *clearing arrangement mandatory prudent segregation record*).

- 7.13.75 **R** The *clearing arrangement mandatory prudent segregation record* under ■ CASS 7.13.74 R must record:
- (1) the date of the first determination under ■ CASS 7.13.73 R (2) and each subsequent review undertaken under ■ CASS 7.13.73 R (4), and the total amount that the *firm* determined was required to be segregated under ■ CASS 7.13.73 R (2) as at that date;
 - (2) the date of any payment of the *firm's own money* into a *client bank account*, or withdrawal of any excess from a *client bank account* under ■ CASS 7.13.73 R (4)(a)(iii), and for each such occasion:
 - (a) the amount of the payment or withdrawal;
 - (b) the fact that the *money* was paid or withdrawn by the *firm* in accordance with ■ CASS 7.13.73 R; and
 - (c) as at that date, the total amount actually segregated by the *firm* under ■ CASS 7.13.73 R.
- 7.13.76 **R** The *clearing arrangement mandatory prudent segregation record* must be retained for five years after the *firm* ceases to segregate any *money* in accordance with ■ CASS 7.13.73 R.
- 7.13.77 **G** Nothing in ■ CASS 7.13.73 R to ■ CASS 7.13.76 R prevents a *firm* from making use of the prudent segregation rule in ■ CASS 7.13.41 R.
- 7.13.78 **G** The obligation to use reasonable endeavours referred to in ■ CASS 7.13.71 R is a continuing obligation. *Firms* should at least on an annual basis, whether it is possible for payments of *client money* between the *firm* and the *authorised central counterparties* to be made separately from house monies and for such payments to be received into and made from its *client bank accounts*.
- 7.13.79 **G** Where a *firm* operates a sub-pool in accordance with ■ CASS 7.19 (Clearing member client money sub-pools), the references to *client bank accounts* in ■ CASS 7.13.70 G to ■ CASS 7.13.78 G should be read as *client bank accounts* pertaining to the relevant *sub-pool*.