

Chapter 7

Client money rules



7.15 Records, accounts and reconciliations

- 7.15.1

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(1)

This section sets out the requirements a *firm* must meet when keeping records and accounts of the *client money* it holds.

(2)

Where a *firm* establishes one or more *sub-pools*, the provisions of ■ CASS 7.15 (Records, accounts and reconciliations) 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 7.19.4 R.
- 7.15.2

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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 *client* from *client money* held for any other *client*, and from its own money.

[Note: article 2(1)(a) of the *MiFID Delegated Directive*]
- 7.15.3

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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 *clients* and that they may be used as an audit trail.

[Note: article 2(1)(b) of the *MiFID Delegated Directive*]
- 7.15.4

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(1)

The requirements in ■ CASS 7.15.2R to ■ CASS 7.15.3R are for a *firm* to keep internal records and accounts of *client money*. Therefore, any records falling under those requirements should be maintained by the *firm* and should be separate to any records the *firm* may have obtained from any third parties, such as those with or through whom it may have deposited, or otherwise allowed to hold, *client money*.

(2)

Where a *firm* complies with ■ CASS 7.15 as a whole (to the extent applicable to that *firm*) this will be sufficient to comply with the specific duty in ■ CASS 7.15.3R to maintain its records and accounts in a way that ensures that they can be used as an audit trail.
- 7.15.5

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Record keeping

(1)

A *firm* must maintain records so that it is able to promptly determine the total amount of *client money* it should be holding for each of its *clients*.

(2)

A *firm* must ensure that its records are sufficient to show and explain its transactions and commitments for its *client money*.
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- (3) Unless otherwise stated, a *firm* must ensure that any record made under the this chapter is retained for a period of five years starting from the later of:
- (a) the date it was created; and
 - (b) (if it has been modified since the date it was created), the date it was most recently modified.

7.15.6 G Unless required sooner under another *rule* in this chapter, in complying with ■ **CASS 7.15.5 R (1)** a *firm* should ensure it is able to determine the total amount of *client money* it should be holding for each *client* within two *business days* of having taken a decision to do so or at the request of the *FCA*.

7.15.7 R For each *internal client money reconciliation* and *external client money reconciliation* the *firm* conducts, it must ensure that it records:

- (1) the date it carried out the relevant process;
- (2) the actions the *firm* took in carrying out the relevant process; and
- (3) the outcome of its calculation of its *client money requirement* and *client money resource*.

Policies and procedures

7.15.8 G *Firms* are reminded that they must, under ■ **SYSC 6.1.1 R**, establish, implement and maintain adequate policies and procedures sufficient to ensure compliance of the *firm* with the *rules* under this chapter. This should include, for example, establishing and maintaining policies and procedures concerning:

- (1) the frequency and method of the reconciliations the *firm* is required to carry out under this section;
- (2) the resolution of reconciliation discrepancies under this section; and
- (3) the frequency at which the *firm* is required to review its arrangements in compliance with this chapter.

Receipts of client money

7.15.9 R A *firm* must maintain appropriate records that account for all receipts of *client money* in the form of cash, cheque or other payable order that are not yet deposited in a *client bank account* (see ■ **CASS 7.13.32 R** and ■ **CASS 7.13.33 R**).

7.15.10 G *Firms* following one of the standard methods of internal client money reconciliation in ■ **CASS 7.16** are also reminded that they must, as part of their *internal client money reconciliation*, take into account all receipts of *client money* in the form of cash, cheque or other payable order that are not yet deposited in a *client bank account* (see ■ **CASS 7.13.32 R** and ■ **CASS 7.13.33 R**).

Payments made to discharge fiduciary duty

- 7.15.11** **R** If a *firm* draws a cheque, or other payable order, to discharge its fiduciary duty to its *clients* (see **■ CASS 7.11.40 R**), it must continue to record its obligation to its *clients* until the cheque, or other payable order, is presented and paid by the bank.

Internal client money reconciliations

- 7.15.12** **R** An *internal client money reconciliation* requires a *firm* to carry out a reconciliation of its internal records and accounts of the amount of *client money* that the *firm* holds for each *client* with its internal records and accounts of the *client money* the *firm* should hold in *client bank accounts* or has placed in *client transaction accounts*.

- 7.15.13** **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 banks and other third parties with whom it has placed *client money* (for example, bank statements).

- 7.15.14** **G** An *internal client money reconciliation* should:
- (1) be one of the steps a *firm* takes to arrange adequate protection for *clients'* assets when the *firm* is responsible for them (see *Principle 10* (Clients' assets), as it relates to *client money*);
 - (2) be one of the steps a *firm* takes to satisfy its obligations under **■ CASS 7.12.2 R** and **■ CASS 7.15.3 R** and, where relevant, **■ SYSC 4.1.1R (1)** and **■ SYSC 6.1.1 R**, to ensure the accuracy of the *firm's* records and accounts;
 - (3) for the normal approach to segregating *client money* (**■ CASS 7.13.6 R**), check whether the amount of *client money* recorded in the *firm's* records as being segregated in *client bank accounts* meets the *firm's* obligations to its *clients* under the *client money rules* on a daily basis; and
 - (4) for the alternative approach to segregating *client money* (**■ CASS 7.13.62 R**), calculate the amount of *client money* to be segregated in *client bank accounts* which meets the *firm's* obligations to its *clients* under the *client money rules* on a daily basis.

- 7.15.15** **R**
- (1) Subject to paragraph (4), a *firm* must perform an *internal client money reconciliation*:
 - (a) each *business day*; and
 - (b) based on the records of the *firm* as at the close of business on the previous *business day*.
 - (2) When performing an *internal client money reconciliation*, a *firm* must, subject to (3), follow one of the *standard methods of internal client money reconciliation* in **■ CASS 7.16**.

- (3) A *firm* proposing to follow a *non-standard method of internal client money reconciliation* must comply with the requirements in ■ CASS 7.15.17 R to ■ CASS 7.15.19 G.
- (4) Following a *primary pooling event*, and in addition to any obligations of a special administrator under regulation 10H of the *IBSA Regulations*:
 - (a) a *firm* must perform an *internal client money reconciliation* that relates to the time of the *primary pooling event* as soon as reasonably practicable after the *primary pooling event*; and
 - (b) the *firm* must perform further *internal client money reconciliations* as regularly as required under paragraph (5), based on the records of the *firm* as at the close of business on the *business day* before the day on which the reconciliation takes place.
- (5) A *firm* must determine when and how often to perform an *internal client money reconciliation* under paragraph (4)(b) so as to ensure that:
 - (a) the *firm* remains in compliance with ■ CASS 7.15.2R, ■ CASS 7.15.3R and ■ CASS 7.15.5R(1) and (2) (Record keeping); and
 - (b) the correct amounts of *client money* are returned to *clients* or transferred on behalf of *clients* under the *client money distribution and transfer rules*.

7.15.15A G

- (1) The reference point for the *internal client money reconciliation* under ■ CASS 7.15.15R(4)(a) should be the precise point in time at which the *primary pooling event* occurred.
- (2) When a *firm* decides whether it is necessary at any particular point in time to perform an *internal client money reconciliation* under ■ CASS 7.15.15R(4)(b), it should have particular regard to the need to maintain its books and accounts in order to ensure that:
 - (a) each notional *pool* of *client money* formed under ■ CASS 7A.2.4R(1) and (1A) (Pooling and distribution or transfer) is correctly composed and maintained, and is treated separately;
 - (b) *client money* that is required under ■ CASS 7A.2.4R(3) (Pooling and distribution or transfer) and ■ CASS 7A.2.7-AR (Client money received after a primary pooling event) to be treated as outside of any notional *pool* is treated accordingly; and
 - (c) where applicable, *clients'* entitlements to their *client money* are calculated in accordance with ■ CASS 7A.2.5R(-2)(b) (Client money entitlements).
- (4) Depending on the circumstances of the *firm* and the scale, frequency and nature of activity after a *primary pooling event* that affects *client money*, a *firm* may conclude that it is necessary to continue performing *internal client money reconciliations* each *business day* for a period of time after the *primary pooling event*.

7.15.16 R

- (1) A *firm* which has adopted the normal approach to segregating *client money* (see ■ CASS 7.13.6 R) must use the *internal client money*

reconciliation to check whether its *client money resource*, as at the close of business on the previous *business day*, was equal to its *client money requirement* at the close of business on that previous day.

- (2) A *firm* that adopts the alternative approach to segregating *client money* (see ■ CASS 7.13.54 G) must use the *internal client money reconciliation* to ensure that its *client money resource* as at the close of business on any day it carries out an *internal client money reconciliation* is equal to its *client money requirement* at the close of business on the previous day.

Non-standard method of internal client money reconciliation.....

7.15.17

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A *non-standard method of internal client money reconciliation* is a method of *internal client money reconciliation* which does not meet the requirements in ■ CASS 7.16 (The standard methods of internal client money reconciliation).

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- (1) Before using a *non-standard method of internal client money reconciliation*, a *firm* must:
- (a) establish and document in writing its reasons for concluding that the method of *internal client money reconciliation* it proposes to use will:
 - (i) (for the normal approach to segregating *client money*) check whether the amount of *client money* recorded in the *firm's* records as being segregated in *client bank accounts* meets the *firm's* obligation to its *clients* under the *client money rules* on a daily basis; or
 - (ii) (for the alternative approach to segregating *client money*) calculate the amount of *client money* to be segregated in *client bank accounts* which meets the *firm's* obligations to its *clients* under the *client money rules* on a daily basis;
 - (b) notify the *FCA* of its intentions to use a *non-standard method of internal client money reconciliation*; and
 - (c) send a written report to the *FCA* prepared by an independent auditor of the *firm* in line with a *reasonable assurance engagement* and stating the matters set out in (2).
- (2) The written report in (1)(c) must state whether in the auditor's opinion:
- (a) the method of *internal client money reconciliation* which the *firm* will use is suitably designed to enable it to (as applicable):
 - (i) (for the normal approach to segregating *client money*) check whether the amount of *client money* recorded in the *firm's* records as being segregated in *client bank accounts* meets the *firm's* obligation to its *clients* under the *client money rules* on a daily basis; or
 - (ii) (for the alternative approach to segregating *client money*) calculate the amount of *client money* to be segregated in *client bank accounts* which meets the *firm's* obligations to its *clients* under the *client money rules* on a daily basis; and

(b) the *firm's* systems and controls are suitably designed to enable it to carry out the method of *internal client money reconciliation* the *firm* will use.

(3) A *firm* using a *non-standard method of internal client money reconciliation* must not materially change its method of undertaking *internal client money reconciliations* unless:

- (a) the *firm* has established and documented in writing its reasons for concluding that the changed methodology will meet the requirements in (1)(a)(i) and (ii), as applicable;
- (b) an auditor of the *firm* has prepared a report that complies with the requirements in (1)(c) and (2) in respect of the *firm's* proposed changes; and
- (c) the *firm* provides a copy of the report prepared by the auditor under (2) to the FCA before implementing the change.

7.15.19 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.

External client money reconciliations

7.15.20 R A *firm* must conduct, on a regular basis, reconciliations between its internal records and accounts and those of any third parties which hold *client money*.

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

7.15.21 G The purpose of an *external client money reconciliation* is to ensure the accuracy of a *firm's* internal records and accounts against those of any third parties by whom *client money* is held.

Frequency of external client money reconciliations

7.15.21A R ■ CASS 7.15.22R to ■ 7.15.26R do not apply to a *firm* following a *primary pooling event*.

7.15.21B G ■ CASS 7.15.26AR applies to a *firm* following a *primary pooling event*.

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

- (1) as regularly as is necessary but without allowing more than one month to pass between each *external client money reconciliation*; and
- (2) as soon as reasonably practicable after the date to which the *external client money reconciliation* relates.

7.15.23 R When determining the frequency at which it will undertake *external client money reconciliations*, a *firm* must have regard to:

7.15.24 **R**

- (1) the frequency, number and value of transactions which the *firm* undertakes in respect of *client money*; and
- (2) the risks to which the *client money* is exposed, such as the nature, volume and complexity of the *firm's* business and where and with whom *client money* is held.

7.15.25 **G**

In most circumstances, *firms* which undertake transactions on a daily basis should conduct an *external client money reconciliation* each *business day*.

7.15.26 **R**

- (1) Subject to (3), a *firm* must review the frequency it conducts its *external client money reconciliations* at least annually to ensure that it continues to comply with **■ CASS 7.15.22 R** and has given due consideration to the matters in **■ CASS 7.15.23 R**.
- (2) For each review a *firm* undertakes under (1), it must record the date and the actions it took in reviewing the frequency of its *external client money reconciliations*.
- (3) A *firm* need not carry out a review under (1) if it is conducting *external client money reconciliations* each *business day*.

Frequency of external reconciliations after a primary pooling event

7.15.26A **R**

Following a *primary pooling event*, and in addition to any obligations of a special administrator under regulation 10H of the *IBSA Regulations*:

- (1) a *firm* must perform an *external client money reconciliation* that relates to the time of the *primary pooling event* as soon as reasonably practicable after the *primary pooling event*, based on the next available statements or other form of confirmation after the *primary pooling event* from:
 - (a) the banks with which the *firm* holds a *client bank account*; and
 - (b) the *persons* with which the *firm* holds a *client transaction account*; and
- (2) the *firm* must perform further *external client money reconciliations* on a regular basis:
 - (a) with a suitable frequency to ensure that the correct amounts of *client money* are returned to *clients* or transferred on behalf of *clients* under the *client money distribution and transfer rules*; and

- (b) as soon as reasonably practicable after the date to which the *external client money reconciliation* relates.

7.15.26B **G** The reference point for the *external client money reconciliation* under **■ CASS 7.15.26AR(1)** should be the precise point in time at which the *primary pooling event* occurred.

7.15.26C **R** When determining the frequency with which it will undertake *external client money reconciliations* under **■ CASS 7.15.26AR(2)** after a *primary pooling event*, a *firm* must have regard to:

- (1) the frequency, number and value of transactions which the *firm* undertakes in respect of *client money*;
- (2) the risks to which the *client money* is exposed, such as the nature, volume and complexity of the *firm's* business and where and with whom *client money* is held; and
- (3) the need to be able to verify that:

client money within each notional *pool* formed under **■ CASS 7A.2.4R(1)** and (1A) (Pooling and distribution or transfer), and *client money* that is required under **■ CASS 7A.2.4R(3)** (Pooling and distribution or transfer) and **■ CASS 7A.2.7-AR** (Client money received after a primary pooling event) to be treated as outside of any notional *pool*, has not been incorrectly distributed, transferred or dissipated; and

the proceeds of any payments and transactions that settle after the *primary pooling event* and which involve *client money*, including interest payments and other amounts included in the *client money resource*, have been received correctly.

Method of external client money reconciliations

7.15.27 **R** An *external client money reconciliation* requires a *firm* to:

- (1) compare:
 - (a) the balance, currency by currency, on each *client bank account* recorded by the *firm*, as set out in the most recent statement or other form of confirmation issued by the bank with which those accounts are held; and
 - (b) the balance, currency by currency, on each *client transaction account* as recorded by the *firm*, as set out in the most recent statement or other form of confirmation issued by the *person* with whom the account is held; and
- (2) promptly identify and resolve any discrepancies between those balances under **■ CASS 7.15.31 R** and **■ CASS 7.15.32 R**.

7.15.28 **R** A *firm* must ensure it includes the following items within its *external client money reconciliation*:

- (1) any *client's approved collateral* a *firm* holds which secures an individual negative *client equity balance* (see ■ CASS 7.16.32 R); and
- (2) any of its own *approved collateral* a *firm* holds which is used to meet the total margin transaction requirement in ■ CASS 7.16.33 R.

Reconciliation discrepancies

- 7.15.29** R When a discrepancy arises between a *firm's client money resource* and its *client money requirement* identified by a *firm's internal client money reconciliations*, the *firm* must determine the reason for the discrepancy and, subject to ■ CASS 7.15.29AR, ensure that:
- (1) any *shortfall* is paid into a *client bank account* by the close of business on the day that the reconciliation is performed; or
 - (2) any excess is withdrawn from a *client bank account* within the same time period.
- 7.15.29A** R A *firm* that has *failed* is not required to make a payment or withdrawal under ■ CASS 7.15.29R(1) or ■ CASS 7.15.29R(2) respectively in so far as the legal procedure for the *firm's failure* restricts the *firm* from doing so.
- 7.15.30** G Where the discrepancy identified under ■ CASS 7.15.29 R has arisen as a result of a breach of the *client money segregation requirements*, the *firm* should ensure it takes sufficient steps to avoid a reoccurrence of that breach (see *Principle 10* (Clients' assets), as it relates to *client money*, ■ CASS 7.15.3 R and, where relevant, ■ SYSC 4.1.1R (1) and ■ SYSC 6.1.1 R).
- 7.15.31** R If any discrepancy is identified by an *external client money reconciliation*, the *firm* must investigate the reason for the discrepancy and take all reasonable steps to resolve it without undue delay, unless the discrepancy arises solely as a result of timing differences between the accounting systems of the party providing the statement or confirmation and that of the *firm*.
- 7.15.32** R While a *firm* is unable to immediately resolve a discrepancy identified by an *external client money reconciliation*, and one record or set of records examined by the *firm* during its *external client money reconciliation* indicates that there is a need to have a greater amount of *client money* or, if appropriate, *approved collateral* than is the case, the *firm* must assume, until the matter is finally resolved, that that record or set of records is accurate and, subject to ■ CASS 7.15.32AR, pay its own *money* into a relevant account.
- 7.15.32A** R A *firm* that has *failed* is not required to pay its own *money* into a relevant account under ■ CASS 7.15.32R in so far as the legal procedure for the *firm's failure* restricts the *firm* from doing so.
- 7.15.32B** G (1) ■ CASS 7.15.29AR and ■ CASS 7.15.32AR recognise that a *failed firm* is required to investigate discrepancies, but the extent to which it is able to resolve discrepancies may be limited by insolvency law, for example.

- (2) ■ CASS 7.15.29AR and ■ CASS 7.15.32AR would not prevent a *failed firm* from making any transfers required under regulation 10H(3) or (4) of the *IBSA Regulations*.

Notification requirements

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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, inaccurate or invalid so that the *firm* is no longer able to comply with the requirements in ■ CASS 7.15.2 R, ■ CASS 7.15.3 R or ■ CASS 7.15.5 R (1);
- (2) it will be unable to, or materially fails to, pay any *shortfall* into a *client bank account* or withdraw any excess from a *client bank account* so that the *firm* is unable to comply with ■ CASS 7.15.29 R after having carried out an *internal client money reconciliation*;
- (3) it will be unable to, or materially fails to, identify and resolve any discrepancies under ■ CASS 7.15.31 R to ■ CASS 7.15.32 R after having carried out an *external client money reconciliation*;
- (4) it will be unable to, or materially fails to, conduct an *internal client money reconciliation* in compliance with ■ CASS 7.15.12 R and ■ CASS 7.15.15 R;
- (5) it will be unable to, or materially fails to, conduct an *external client money reconciliation* in compliance with ■ CASS 7.15.20 R to ■ CASS 7.15.28 R; and
- (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* under the *client money segregation requirements*.

Annual audit of compliance with the client money rules

7.15.34

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Firms are reminded that the auditor of the *firm* has to confirm in the report submitted to the *FCA* under ■ SUP 3.10 (Duties of auditors: notification and report on client assets) that the *firm* has maintained systems adequate to enable it to comply with the *client money rules*.