

Accounting for CASS 7

How to meet the Operational Accounting
Challenges for Client Asset Protection



The Operational Accounting Challenge for Client Asset Protection (CASS 7)

One of the greatest control challenges in the Financial Service industry today stems from a lack of proper operational accounting records. Operational and administration systems designed to execute a trade, calculate a premium or process a loan may do that core job well, but often they fail to create operational accounting records to correctly account for that activity and the positions and exposures that it can generate.

This lack of proper accounting records can lead to an undue burden being placed on a firm's reconciliation function to deliver risk-monitoring, informal accounting, governance, compliance and control.

Reconciliation by its nature occurs after the event, its role should be to act as a failsafe and perform a final check on the correctness and accuracy of the accounting records. A reconciliation cannot deliver the real-time reporting and the detailed and cumulative analysis that accounting can.

Where a company is authorised to hold client money, the accounting challenge is much greater and even if the client has operational accounting records the existing accounting records may be inadequate for delivering full control of client cash.



What then typically happens is that the client money reconciliations are performed and these are used to adjust the accounting record and perform the client money top up calculations. The adjustment process can easily lead to error through incorrect netting of transactions or insufficient audit trail to allow reconciling items to be traced to the correct client money account.

All this can lead to a breach of Client Asset (CASS) regulations and a qualified audit report sent by your auditor to the Financial Conduct Authority (FCA).

Much has been made of the daily, and perhaps even intraday client money reconciliation requirement confirmed in CASS 7 with PS14/9. To achieve this standard is difficult without good quality accounting records to facilitate easy reconciliation and resolution of discrepancies and unreconciled items.

Client Money – an Overview

Client money is money which still belongs to the client and not to the firm. The concept of client money was introduced to ensure that in the event of a firm going bust, the money that clients had entrusted to the firm could not be used for any other purpose than to repay the clients what they were owed. The FCA's policy statement PS14/9 reinforced this message and required that CASS control procedures were improved to ensure client money would be repaid to the customer rapidly after the liquidation of the regulated firm.

Client money must be held in a trust account. Trust accounts are normal bank accounts but cannot be used to settle the firm's liabilities. Money held in these accounts which has not been disbursed for the client in accordance with the clients' instructions needs to be able to be identified and represented as a liability of the trust account to the client.

Many arrangements are set up where each client has its own bank account but very often the clients' cash is all held together and this presents some complexity operationally. Accounts that hold many clients' cash or assets are called **pooled or omnibus**.

While the pooled account segregates the client money from firm's money, the greater challenge is to be able to identify and ring fence each client's cash within that pooled account and ensure that one client's overdrawn position is not netted against another client's credit position- allowing "Peter to rob Paul".

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Why should a Significant Management Function care about CASS 7?

The net effect of this proposed new regulation is to leave the Significant Management Function and the operational CASS Oversight Function with nowhere to hide from their CASS challenges.

Since the collapse of Lehman's and the other financial scandals of the noughties, regulators across Europe have been increasing the pressure on regulated firms to do a better job of protecting client money.

In the UK, the FCA has been in the vanguard of that effort to improve the client money practices of asset managers, crowdfunders and others subject to its CASS regulations. In the last few years there have been a raft of consultation and policy papers setting out broad principles and specific rules for what is required to protect client cash.

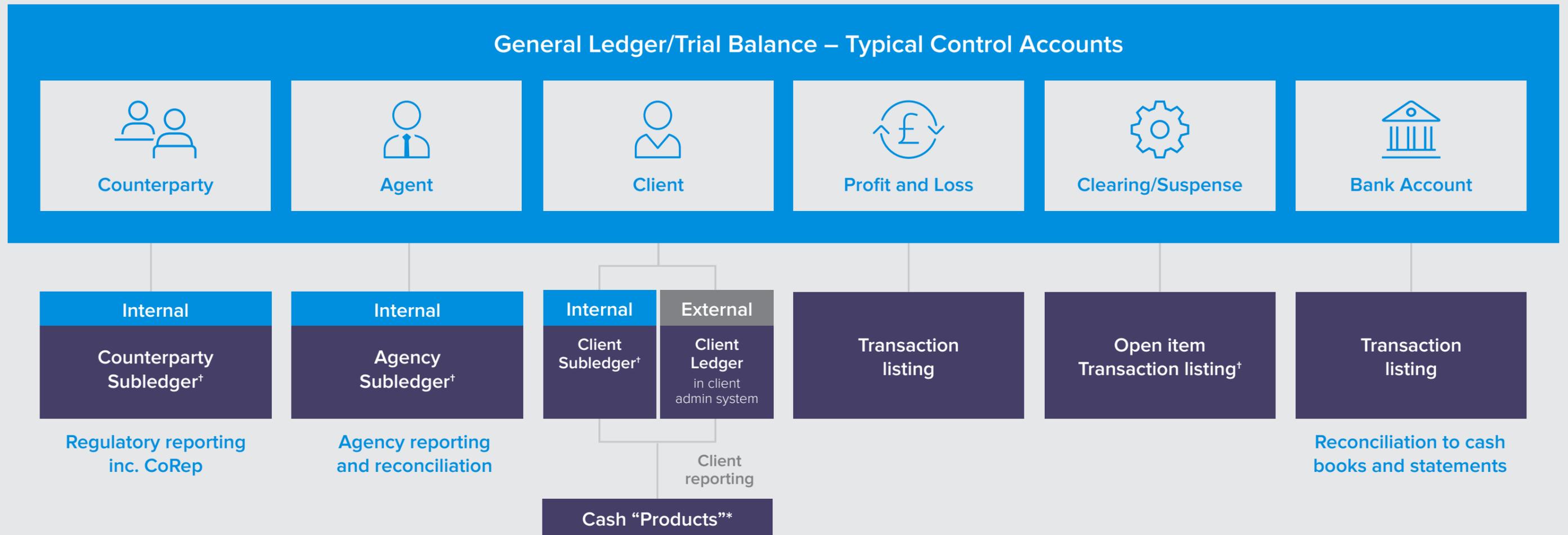
The introduction next year of FCA's Senior Managers and Certification Regime (SM&CR) threatens career-ending consequences for any failure to comply with the spirit and letter of these regulations. The new senior manager regime allows firms to split accountability for CASS compliance from its oversight. Responsibility for CASS must however stay with a one of the new Significant Management Functions (SMFs) with the likely candidates being Chief Operations Function (SMF24) or the Chief Finance Function (SMF2). These SMFs may, if they so wish, appoint an appropriately qualified person to the role of an operational CASS Oversight Function (CASSOF) but they cannot "outsource" responsibility for CASS to this function.

Further, the CASS audit regime implemented by the Financial Reporting Council's (FRC) for reporting periods commencing 1st January 2016 means any non-compliance by a firm is much more likely to be detected and reported to the FCA.

The net effect of all this new regulation is to leave the SMF and the operational CASS Oversight Function with nowhere to hide from their CASS challenges.

Cashfac's Accounting Hub

Cashfac's Accounting Hub "bolts on" to your existing operational and administration systems, extracts data from them and uses that data to create operational general ledger(s) supported by both detailed account transaction listings and sub-ledgers to support general ledger control account balances for counterparties, clients, payables and receivables, as required.



[†] Created by contra match and grouping on an omnibus

* Potential linkages to omnibus bank balances supported by individually tailored client products

How does it work?

The Cashfac Accounting Hub allows you to take data, from multiple sources, in any format from your trading, premium calculation, settlement and custody systems, validates it and integrates the multiple data feeds with each other to create a “golden” source of transactions and potentially their status changes.

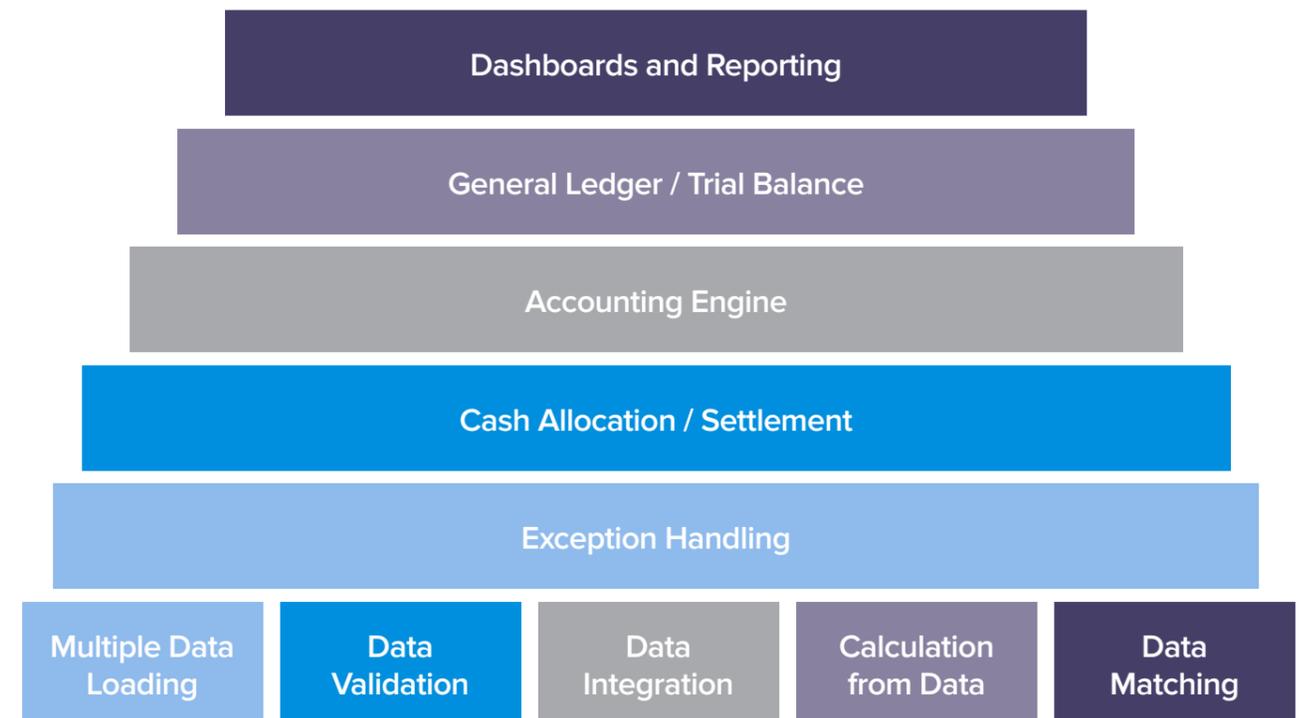
Cashfac’s Accounting Hub maps each transactions type in this golden source to full general ledger double-entry and sub-ledger posting journals. Thereafter, each time these transactions occur a posting is made to the operational general ledger.

In this way, the system allows you to rapidly create a detailed and audited general ledger with supporting primary accounting records.

The Cashfac Accounting Hub can create:

- Multi-currency accounting
- Multi entity accounting
- Complex double entry accounting-multiple debits and credits across multiple entities and currencies to fully account for each transaction

The schematic **opposite** shows the data preparation and validation steps required to lay the foundation of the accounting and reporting required to generate accurate operational accounting records and deliver the reporting required to adequately control your business and meet required standards of governance.



Dashboards and Reporting

Reporting - real-time and periodic using graphical tools to assist with management control, risk monitoring and governance

General Ledger/Trial Balance

Accounting - control and sub-accounts created to support control functions including reconciliation and reporting

Accounting Engine

Transaction posting - multiple sets of double entry accounting

Cash Allocation/Settlement

Transaction processing – settlement receipts on remittance advices matched to open positions

Exception Handling

Workflow and labelling to analyse and resolve exceptions and errors in data preparation

Accounting for CASS 7

The Cashfac Accounting Hub creates an accurate client money accounting record based on the actual settlement and clearance of the transaction through the client money bank statement. The records created fully and accurately account for all client money activity and analyse the funds in the pooled or omnibus client money bank account into the individual client product balances that make it up.

If your firm has existing operational accounting records the hub's client money records can be run in parallel to these records. Otherwise the hub's accounting records deliver operational and client money accounting.

To create the client money record, the accounting hub takes the "golden source" transaction from your core operational or administration systems and holds them in a posting repository. While they are in the repository the hub seeks to match them to their actual settlement or clearance through the bank statement. Once this match occurs the accounting hub triggers the accounting posting to the operational general ledger in real-time giving an accounting record based on the actual client money position and perfectly analysing the pooled client money bank accounts.

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Real-Time Client Money Accounting

To achieve the real-time client money accounting, Cashfac is preconfigured to load all bank statements and supporting data for all the main UK clearing bank and many international banks as well. This enables us to create a rich bank statement record which facilitates the highest level of automatic and semi automatic matching of repository transaction to the actual bank statement cash movement/clearance. This allows us to achieve the highest levels of accounting accuracy.

This accurate client money accounting reduces reconciliations breaks to a minimum as the cashbook in the general ledger will generally then "straight-agree" to the external bank statement amount.

Any unidentified cash receipts and payments out on the bank statement can be posted to the general ledger by the Accounting Hub. The unidentified items are temporarily posted to a general ledger account for unidentified items as required by the regulations. When identified they are reallocated by the Accounting Hub to the correct account. By doing so the highest levels of governance and supervision can be obtained as all cash positions are "on-ledger" and can be accounted, reported on, reconciled, aged and analysed automatically.

10 Uses of the Cashfac Accounting Hub

1. Client Money Calculation

The internal client money reconciliation calculation can be automatically performed from the accounting records- the general ledger and client product sub ledger accounts. Using this approach, the internal reconciliation can easily be performed on a daily or even intraday basis with the minimum of manual intervention.

2. Prudent Segregation

The granular accounting records together with the system sophisticated analytical reporting tools facilitate any prudent segregations that may be required as part of the client money daily calculation requirements.

3. Chart of Accounts and Accounting Entities

Cashfac's Accounting Hub is completely configurable to meet the client's preferences or to meet the different flavours of accounting required for one business over another, for example a transfer agent as opposed to a wealth manager. Most clients will configure the accounting hub to create a client money entity to account for all the activity through the client money bank account- the client money assets and its related liabilities to clients, agents and counterparties.

Many firms will also configure a firm's money entity to account for transfers between firm's and client money bank accounts and the related firm's revenues, write offs and client money top-up loans arising from the calculation. Each entity will have a self-balancing trial balance which effectively deal with each other as two subsidiary companies might do within a group.

If the client deals in multiple currencies, Cashfac's Accounting Hub can create a trial balance per entity and per currency. The client can then prepare client money calculations in each currency and cover the top up in the currency of the shortfall or in the firm's base currency depending on its interpretation of the CASS rules. Cashfac's accounting and reporting tools can be configured to report and consolidate across the currencies. In addition, it gives the client the treasury tools to manage its currency positions across all its legal entities.

4. Inter Bank Account Sweeping

Once the client money calculation has been reviewed, finalised and approved, the system can automatically initiate the sweeping of funds between the firm's money bank account and the client money bank account in each currency. As it does this it will also account for that sweep.

5. Regulatory Reporting

Cashfac's Accounting Hub can persist the daily details of the client money records and top-ups allowing it to deliver all the information required to complete the Client Money returns (CMAR).

6. Full Financial Management Reporting

The Cashfac general ledger comes with a full suite of reports, management information and real-time dashboard reporting to allow easy review and governance of the process.

The detailed accounting records deliver a higher level of financial understanding of your business' revenue and costs drivers and give you a clearer insight of the firm's profitability.

7. SAAS

The Cashfac solution is delivered through a software as a service (SAAS) model. This gives a scalable solution capable of handling very large transaction volumes and supporting detailed data. Underpinned by Microsoft's Azure Cloud platform, Cashfac's cloud-based solution is ISO 27001 Information Security Management Certified, meeting the international best practice standards for information security and data safety.

8. Segregation of Duties

The system configuration allows the highest level of segregation of roles and responsibilities, allowing users access to the accounts that they are entitled to see and granting them the minimum permissions required to perform their duties.

9. Client reporting as a bonus

The system creates a sub-ledger account for each client product balance held to help with the performance of the client money calculation. This account can be used by the firm to meet regulatory requirement to report the clients' cash balances to them.

10. Interest Calculation and Payment

Cashfac offers full banking functionality on the client money sub ledger account. This includes the calculation and payment of credit and debit interest on the client balance.

Find out more

For more information or to receive a demonstration of the Cashfac Accounting Hub please contact Cashfac's Head Office on +44 (0)207 920 0617 or visit www.cashfac.com/contact



Cashfac Technologies is a market leader in Bank-to-Corporate Cash Management solutions. Banks around the world white-label Cashfac Virtual Bank Technology® (VBT) to acquire and retain customers; securing loyalty, increasing deposits and driving transaction revenues. A wide range of cash management solutions are delivered through Cashfac's VBT platform including; Receivables Management, Cash Flow Forecasting and Client Money Management. Corporates that utilise Cashfac's technology achieve greater transparency, control and compliance over their operational cash.

For more information on Cashfac

contact info@cashfac.com or visit www.cashfac.com

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