

CASHFAC

Cashfac Industry Solutions

Asset, Wealth
and Investment
Management



About Cashfac

Cashfac - www.cashfac.com - is a global leader in back office cash management and Virtual Account Management (VAM) solutions. Our platform is the world's most deployed virtual accounts solution, used by organisations across the global financial services sector from large banks and asset managers to smaller non-banking financial institutions.

Our products help these financial institutions improve productivity and provide greater visibility, automation and control over their critical cash management operations including compliance

with Client Money regulations. This is achieved by our open technology solutions plugging into existing client systems giving corporate and client operational accounting solutions which are fully integrated with your bank's records, virtually eliminating the need for reconciliation.

This brochure details how we help Asset and Wealth Managers significantly and rapidly augment the service offered to their clients by improving Client Money compliance, process efficiency, risk monitoring and accounting without requiring a wholesale replacement of legacy systems.

Background

The Fund, Asset and Wealth Management sectors in Europe have had to deal with significant change in recent times, driven by a blizzard of acronym-laden regulations from UCITS to AIFMD to FATCA/CRS and MiFID II, which came into effect in January 2018. MiFID II (The Markets in Financial Instruments Directive II) has hit the industry with increased regulatory costs and seems likely to encourage investors into lower cost products. This represents a very challenging pincer attack on the industry.

While economic growth remained strong, the industry has been cushioned from the true effect of this pincer attack. However, any change in economic conditions could see the sector struggling.

Is now then the time for Asset and Wealth Managers to invest for the future, to ensure that they can maintain the highest levels of compliance and risk oversight in the most operationally efficient manner?

Wealth Management

There is a newer trend now, or is it an old one reinvented, for Asset/Fund Managers to offer private clients direct access to their funds. However, most of us still go through advisors of some sort or another to help us make our crucial long-term investment decisions, be it an IFA, SIPP/Pension provider, Wealth Manager or good old-fashioned Stockbroker. As the technology, administration and regulatory burdens have increased, Advisors have, in many cases, outsourced their administration to platform providers who, for the most part, are owned by large life assurance companies.

Many platform providers have for the last few years been engaged in hugely expensive re-platforming projects which have in many cases been expensive failures - costing tens of millions of pounds and delivering little beyond vastly increased levels of customer complaints.

Whether the advisors maintain their own systems or outsource them to these platform providers, they cannot outsource responsibility for delivering good services or, as the FCA has said repeatedly, ensuring that their operations are run in a compliant manner.

The challenges for both platform providers, and advisors who maintain their own operations, are, firstly, scale; if their assets under administration are not big enough and if they do not have systems that can efficiently process the volumes generated from these assets, how can they compete in a lower margin environment? Secondly, to gain that scale they need to offer not just a compliant service but one that is functionally rich and competitively priced.



Asset Management

The challenge for Asset Managers is in many ways like that for Wealth Managers. Again, for the most part Asset/Fund managers will outsource their Transfer Agency (client and sales administration) and other administration functions to global third-party providers.

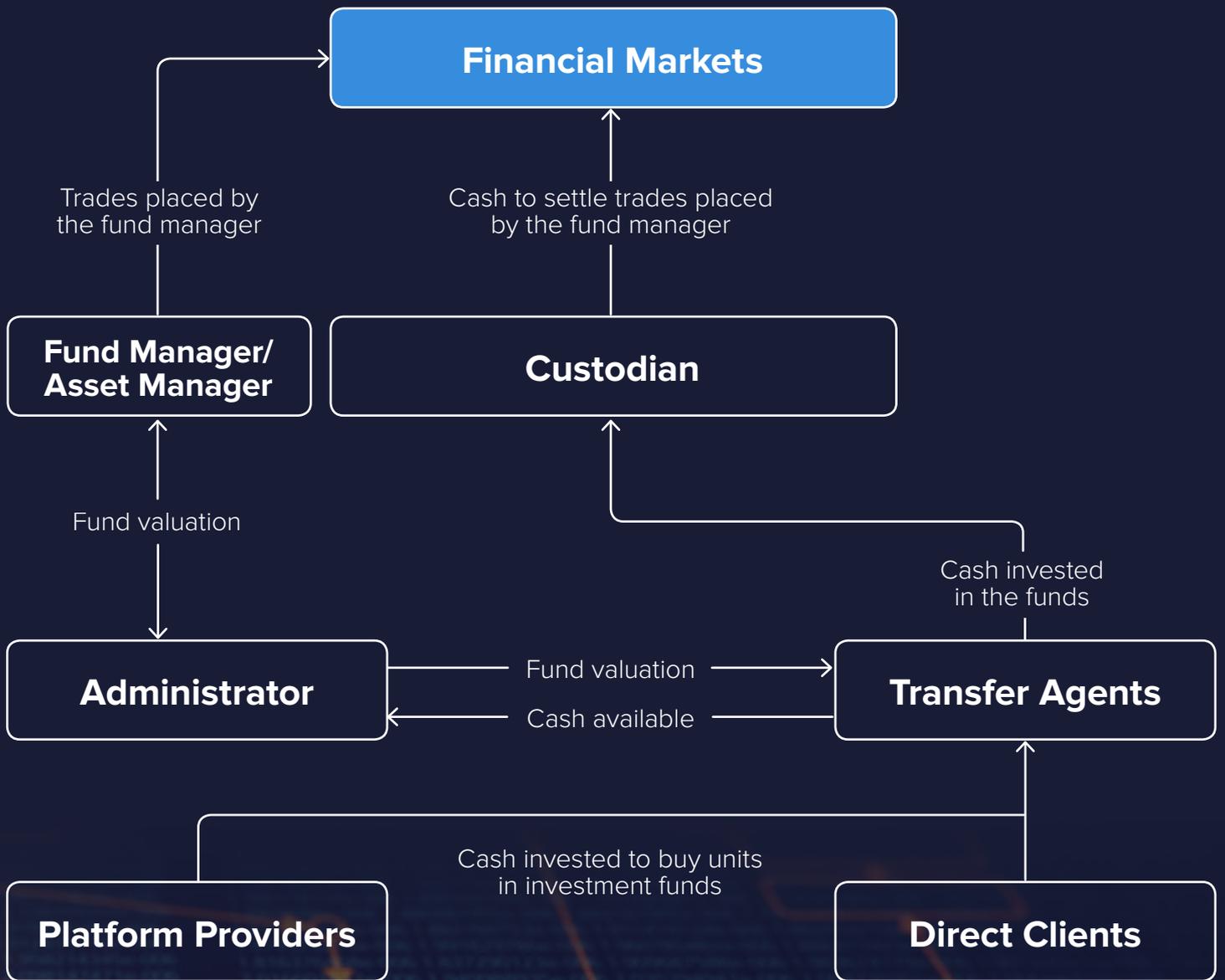
“ Any failure of such a project can be career limiting, as many CIOs and CEOs have found over the last decade.

The challenges Asset Managers face from increased regulation in many cases act as a significant distraction from its more commercial challenges to drive performance improvement and compete in the global market place. These Asset/Fund Managers remain on the hook with the regulators for service and regulatory failures of the third parties; they remain reliant on those third

parties to deliver the innovation that they will need to meet their compliance obligations effectively and efficiently.

Asset Managers may find themselves with a limited choice of service providers because they are required to stay loyal to a group company or simply because there is so little competition in the market for some services.

Transfer Agents and other service providers will often struggle to update their service due to the limitations of their existing systems. Many of these legacy systems still do a core processing job extremely well. However, the demand for additional functionality, improved efficiency, higher levels of compliance, and robust accounting and risk monitoring can often force a firm to consider investing in a re-platforming project. As with Wealth Management, the risks of ripping out and replacing these core systems are huge.



5 Key challenges for Asset and Wealth Managers

Onerous regulatory and trust requirements for Client Money protection and segregation

MiFID II standardised Client Money protection regulation across Europe. The UK's Client Money regulations under CASS 7 have been amended to come in line with it and for the most part could be said to be even more stringent. The regulations are onerous, and both the regulators and now also the Client Money firm's auditors have a zero-tolerance approach to failure.

To upgrade existing platform or Transfer Agency systems that can allow you to deliver the 100% compliance standard required by these regulations is extremely challenging. Existing systems may be hard to re-develop. It may also prove difficult to get the development resources capable of mastering the regulation and designing an automated solution. Very often Transfer Agents and platform providers will struggle to develop effective automation of the Client Money regulatory requirements that is truly scalable.

“ **Any failure can lead to huge fines for the firms and personal sanctions under the FCA's new Senior Managers and Certification Regime (SCMR).** ”

While firms by this stage might be achieving minimum levels of compliance, they may also need to consider upgrading their Client Money protection processes to best practice standard. Also, very often Client Money protection is only being achieved with a high level of manual intervention meaning that the solution is costly, does not scale and lacks the robustness required for a process that must be completed daily under threat of severe regulatory sanction.

Lack of accounting control

Typically, Wealth Managers, or their platform providers, and Transfer Agents (TAs) will need robust operational accounting records to control their settlement, provide an accounting (sub) ledger for customers' cash (Client Money), and to administer fees and charges and other direct operational costs and revenues. Transfer Agents will also need accounting records to deliver effective box management and performance reporting. While the accounting required may not be complex, many providers struggle to deliver it. Yet without this basic financial controls function, the provider's operations are not robust and will not scale.

Robust accounting systems have never been more important given increased record keeping requirements, transaction reporting, generation of client reporting and CASS reporting (CMAR) and the need to perform daily reconciliations.

Even if platforms or TAs have an existing ERP (accounting) system, this may not be able to

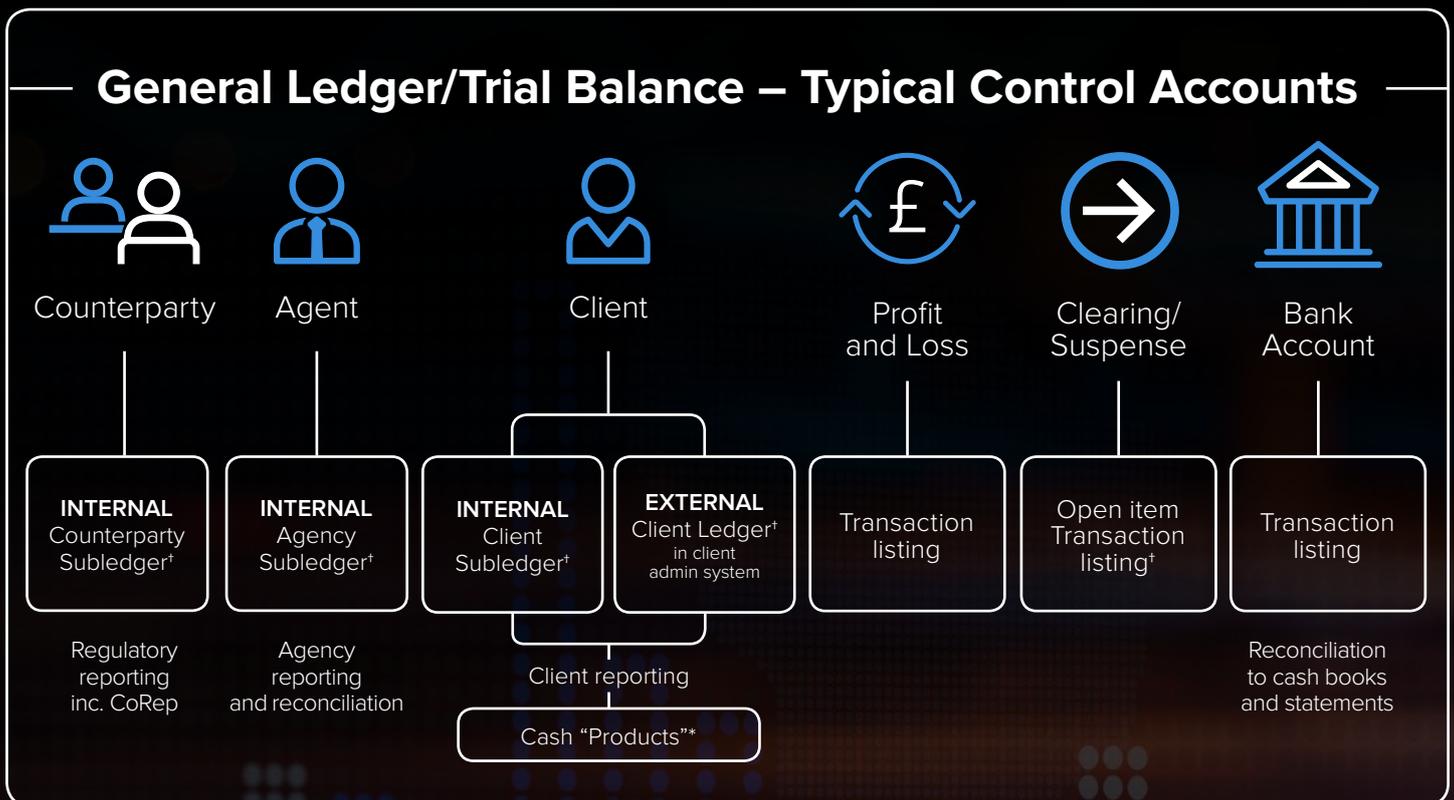
deliver the required operational accounting control solution. By operational accounting we mean the basic double entry bookkeeping required to control the assets, liabilities revenues and expenses of your investment operations. Most ERP systems do not offer operational accounting because they cannot handle the business's operational volumes or cannot be easily configured to generate and maintain the accounting records required using multiple third-party data sources from the business's front end and other systems. However, perhaps the biggest challenge is for the ERP system to account for clients' positions on a cleared and settled cash basis rather than an accruals/accounting basis. Without this, the system cannot deliver an accounting record that can serve two purposes; one, to account for the business's operations and, two, to deliver the necessary CASS regulatory compliance, controls and reporting solution.

CASHFAC

Fund Administrators may also have challenges on the accounting front, when they either come to prepare a fund's Net Asset Value (NAV) calculation promptly or, as is often now the case, are required to deliver real-time or at least intraday reporting for the Fund Managers. Existing systems may simply not have this capacity, often leading to the creation of "Heath Robinson" solutions involving many spreadsheets.

Traditionally, Fund Administrators used data from their portfolio accounting system's Accounting Book of Record (ABOR) to update the front office system at the start of each day.

Portfolio managers increasingly require a real-time intraday record which includes updates for corporate actions, confirmations, fees, adjustments, subscriptions, redemptions and general cash movements. This is commonly referred to as an Investment Book of Account (IBOR). The portfolio manager's key requirement is to have access to robust (un-invested) cash positions, although increasingly they will also want a more granular analysis of these positions. An IBOR solution creates a "shadow accounting" record which duplicates the ABOR and then updates the duplicate to create a real-time accounting record.



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

† Created by contra match and grouping on an omnibus

Settlement and allocation of customer cash

Platform providers, TAs and Custodians may all struggle to identify and allocate cash received from customers and counterparties to the correct trading account or against the correct unsettled trade, especially in high volume environments or during peak periods such as the tax year-end.

Where the function is regulated under the Client Money rules or governed by trustee responsibilities, there is an additional requirement to ensure that the cash is allocated as soon as possible and certainly within ten days and to always avoid co-mingling of the funds.

Managing multiple bank accounts

Wealth Managers, TAs and Custodians may need multiple bank accounts to administer their businesses efficiently and in a compliant manner. For example, they may need to segregate cash for different products, especially if the products are subject to different regulations. Alternatively, they might wish to give each client their own bank account to ensure easy identification and complete segregation of funds.

The additional administrative burden of managing several bank interfaces can be substantial, preventing the standardisation of payment processing, bank reconciliation and other processes.

Opening numerous bank accounts can be expensive and time consuming, and it can be hard to administer them on most standard banking platforms.

Maximising returns-effective treasury management

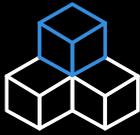
In the current low interest environment, many Asset and Wealth Managers are struggling to make a return on uninvested cash held either on the firm's behalf or for customers' benefit.

Cash held on demand and spread across several bank accounts can prove to be very unappealing to most banks, particularly in the current economic environment. This means the cash often earns no interest and indeed in some cases the banks will actually charge the firms for holding the cash.

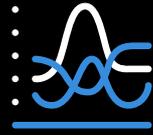
How can Cashfac help?



Agency
Banking



Bank client
sub-accounts
ledger



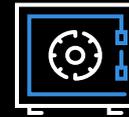
Integrates
to your client
accounting
records



Full bank
account and
PSP account



CASS
Compliance



Treasury



Operational
Accounting

In many cases these challenges can be resolved as part of an overall data management and process efficiency strategy, by bolting on additional capability powered by real time interfaces/APIs. These bolt on solutions will now often be hosted in the supplier's cloud, giving the Asset or Wealth Manager a scalable and GDPR compliant solution, which acts as a buffer between the client/user and the core system. This approach can often deliver greater agility to respond to

future changes in regulations or service requirements as opposed to replacing core systems.

Cashfac's solution works with your existing systems to perfect your firm's control regime, increase your functionality offering, drive improvements in compliance and risk management, and deliver higher levels of automation to improve the customer journey. We have listed below some examples of the solutions our systems can deliver.

Client Money (CASS) Compliance

Cashfac's back office's integrated accounting and banking functionality gives a proven solution to the challenges of Client Money protection under CASS7 and 10, and their equivalents in other jurisdictions. Our solution is principles-based and highly configurable which enables us to adjust it to meet minor regulatory differences between jurisdictions or for different customers' interpretations of those regulations.

To achieve this the Cashfac solution offers full virtual bank account functionality. Each client can be given their own integrated virtual bank

account/client account, delivering automatic identification and protection of customers' funds under the CASS rules. There is no limit to the number of virtual accounts that can be maintained.

Using this functionality, the Wealth Manager can also extend to its clients, if required. This service includes direct debit and electronic funds transfer payments like BACS and Faster Payments now. As the Open Banking revolution delivers, this functionality will increase further.

Operational Accounting, IBORs and ABORs

Whether the requirement is to deliver an ABOR, IBOR or operational accounting records for corporate and Client Money for a private client Wealth Manager or a Transfer Agent, Cashfac's solution offers a suite of back office functionality including an operational general ledger complete with client cash accounts and full corporate accounting to handle operational revenues and expenses.

As our solution integrates the banking and accounting records, the accounts can be delivered

on a cash basis (actual settled/actual cleared basis) exactly linking and reconciling each accounting entry to its bank statement movement.

The updating of accounting records for actual settlement and clearance occurs in more or less real-time throughout the day. This allows easy calculation of CASS top up positions and other risk exposures on a realtime basis. This allows a paradigm shift away from static reconciliation to real time monitoring and correction.

Efficient banking arrangements/virtual bank accounts

The Cashfac client accounts solution offers full bank account functionality. Each client can be given their own integrated virtual client cash/bank account which can be at product level if required, delivering automatic identification and segregation of customers funds. The virtual account offers current and archived statements; interest rate management; payments; receipt management; sweeping and target balancing; automated account opening and closure as well

as a full range of reports and audit control using a comprehensive permissions-based approach to access. The solution offers a “bank agnostic” model which allows the Asset & Wealth Manager to “plug and play” different bank providers as required, all controlled within a single cash management platform. This functionality can be driven by existing core systems using APIs to enhance customer journeys and drive production efficiencies.

Auto settlement and cash allocation

Cashfac’s cash allocation functionality allows all “expected receipts” data, including actual payment clearance details from the external bank statement, to be collated and blended together to create a golden source of information about the transaction.

This information can then be used to allocate the cash to the correct client account or to match it against an open trade on a firm’s system. Once the allocation or trade match is made, Cashfac’s solution can update its own client virtual account records and/or the firm’s core system with the details triggering the settlement and allocation there. As the Cashfac solution leverages the power of the new Open Banking interfaces, it can

deliver this allocation and settlement processing on a real-time basis throughout the day.

The Cashfac virtual client/bank accounts can have their own virtual IBAN (unique bank account identifier recognised by the banking payments networks). The virtual IBANs allow automatic cash allocation of cash received from the customer. Customers can use the virtual IBAN, or one of several other customer account identifiers that Cashfac’s system can store, to ensure cash received into the financial institution’s bank accounts is automatically posted to the correct client virtual account on receipt. This ensures good service and the highest levels of compliance.

Rapid virtual bank account opening

Asset Managers can often experience significant delays while they complete their banks' increasingly arduous account opening processes.

The Cashfac virtual banking functionality allows the Asset Manager to set up new virtual accounts in minutes, allowing them to offer a swift and responsive service to clients.

Improving treasury management and maximising return on cash

Cashfac's virtual bank account functionality allows the pooling of bank accounts of the same ownership giving the firm's treasury function the ability to consolidate its cash positions in one

easy to understand record, ideal for making optimal treasury management decisions and thus maximising returns for firm and client alike.

Hosted and Managed Services

Cashfac products are available as hosted solutions with a full management service or Software as a Service (SaaS) available. Our clients have found that moving to the cloud removes the hassle and risks of maintaining their hardware and software, while reducing their costs for maintenance and upgrading.

Using the Microsoft Azure platform, our cloud-based offerings are fully scalable, flexible solutions which deliver GDPR compliance and which meets the "bank grade" ISO27001 standard for security and resilience.

Conclusion

Taking all these services together, the Asset or Wealth Manager can significantly and rapidly augment the service offered to its clients. It can quickly improve Client Money compliance, process efficiencies, risk monitoring and accounting without requiring a wholesale replacement of its legacy systems.

The Cashfac cloud-based solution is used by many of the biggest global financial institutions in the world to process high volumes of accounts and transactions while meeting ISO27001 standards for security and resilience. Our solution is also used by many smaller companies that have found

Cashfac to be a cost-effective proposition which also gives them cover for their projected growth plans.

Finally, Cashfac does not only offer the technology for the solution, its team of business consultants work with the Asset and Wealth Management firms and their advisors to devise the correct process design, systems configuration and build of the solution to deliver the right result for each firm. With its many years' experience in devising systems solutions for regulated institutions, our team work with you to deliver a total solution to your firm's compliance and operational challenges.

Next steps: free fact-find

As part of our initial engagement, we are happy to offer a free, high-level, no obligation “fact find” review of your business. Under NDA protection, one of our consultants will review your business’s operations, generally focusing on some of your key pain points. From this review we will deliver a full written briefing on how Cashfac might help.

To take on this offer and set up an initial conversation to discuss your requirements please get in touch with us at

www.cashfac.com/contact

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