

Client Money reconciliations - Net negative add back

The purpose of the internal client money reconciliation is to check that the firm segregated the correct amount of client money the previous business day as per its internal client money records and is able to promptly determine the total held for each investor.

The daily client money reconciliation is completed by comparing the client money resource value against the client money requirement value. Both the resource and the requirement figures must be derived from an internal record; if the firm is relying on external information (such as bank statements, online access to a banking system or other third party confirmations) to source these figures, then this would be deemed to be a non-standard method and would therefore require auditor approval.

The client money resource is an internal record of what is held in the client money bank account (i.e. what the firm thinks it has protected) and is often referred to as the cash book, and typically maintained as part of the general ledger system for the firm's investment trading.

The client money requirement is calculated by using one of two methods

- Individual client balance method
- Net negative add back method

The requirement figure (i.e. what the firm ought to have protected) used in the net negative add back method is calculated by starting with the resource value which should include the following

- Unallocated client money
- Unidentified client money
- Prudent segregation
- Cash segregated for the funding of stock shortfalls
- Cheque payments drawn that have not yet been presented

Any investor that reflects as an overall negative position within the account, i.e. where a payment has been made which does not match with a prior cash receipt, is then added back to the client money requirement. This is because that investor has effectively been paid from the protected balance in the client money bank account, which is allocated to other investors.



THE TA FORUM
CASS Working Group

Resource:	
Cash book balance	23,000.00
Total Client Money Resource	23,000.00
Requirement:	
Internal record of amount held	23,000.00
Net negative add back	0.00
Funded negative balances	0.00
Total Client Money Requirement	23,000.00

The aim is to ensure that the total requirement amount is fully protected on any given business day. This means that if the resource is higher or lower than the requirement, an investigation should be carried out to determine the reason for the difference and ensure that the excess is withdrawn from the client money account or the shortfall is funded by transferring money from the corporate account to the client money account on the day the reconciliation is performed. All excesses and shortfalls must be fully explained by the TA with supporting detail.

The TA will repeat the daily client money reconciliation, and record the prior funded negative balances within this until such a time as the net negative add back is no longer needed e.g. a client payment is returned or rectified through permanent funding.

Important Information

This document has been compiled for the use of TA Forum members only and is for guidance purposes. This document has been written from the view point of TA's and the administration activities that they perform for regulated firms. Where any firms require further clarification of the rules, guidance should be sought from the FCA.

This document must not be copied or distributed without written consent from the TA Forum. For any queries regarding this document, please contact enquiries@thetaforum.co.uk