

Internal Client Money Reconciliation

Members of the TA Forum CASS Working Party predominantly use the net negative add-back method to perform their internal client money reconciliations and this best practice paper focuses on this method.

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.

The reconciliation is completed by comparing the client money resource value (what the firm thinks it holds in its client money bank accounts) against the client money requirement value (what the firm thinks it needs to hold in its client money bank account).

CASS 7.15.15 R requires firms to perform internal client money reconciliations based on the records of the firm as at the close of business on the previous business day.

To support this rule the close of business needs to be defined and can be supported by two trigger points:-

- The cut off time for monitoring external bank transactions for capturing within the internal books and records.
- The cut off time for updating internal books and records - this could be linked to the start of any system batch jobs or system rollover.

Any external transactions that occur after this cut off point will not be captured within the records used in the internal client money reconciliation performed the following day and instead will be recorded as a discrepancy within the external client money reconciliation.

Any external events that occur prior to the first cut off & not included within the books and records should be reported as failures accordingly.

The above principle should also be applied for any errors made in the maintenance of the internal records the previous business day.

The CASS rules outline the components that must be used to calculate the internal client money requirement.

- CASS 7.16.17 R (1) states the starting point must be 'the amount which the firm's internal records show as held in that account'. The view of the TA Forum CASS Working Party is that this figure could be represented by the cashbook.
- An offset of any negative amount that can be attributed to an individual client, in a particular client money bank account, should then be taken into account as per 7.16.17 R (2) to complete the requirement calculation.

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CASS 7.16.25 R also requires Firms to include other items in its client money requirement. The TA Forum CASS Working Party expects that the following items should already have been recorded in the cashbook the previous business day and so will be included in the calculation of the client money requirement noted above:

- Unallocated client money
- Unidentified client money
- Prudent segregation
- Cash segregated for the funding of stock shortfalls

In the process described above, the requirement is calculated by starting with the resource figure, before adjusting for any negative amounts. The TA Forum CASS Working Party recognises that this is not a true reconciliation and does not identify the individual clients to which the money belongs.

To ensure that the individual client balances can be recognised as part of this process, as required in 7.16.18 G (1), a reconciliation of these balances has been introduced which details all clients who hold client money within the bank account as per separate books and records, and these positions are reconciled back to the requirement figure from the internal client money calculation.