

Intraday & Cleared Funds

CASS rules should be understood from two important perspectives:

- The recording of money and allocations within the books & records of the Firm; and
- The actual movements of physical money between bank accounts (whether those are both accounts of the Firm, or whether the Firm is either receiving or paying money between one of its own accounts and the bank account of some other party).

The term “intraday” simply relates to things taking place during the working day (in contrast to the position being established at ‘close of business’) and, while it is not technically a CASS term, there are situations in which the phrase gets attached to CASS discussions. In terms of CASS rules, certain obligations specifically arise in respect of the close of business position (for example: reconciliation rules, the identification and resolution of shortfall and excess positions, etc.). There are however some obligations under the CASS rules that apply when they occur (such as the obligation under the “Normal Approach to Segregation” that any client money being received by a Firm should be received directly into a Client Bank Account). Receiving such money into a corporate account would be a breach of the Normal Approach to Segregation (unless some other CASS exemption can be applied to that receipt). It is not the case that a CASS rule applies in different ways to an “intraday” position rather than a “close of business” position; what matters is the point at which a given rule applies to a given movement and/or internal posting.

Performing any regulatory analysis and application of CASS rules also requires the Firm to clearly identify whether it is acting as Principal or Agent, and this is particularly important when the Firm is challenged on an “intra-day” interpretation of a CASS rule. Where the Firm is acting as Agent its trading activity will generally be exchanging client money for a custody asset – such that the settlement proceeds do not become “due and payable to the firm from the client” or “due and payable from the client to the firm”. In the context of Agent deals it is therefore important for the Firm to ensure that it does not effect a payment of physical money from its client bank account on behalf of a particular client if the only money held in the client money pool is at that time allocated to other clients (as effecting such an instruction would break the statutory trust if the Firm was using one client’s money in order to service or benefit a different client). When dealing as agent, the interaction between a Firm’s inflows and outflows therefore becomes important. Similarly, in respect of asset sales, if the Firm is operating under the Normal Approach to Segregation then the Firm should ensure that the market settlement proceeds are received directly into a Client Bank Account (with its books & records reflecting the allocation of that money to the relevant clients).

When dealing as principal however, the legal arrangement is different. Money of the client does become “due and payable from the client to the firm” according to the settlement terms agreed for a transaction selling an asset to the client, regardless of whether the Firm needed to perform any external transaction in the market. Similarly if an asset is sold for a client, the Firm will declare the settlement proceeds as being “due and payable from the Firm to the Client” with effect of the contractual settlement date regardless of whether any market transaction was performed by the Firm.



The term "cleared" relates to a different aspect of cash processing – specifically that the Firm must recognise the point at which money is declared by its bank as being "available for use". Cheques traditionally have the longest clearance period, although the introduction of cheque image clearing is expected to reduce the time. CASS rules highlight that a Firm should not permit a payment of client money allocated to a given client if that money is not yet "available for use" (as doing so would effectively breach the statutory trust noted above, as the physical movement of money would effectively relate to another client's money).

It is therefore important that the Firm's processes and controls recognise the clearance periods agreed with its bank for each type of payment method supported, to prevent money being used for a client before that client's allocated balance is available for use.

* The word "Firm" in the above reflects a Regulated Firm acting in that capacity (whether or not the operational activity concerned has been outsourced):

Important Information

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