



**THE TA FORUM**

# **An Introduction to Cash Models**

The TA Forum CASS Working Group  
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# Introduction

This document seeks to outline the core principles of cash models operated by a Transfer Agent (TA) and the methodology behind investor, fund and inter-company cash flows. The cash models within this document are all relevant to "The normal approach" covered by 7.13.6R, which requires that client money received must be paid directly into a client bank account. However a firm is also permitted to utilise the delivery versus payment (DvP) exemption outlined in CASS 7.11.21R. which allows money to be received into a corporate account under certain circumstances. These two distinct variations allowable within "The normal approach" are respectively referred to within this document as the 'DvP Exemption Model' and the 'Full Client Money (FCM) Model'.

Many firms operate varying permutations of the aforementioned cash models, often referred to as 'hybrid' models. For example, a firm may wish to use the DvP Exemption Model approach for incoming investor subscription funds but a Full Client Money (FCM) Model approach for outgoing investor redemption payments, or vice versa.

The core principles for investor and fund cash flows are outlined for each respective cash model. Information on inter-company cash flows, referred to in this document as portfolio transfers or bank transfers, follow on from each cash model. It is important to be mindful of these when reviewing the cash flow models outlined within this document.

Further information on the DvP exemption for collective investment schemes can be found in the guide "Delivery versus Payment Exemptions" on the "CASS Working Group - Guidance Documents" page.

*Note: Timed transfers are referred to throughout this document. It should be noted that when*



# Glossary of Terms

- ▶ **Delivery versus Payment (DvP)** - For the purpose of this document, DvP is referring to the ability for an authorised fund manager to not treat money as client money when meeting a specific set of circumstances in relation to units/shares in a regulated collective investment scheme. See CASS 7.11.21R - 7.11.24R.
- ▶ **Full Client Money (FCM)** - For the purpose of this document, FCM is referring to the 'normal approach' of always receiving client money into a client bank account. See CASS 7.13.6R, without utilising the DvP exemption.
- ▶ **Subscription** - The term used to refer to an investor agreement, commitment or intent to invest in a financial instrument (e.g. units/shares in a CIS) prior to the issue date.
- ▶ **Redemption** - The term used to refer to the return of an investor's principal investment, such as the sale of units/shares in an CIS.
- ▶ **Creation** - Referred to in this instance as the payment to the trustee/depositary for the purchase of units/shares.
- ▶ **Liquidation** - Referred to in this instance as the receipt from the trustee/depositary for the sale of units/shares.
- ▶ **Contractual Settlement / Fund Settlement** - Generally considered to be the point at which title transfers between cash and assets for an investor upon the purchase or redemption of units based on the contractual settlement arrangement in place.
- ▶ **Bank Transfer / Portfolio Transfer** - An inter-company transfer between firms bank accounts, under administration by the firm or a third party acting as the firm.
- ▶ **Firm** - The authorised and regulated firm, person or persons with applicable FCA permissions.
- ▶ **Trustee/Depositary** - A financial institution which provides fiduciary/custodian services to safeguard assets and oversee the affairs on behalf of the investment fund.

# General Investor Cash Flow Principles

Cash Flow	DvP Exemption (CASS 7.11.21)	Full CM Model
Redemptions	<p>Investor redemptions paid electronically e.g. by TT can be made from the corporate/ops bank account providing this is completed by the day following receipt of liquidation funds from the trustee/depositary.</p> <p>Any unsettled redemption monies will be transferred to the client money bank account if settlement cannot be made by the day following receipt of funds from the trustee/depositary.</p> <p>All investor redemptions paying by cheque will be drawn from the client money bank account.</p>	<p>In most circumstances, investor redemptions are paid from the client money account.</p> <p>Liquidation settlement is received directly into the client money account <b>or</b> liquidation settlement is received directly in to a corporate account with a controlled timed transfer process to segregate investors' entitlement in advance.</p> <p><b>Note – the differing treatment of liquidation settlement will cause the models and cash flows to vary.</b></p>
Subscriptions	<p>Cleared funds receipts: Investor subscriptions are received into the corporate/ops bank account. Where received two or more business days prior to the contractual fund settlement date, subscriptions are moved to the client money account on the business day after receipt and held in client money until the fund's contractual settlement date at which point they are paid to the firm's corporate/ops bank account.</p> <p>Uncleared receipts: Direct debit or cheque payments are received into the client money account and treated as client money from receipt until transferred to the authorised fund manager on the later of the contractual fund settlement date or the cleared funds date.</p>	<p>Investor subscriptions are received into the client money account and are treated as client money until the later of settlement with the fund on the contractual settlement date or cleared funds date.</p> <p>Creation settlement is paid directly from the client money account <b>or</b> creation settlement is paid directly from a corporate account with a controlled timed transfer process to maintain investor segregation.</p> <p><b>Note – the differing treatment of creation settlement will cause the models and cash flows to vary.</b></p>

# General Fund Cash Flow Principles

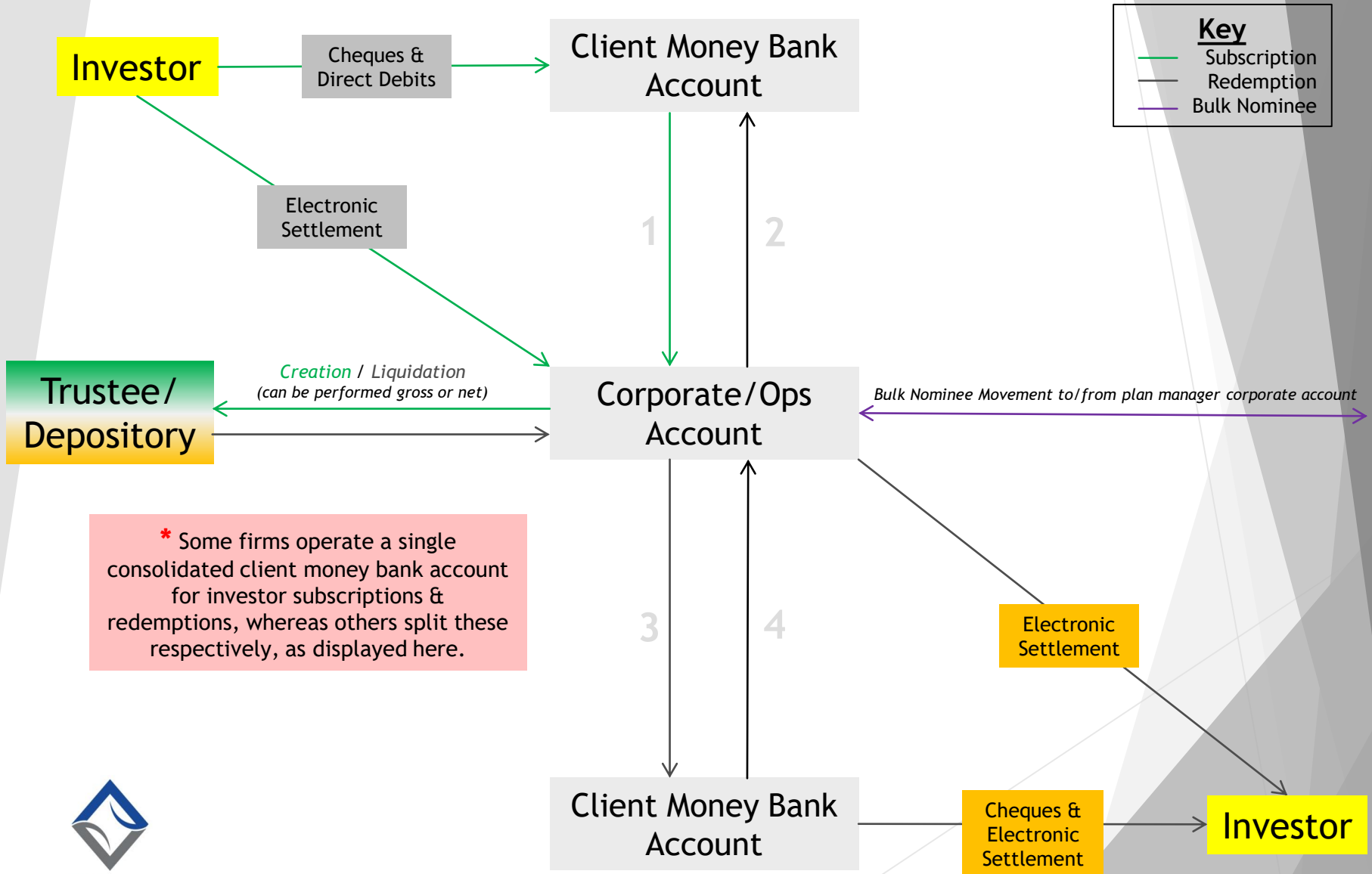
Settlement between the firm and the fund can be performed net or gross, depending on the firm's preference and also depending on the bank account structure/model the firm operates. This is highlighted further on in the document where the various models are displayed.

- **Gross Creation Settlement** - Aggregate gross creations (i.e. not netted with the liquidation receipt but aggregated over all funds) are paid to the trustee. This could be paid from either a corporate or client money account, depending on the account structure/model in place.
- **Gross Liquidation Settlement** - Aggregate gross liquidations (i.e. not netted with the creation payment but aggregated over all funds) are received from the trustee. This could be received into either a corporate or client money account and can be paid out from either account, depending on the account structure/model in place.
- **Net Settlement** - For each fund the liquidation and creation payment is netted and the resultant movement is aggregated over all funds. Net settlement cannot be used if the creation payment and liquidation receipt take place on different bank accounts.



# DvP Exemption Model

Below is a diagram of a TPA model operating multiple client money bank accounts\* for subscriptions and redemptions utilising the DvP exemption. Settlement between the firm and the fund will always take place within the firms corporate/ops account. This model can operate with gross or net settlement between the firm and the fund.



# DvP Exemption Model - Principles & Cash Flows 1/3

Inter-company Transfers	Cash Flow	Description
1	The release of subscription funds held in the client money account on the later of contractual fund settlement date and cleared funds date to the firms corporate account.	<p>Subscriptions received directly in to the client money account, such as cheques, will be transferred to the firms corporate bank account once the funds are cleared and contractual fund settlement date is reached. The funds will move on the latter of the two.</p> <p>Cleared subscriptions received into the firm's corporate account outside of the DvP exemption window which have subsequently been moved to the client money account via <a href="#">inter-company transfer 2</a>, and have now reached contractual settlement date.</p> <p>In any event, the release from client money should happen on the same day as the firm discharges their fiduciary duty.</p>
2	The transfer of subscriptions received prior to settlement date which fall outside the 24 hour DvP exemption window. This process is performed the day after the receipt of funds. Cancelled subscriptions will also be transferred back to the client money account from the firms corporate account on contractual fund settlement of the cancellation.	<p>Cleared subscription funds paid by TT are received directly into the firms corporate/ops bank account. Where these funds are received two or more days prior to contractual fund settlement date, the funds are transferred to a client money account by close of business the business day following receipt.</p> <p>A cancelled subscription deal acts in the same way as a redemption. As such, the funds will be segregated in client money based on the same principles, or until the funds are reinvested.</p>
3	The movement of redemption proceeds from the corporate bank account to the client money bank account on contractual settlement date.	Electronic payments (BACS/TT) where the payment is physically being made on contractual settlement date are paid from the firms corporate bank account. Proceeds for all other payment types and any unsettled redemptions are transferred to the client money bank account on contractual fund settlement day.
4	The movement of cancelled redemption proceeds out of the client money bank account back to the firms corporate bank account.	If a redemption deal is cancelled and no payment is issued, then on the contractual settlement date of the cancellation, the funds will be transferred from the client money bank account to the firm's corporate bank account. The release from client money ought not to happen before the cash transfer has cleared to the fund from the corporate bank account.



# DvP Exemption Model - Principles & Cash Flows 2/3

## Investor Receipts/Payments

- Cleared subscription funds are received into the firm's corporate/ops bank account and only protected in the client money account if the associated creation would not be paid to the fund by the end of the next business day.
- Uncleared subscriptions (e.g. cheques) are banked directly into the client money account.
- Cleared electronic redemption payments (e.g. TT) to the investor on the contractual fund settlement date are made from the firm's corporate/ops bank account.
- All other redemptions are made from the client money account. All cheques are issued from the client money account.





## Inter-company Transfer Timings

Transfers between bank accounts as well as payments out are timed so as to prevent the risk of diminution or loss of client money for any period of time (in line with 7.12.3G) i.e. the investor redemption payments out of the client money account will not be made until the cash to support the payments has been received into the client money bank account.

Subscription funds will also remain in client money until after the settlement with the fund has taken place. At no point will incoming subscription funds be removed from client money until they have cleared at the bank, ensuring one client's money is not used to pay for another client's investment.



# Full Client Money (FCM) Model - Subscriptions

Below are two diagrams showing subscriptions through a full client money model. In diagram A, settlement between the firm and the fund is taking place on the firm's corporate/ops bank account. In diagram B, settlement between the firm and the fund is taking place on the firm's client money account. This model can operate with gross or net settlement between the firm and the fund. Creation payment through the firm's corporate/ops bank account (i.e. A) is generally the preferred method.

A

Investor

All  
Subscription  
Settlement

Client Money  
Bank Account

A1

A2

Corporate/Ops  
Account

Trustee/  
Depository

Creation

B

Investor

All  
Subscription  
Settlement

Client Money  
Bank Account

B1

B2

Corporate/Ops  
Account

Trustee/  
Depository

Creation



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# Full Client Money Model – Subscriptions

## Principles & Cash Flows (1/2)

Inter-company Transfers	Cash Flow	Description
A1	The release of subscription funds held in the client money account on the later of contractual fund settlement date and cleared funds date from the client money bank account to the firm's corporate/ops account.	Subscription funds banked directly in to the client money account will transfer to the firm's corporate/ops bank account once the funds are cleared and contractual fund settlement date is reached. The funds will move on the latter of the two. In any event, the release from client money must not happen before the settlement has cleared between the firm and the fund.
A2	Cancelled subscription deals will move funds into the client money bank account from the firm's corporate account on contractual fund settlement of the cancellation.	If a subscription deal is cancelled, the investors funds will be paid back to the firm via the liquidation of the purchased assets on contractual fund settlement of the cancellation. These funds will be transferred back to the client money bank account on contractual fund settlement date of the cancellation, ahead of the liquidation funds being received by the firm. These funds will then either be applied to a new deal or returned back to the investor. If applied to a new deal, the funds will move back to the firm's corporate bank account on contractual fund settlement of the new trade (see <a href="#">inter-company transfers A1</a> above).
B1	The movement of any cleared funds due and payable to the firm.	Any funds received from the client in to the client money bank account that are not part of the creation payment to the trustee/depository and are deemed due and payable to the firm (e.g. fees, P&L) are transferred to the firm's corporate/ops bank account at the point they are cleared and deemed due and payable.
B2	The movement of funds from the firm to the client money account in respect of making good the creation payment to the fund outside or in excess of investor obligations.	If the creation payment exceeds the balance held within the client money bank account for client payments associated to that creation payment, a transfer from the firm's corporate/ops bank account to the client money account is required. For example, this could be the result of cleared funds not being received in to the client money account in time for contractual fund settlement date, or this could be P&L as part of a deal amend where the price of the fund has risen.



# Full Client Money Model – Subscriptions

## Principles & Cash Flows (2/2)

### Investor Receipts

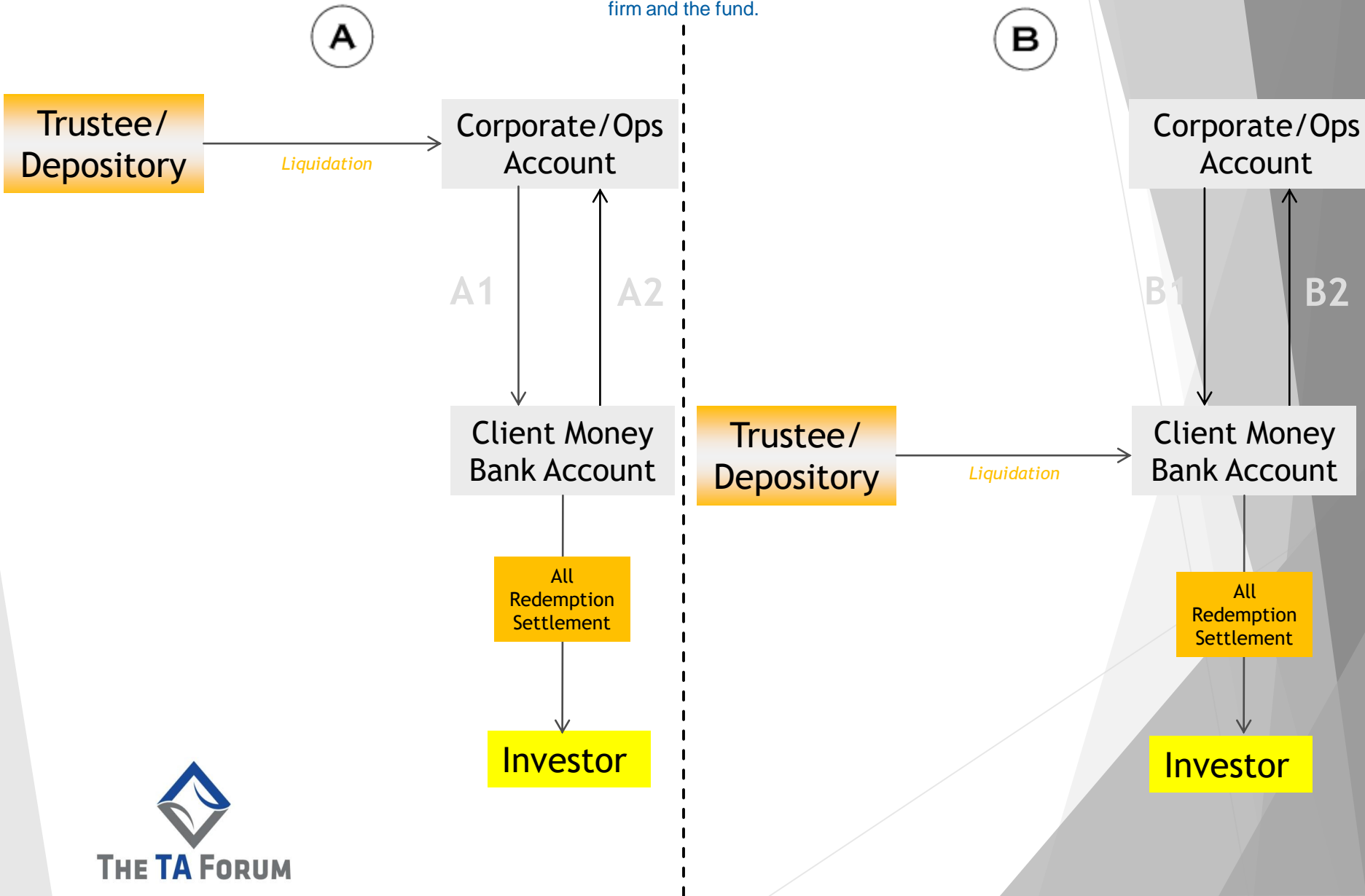
- All incoming investor subscription funds are received into a client money bank account, regardless of how or when they are received.

### Inter-company Transfer Timings

Transfers between bank accounts as well as payments out are timed so as to prevent the risk of diminution or loss of client money for any period of time (in line with 7.12.3G). Investor subscription funds will remain in client money until after the settlement with the fund has taken place. At no point will incoming subscription funds be removed from client money until they have cleared at the bank.

# Full Client Money (FCM) Model - Redemptions

Below are two diagrams showing redemptions through a full client money model. In diagram A, settlement between the firm and the fund is taking place on the firm's corporate/ops bank account, meeting immediate segregation requirements of the normal approach through controlled timed transfers. In diagram B, settlement between the firm and the fund is taking place on the firm's client money account. This model can operate with gross or net settlement between the firm and the fund.



# Full Client Money Model – Redemptions

## Principles & Cash Flows 1/2

Inter-company Transfers	Cash Flow	Description
A1	The movement of redemption proceeds from the corporate bank account to the client money bank account on contractual fund settlement date in respect of investor obligations.	All redemption proceeds in respect of investor obligations are transferred to the client money bank account on contractual fund settlement date where they will stay until they are paid to the investor. This is irrespective of payment type of even whether a payment can yet be issued to the investor. In any event, these proceeds are transferred ahead of when the liquidation proceeds are received by the firm from the fund.
A2	Only if subscriptions are settled with the fund through the firm's corporate/ops bank account - The movement of cancelled redemption proceeds out of the client money payments account back to the firm's corporate bank account.	If a redemption deal is cancelled and no payment is issued, then on the contractual fund settlement date of the cancellation, the funds will move back from the client money bank account to the firms corporate account to settle with the fund. In any event, the release from client money must not happen before the cash transfer has cleared to the fund.
B1	The movement from the corporate account to the client money bank account on contractual fund settlement date in respect of investor obligations.	The cash movement required will be the difference between the liquidation receipt received from the fund for the contractual fund settlement date and the investor obligations in respect of the same contractual fund settlement date. If the investor obligations are greater than the liquidation receipt the transfer required is to the client money account.
B2	<p>The movement from the client money account to the firms corporate account in respect of investor obligations.</p> <p>Only if subscriptions are settled with the fund through the firms corporate/ops account - The movement of cancelled redemption proceeds out of the client money bank account back to the firms corporate account.</p>	<p>Any cash movement for the difference between the liquidation receipt received from the fund for the contractual fund settlement date and the investor obligations in respect of the same contractual fund settlement date. If the investor obligations are less than the liquidation receipt the transfer required is to the firms account from the client money account.</p> <p>On contractual fund settlement of a cancelled redemption, the funds will move back from the client money bank account to the firms corporate account. The release from client money must not happen before the cash transfer has cleared to the fund for subscription settlement.</p>



# Full Client Money Model - Redemptions Principles & Cash Flows 2/2

## Investor Payments

All outgoing investor redemption payments are made out of the client money payments account, regardless of how or when they are paid.

## Inter-company Transfer Timings

Transfers between bank accounts as well as payments out are timed so as to prevent the risk of diminution or loss of client money for any period of time (in line with 7.12.3G). Investor redemption payments out of the client money account will not be made until the cash to support the payments has been deposited within the client money bank account. Immediate segregation requirements are achieved either through fund liquidations being settled directly in to the client money account and topped up by the firm via transfer **B1** if required or through transfer **A1** occurring in advance of liquidation proceeds being received. Both of which will always happen in advance of paying the investor.



# Important Information

This document has been compiled for the use of TA Forum members and their clients only and is for guidance purposes.

The best practice statements referred to within this presentation have 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. It is the regulated firm's responsibility to comply with the client money rules.



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