CASS Operations Process Document

**1. Key Roles & Responsibilities**

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| --- | --- |
| **Role** | **Responsibilities** |
| Analyst | Daily reconciliation, investigate breaks/shortfalls, document findings, propose resolutions. |
| Supervisor | Review analyst work, approve or escalate exceptions, ensure process adherence, manage workflow |
| Manager | Oversight of all exceptions, final sign-off, regulatory reporting, policy updates, audit liaison |
| Compliance | Monitor regulatory adherence, review reports, interface with FCA, manage audits |
| IT/Support | Maintain systems, ensure data feeds, manage user access, and support exception workflow tools. |

**2. FCA CASS Rule 6 & 7 Overview**

**CASS 6: Client Assets (Custody Assets)**

**- Purpose:** Protect client securities/assets held by the firm.

**- Key Requirements:**

- Segregate client assets from firm assets.

- Maintain accurate records and perform daily reconciliations.

- Promptly resolve discrepancies (shortfalls/surpluses).

- Ensure assets are held in designated client accounts.

**CASS 6 (Custody Assets) – Exclusions**

**1. Excluded Asset Types**

* **Firm’s Own Assets:**
* Securities or assets beneficially owned by the firm (not held for clients).
* **Collateral Received:**
* Assets received as collateral under title transfer collateral arrangements (TTCA) are not “client assets.”
* **Assets Held Under TTCA:**
* If a client has agreed to transfer full ownership of assets to the firm (TTCA), those assets are not client assets.
* **Assets Not in Course of Business:**
* Assets held outside the course of regulated business (e.g., personal assets of directors).

**2. Excluded Entities/Accounts**

* **House Accounts:**
* Internal firm accounts not used for client business.
* **Non-Client Nominee Accounts:**
* Nominee accounts not designated for client assets.

**3. Excluded Transactions**

* **Settled Trades:**
* Once a trade is fully settled and the asset is no longer held for the client, it is excluded.
* **Non-Client Transactions:**
* Transactions for the firm’s own account or for non-clients.

**CASS 7: Client Money**

**- Purpose:** Protect client money held by the firm.

**- Key Requirements:**

- Segregate client money from firm money in designated accounts.

- Daily client money calculation and reconciliation.

- Promptly resolve breaks (surpluses/deficits).

- Maintain records and perform regular reconciliations.

**CASS 7 (Client Money) – Exclusions**

**1. Excluded Money Types**

* **Firm’s Own Money:**
* Money belonging to the firm, not clients.
* **Money Under TTCA:**
* Money received under a title transfer collateral arrangement (TTCA) is not client money.
* **Money Not in Course of Business:**
* Money not received in the course of regulated business (e.g., personal funds of employees).

**2. Excluded Entities/Accounts**

* **House Accounts:**
* Bank accounts used for the firm’s own money.
* **Non-Client Bank Accounts:**
* Any account not designated as a client money account.

**3. Excluded Transactions**

* **Fees/Commissions:**
* Money received as fees or commissions due to the firm (once earned).
* **Settled Amounts:**
* Money that has been paid out to settle a client’s obligation and is no longer held for the client.
* **TTCA Movements:**
* Transfers under TTCA agreements.

**3. Inclusion & Exclusion Logic**

**A. What to Include**

- CASS 6: All securities/assets held for clients in the course of regulated business. Assets in client-designated custody/nominee accounts.

- CASS 7: All money received/held for clients in the course of regulated business. Money in client money bank accounts.

**B. What to Exclude**

- CASS 6: Firm's own assets (house accounts). Assets under Title Transfer Collateral Arrangements (TTCA). Non-client nominee accounts. Settled trades no longer held for clients.

- CASS 7: Firm's own money (house accounts). Money under TTCA. Fees/commissions due to the firm (once earned). Settled amounts already paid out.

**C. Exception Logic**

- Trigger: Any break (cash) or shortfall (stock) outside tolerance during reconciliation.

- Exception Record: Legal Entity, Date, Account/Security, Expected vs. Actual, Amount, Type, Status, Assigned To, Aging, Root Cause, Notes.

- Workflow: Exception is created → Assigned to analyst → Investigated → Resolution proposed → Supervisor approval → Manager Sign-off.

**4. Lock-Up Requirements (How Much to Segregate/Lock)**

**Key FCA References**

* **CASS 6.1.6R**: Definition of “client assets” and exclusions.
* **CASS 7.10.12R**: Definition of “client money” and exclusions.
* **CASS 6.1.7G & CASS 7.10.13G**: Guidance on TTCA and other exclusions.

**A. Client Money (CASS 7)**

- Lock-up Amount: The Total Client Money Requirement (TCMR) is the amount that must be segregated in client money accounts.

- Calculation: TCMR = Sum of all client entitlements (credits) minus client obligations (debits), as per daily calculation.

- Shortfall: If actual client money is less than TCMR, a shortfall exists and must be funded immediately.

**B. Client Assets (CASS 6)**

- Lock-up Amount: All client assets must be held in segregated custody/nominee accounts at all times.

- Shortfall: Any deficit in client asset holdings (vs. records) is a shortfall and must be resolved promptly.

**5. Cut-Off Times (US & UK Entities)**

|  |  |  |
| --- | --- | --- |
| Entity | Cut-Off Time | Notes |
| UK Entity | 5:00 PM London Time | All reconciliations and calculations must be completed |
| US Entity | 5:00 PM New York Time | Adjust for time zone differences; may vary by custodian. |

**Best Practice**: Set internal cut-off 30–60 minutes before regulatory cut-off to allow for review and exception handling.

**6. TCMR/Shortfall Calculation**

**A. TCMR (Total Client Money Requirement) – CASS 7**

- Formula: TCMR = (Sum of all client credit balances) – (Sum of all client debit balances)

- Process:

1. Aggregate all client entitlements (deposits, settlements, etc.).

2. Subtract any client obligations (withdrawals, fees, etc.).

3. The result is the amount that must be held in client money accounts.

**B. Shortfall Calculation – CASS 6**

- Formula: Shortfall = Expected Asset Position – Actual Asset Position (per security, per account)

- Process:

1. For each security/account, compare internal records to custodian statement.

2. Any negative difference is a shortfall; any positive is a surplus.

**7. Buffer Amount**

- Definition: An additional amount of firm money held in the client money account to cover unexpected shortfalls or operational errors.

- Purpose: To prevent inadvertent shortfalls and regulatory breaches.

- Best Practice: Buffer amount should be reasonable, reviewed regularly, and not excessive (to avoid commingling).

**8. Process Flow (Step-by-Step)**

**A. Daily Process**

1. Data Ingestion: Collect all relevant data (bank statements, custodian files, internal ledgers).

2. Data Validation & Enrichment: Standardize, map to legal entities, tag as client/house, TTCA, etc.

3. Reconciliation: Cash: Internal vs. external balances. Stock: Internal vs. custodian positions.

4. Exception Identification: Flag any breaks/shortfalls outside tolerance.

5. Exception Management: Create exception record, assign, investigate, resolve, escalate as needed.

6. TCMR/Shortfall Calculation: Calculate required lock-up/segregation.

7. Buffer Review: Check buffer adequacy and adjust if needed.

8. Regulatory Reporting: Generate and review daily reports.

9. Sign-Off: Supervisor/manager sign-off before cut-off.

10. Audit Trail: Ensure all actions are logged for compliance.

**9. References & Best Practices**

- FCA CASS Handbook:

- CASS 6: https://www.handbook.fca.org.uk/handbook/CASS/6/

- CASS 7: https://www.handbook.fca.org.uk/handbook/CASS/7/

- **Internal Policies:**

- Document all inclusion/exclusion rules.

- Regularly review buffer and cut-off times.

- Maintain clear audit trails and exception logs.

**10. Summary Table**

|  |  |  |
| --- | --- | --- |
| **Step** | **CASS 6 (Stock)** | **CASS 7 (Cash)** |
| Data Ingestion | Custodian, internal records | Bank, internal ledgers |
| Inclusion | Client assets only | Client money only |
| Exclusion | House, TTCA, settled trades | House, TTCA, fees, paid out |
| Reconciliation | Daily, per security/account | Daily, per account/currency |
| Exception Logic | Shortfall/surplus | Break (deficit/surplus) |
| Lock-up/Segregation | 100% of client assets | TCMR (client entitlements) |
| Buffer | Not typical | Yes, for operational risk |
| Cut-off | 5pm local (UK/US) | 5pm local (UK/US) |
| Reporting | Daily, regulatory, audit |  |

**Summary Table**

| **CASS Rule** | **Exclude Asset/Entity/Transaction Type** | **Examples** |
| --- | --- | --- |
| CASS 6 | Firm’s own assets | House securities, firm’s investments |
|  | TTCA assets (title transfer collateral arrangements) | Collateral received under TTCA |
|  | House/Non-client nominee accounts | Internal nominee accounts |
|  | Settled trades, non-client transactions | Firm’s proprietary trades |
| CASS 7 | Firm’s own money | House funds, firm’s capital |
|  | TTCA money | Collateral received under TTCA |
|  | House/non-client bank accounts | Internal bank accounts |
|  | Fees/commissions, settled amounts | Brokerage fees, paid-out client funds |

**1. Reconciliation Logic**

**A. CASSHub (Cash) Reconciliation**

Business Objective

* Ensure the firm’s internal records of client money match the balances held at external banks, as required by FCA CASS 7.

Types of Reconciliation

* Internal Reconciliation:
* Compares internal client money ledger to internal cash sub-ledgers.
* External Reconciliation:
* Compares internal client money ledger to external bank statements.

Technical Steps

1. Data Collection

* Pull previous day’s closing balances and all transactions (credits/debits) for each client money account from both internal systems and external bank feeds.

1. Data Normalization

* Standardize formats, time zones, and transaction types.

1. Matching Logic

* For each account:
* Calculate expected balance:

Expected = Previous Day Closing + Credits - Debits

* Compare to actual balance from bank statement.

1. Tolerance Check

* If the difference (break) is within a pre-defined tolerance (e.g., a few pennies due to rounding), mark as “No Exception.”
* If outside tolerance, flag as a break.

1. Break Classification

* Surplus (more money than expected)
* Deficit (less money than expected)
* Other (timing, misposting, etc.)

**B. StockHub (Stock) Reconciliation**

**Business Objective**

* Ensure the firm’s internal records of client assets match the positions held at custodians, as required by FCA CASS 6.

**Types of Reconciliation**

* **Internal Reconciliation:**
* Compares internal asset records to internal books.
* **External Reconciliation:**
* Compares internal asset records to custodian statements.

**Technical Steps**

1. **Data Collection**

* Pull previous day’s closing positions and all asset movements (buys, sells, transfers) for each security from both internal systems and custodians.

1. **Data Normalization**

* Standardize security identifiers (ISIN, SEDOL, Ticker), quantities, and dates.

1. **Matching Logic**

* For each security in each custody account:
* Calculate expected position:

Expected = Previous Day Closing + Buys - Sells + Transfers

* Compare to actual position from custodian.

1. **Tolerance Check**

* If the difference is within a pre-defined tolerance (e.g., due to pending settlements), mark as “No Exception.”
* If outside tolerance, flag as a shortfall.

1. **Shortfall Classification**

* Deficit (less than expected)
* Surplus (more than expected)
* Other (pending trades, misbookings, etc.)

**1. CASSHub (Client Money / Cash) Business Flow**

**A. Data Ingestion**

* **Sources:** Bank statements, internal ledgers, trade systems, payment platforms.
* **Process:**
* Automated feeds or manual uploads bring in daily cash balances and transactions for all client money accounts.
* Data is validated for completeness and format.

**B. Data Enrichment & Mapping**

* **Mapping:**
* Accounts are mapped to legal entities, client types (client/house), and currencies.
* Transactions are categorized (deposits, withdrawals, transfers, etc.).

**C. Reconciliation**

* **Types:**
* **Internal Reconciliation:** System ledger vs. internal records.
* **External Reconciliation:** System ledger vs. external bank statements.
* **Frequency:**
* Typically daily (as per FCA CASS 7 rules).
* **Output:**
* List of breaks (differences) by account, legal entity, and currency.

**D. Exception Management**

* **Breaks Identified:**
* Each break is logged as an exception.
* **Workflow:**
* Assigned to analysts for investigation.
* Analysts add notes, propose resolutions.
* Supervisors review and approve or escalate.
* Managers provide final sign-off if needed.
* **Aging & Status:**
* Exceptions are tracked by age and status (open, investigating, resolved, escalated).

**E. Daily Client Money Calculation**

* **Purpose:**
* Calculate the amount of client money that should be segregated.
* **Process:**
* System calculates required segregation based on reconciled balances and regulatory rules.
* Any shortfall or surplus is flagged for action.

**F. Regulatory Reporting & Audit**

* **Reports Generated:**
* Daily client money calculation report.
* Exception logs.
* Audit trails of all actions.
* **Distribution:**
* Reports are sent to compliance, management, and regulators as required.

**2. StockHub (Client Assets / Securities) Business Flow**

**A. Data Ingestion**

* **Sources:** Custodian statements, internal position records, trade/settlement systems.
* **Process:**
* Daily feeds or uploads of asset positions and movements.
* Data validation and normalization.

**B. Data Enrichment & Mapping**

* **Mapping:**
* Securities mapped to legal entities, clients, and custody accounts.
* Asset identifiers (ISIN, SEDOL, Ticker) standardized.

**C. Reconciliation**

* **Types:**
* **Internal Reconciliation:** System records vs. internal books.
* **External Reconciliation:** System records vs. custodian statements.
* **Frequency:**
* Typically daily (as per FCA CASS 6 rules).
* **Output:**
* List of shortfalls (missing or excess securities) by account, legal entity, and security.

**D. Exception Management**

* **Shortfalls Identified:**
* Each shortfall is logged as an exception.
* **Workflow:**
* Assigned to analysts for investigation.
* Analysts add notes, propose resolutions.
* Supervisors review and approve or escalate.
* Managers provide final sign-off if needed.
* **Aging & Status:**
* Exceptions are tracked by age and status.

**E. Asset Segregation & Control**

* **Purpose:**
* Ensure client assets are held in segregated accounts and not mixed with firm assets.
* **Process:**
* System checks for proper account labelling and segregation.
* Flags any commingling or mislabelling.

**F. Regulatory Reporting & Audit**

* **Reports Generated:**
* Daily asset reconciliation report.
* Exception logs.
* Audit trails of all actions.
* **Distribution:**
* Reports are sent to compliance, management, and regulators as required.

