How to Meet CASS Requirements

Custody Assets and Client Money

AUTOREK

//

With the advent of PS14/9 and the FCA's continued focus on the importance of client protection, the need for robust, automated financial control regimes is again highlighted.

//

AUTOREK

About AutoRek

AutoRek is an award-winning global provider of financial controls and reporting software.

Authors of the world leading reconciliation solution (called AutoRek®), our suite of solutions also incorporate a range of products to help companies perfect their financial controls landscape, including:

- Compliance and regulatory reporting solutions
- Automated cash allocations
- High-volume data migration
- Balance sheet certification/account attestation
- Improving financial close processes

Our solutions are purpose-built to improve the quality and efficiency of financial data management, from cost reduction and process efficiency projects, to improving adherence to regulatory reporting requirements.

Executive Summary

AutoRek advocates that automating processes will significantly reduce "noise" to maintain clean receivables and bank accounts to comply with CASS (Client Assets Sourcebook) reconciliation rules on cash, and the client money and safe custody asset segregation and protection requirements.

AutoRek's capabilities go beyond merely matching of transactions. It can match identities to create a single customer view and use that to offset overdrawn balances and thus minimise top-ups. AutoRek can also match cash received to open/unsettled positions to automate cash allocation/settlement. Exceptions are case-managed and work-flowed, and extensive reporting capabilities allow automated returns and detailed management information.

"Without streamlining the collection, reconciliation and reporting processes around client assets and client money, businesses are likely to spend less time understanding the business impacts of terms of business and client behaviours.

Furthermore, without scalable processes, the organisation is susceptible to significant failings and regulatory and reputational risk." – **Gillian Boston FCA, AutoRek**

CASS Overview

With the advent of PS14/9 (Policy Statement 14/9: Review of the client assets regime for investment business) which resulted in changes to CASS, and the FCA's continued focus on the importance of client protection, the need for robust, automated financial control regimes is again highlighted.

CASS mandates that firms must put in place systems and controls that are necessary to meet their obligations to maintain their records and accounts, in a way that ensures their accuracy and in particular their correspondence to safe custody assets and client money held for clients.

The FCA expect better recordkeeping and record retention to prove controls are in place, operating effectively and that clients are indeed protected.

This paper focuses on how CASS reconciliation and reporting requirements for both custody assets and client money can be met by automating firms' often manual and complex processes.

AutoRek Overview

AutoRek accepts input data either directly from source systems or through electronic files imported (typically overnight on a batch schedule). Transactions are automatically loaded, validated and posted to the reconciliation based on a number of configurable business rules.

Following successful import and validation of the data, AutoRek business rules will match transactions.

AutoRek will be configured to accept the various data loads for the various reconciliation feeds. These files will be uploaded as per the file schedule e.g. on receipt, daily, weekly, monthly.

When the data has been loaded and validated, AutoRek will move the data to the reconciliation based on a number of posting rules.

As transactions are loaded and matched they are automatically tagged and fully audited. This supports a comprehensive review and audit process. This audit database also provides a platform for management information and reporting, detailing transaction volumes, open items, risk exposure and user activity.

The AutoRek exception management and workflow console allows users to access the reconciliation and to review and manually match transactions that may have failed to match through defined business rules.

CASS 6 - Custody Asset Reconciliations
A firm must:

- Maintain client specific safe custody asset records

- Undertake an internal custody check at least once a month; and

- Undertake an external custody reconciliation at least monthly, but daily where client assets are held electronically with a central securities depositary.

Arguably if third party positions can be downloaded daily, then external custody reconciliations should be performed daily.

Common issues arising with custody asset reconciliations:

- Governance and management control - existing processes provide little or no management information;

- Custodian statements have to be manually loaded into reconciliation tools or spreadsheets;

- Custodian statements do not come in structured formats;

- Existing systems or manual processes cannot easily and automatically parse custodian statements by line of stock (ISIN);

- Custodian statements use different stock codes from the firm;

- Ensuring that matching does not occur across sub account, where ISINs have sub accounts (for different registrations or designations);

- Existing reconciliation processes only allow a tolerance match on "number of units" rather than value;

- Identifying when a custodian statement reveals that an account is registered in the wrong legal name;

- New custodian accounts are set up without the correct authorisation;

- Some custodians will only provide stock balance statements, so a formal transaction reconciliation will not be possible;

- Extracting data from custodians is time consuming; and

- Timetabling the reconciliations work to ensure compliance with CASS can be made more complicated by high volumes.

AutoRek will enable an automated control regime to be put in place that will combat these common issues. In addition, capacity will be freed up to focus on root cause analysis and resolution of breaks, rather than time spent performing the reconciliations.

Asset Reconciliation Process Overview

Source	Explore	Enrich	Match	Escalate

AutoRek adopts a 5 step "SEEME" (Source, Explode, Enrich, Match and Escalate) approach to asset reconciliations that assume the following process:

1. Constant Activity
2. Formal Preparation
3. Submission
4. Sign off
5. Enterprise Level Review

1. Constant Activity

AutoRek will be configured to be "always on", and so allows instant and real time management control and reporting.

Internal Custody Reconciliation

Sourcing the Data

AutoRek will take regular updates from custody systems, typically including market transactions and balances for each ISIN.

Exploding the data

Transactions and balances may represent bulk trades or movements for a day. AutoRek will try to match those bulk trades to the underlying list of client side deals or allocations and replace the bulk trades with the underlying allocations.

Enriching the data

If necessary, AutoRek will enrich the customer portfolio record with the same stock code as the custody record, for example ISIN.

External Custody Reconciliation

Sourcing the Data

AutoRek will take regular updates from the firm's custody systems of transactions and balances for each ISIN. From the custody system or from a third party source, such as Bloomberg, AutoRek may take the latest pricing feed.

AutoRek may also take a feed of stock code mapping from a standing data source such as Bloomberg. Alternatively this mapping table can be maintained on AutoRek.

Exploding the data

If the third party statement only provides balances, AutoRek will try to match those balances to the firm's custody system balances. However, if the stock balance does not straight agree then the reconciler may need to split or explode the balance into a match-able element and a break (or breaks) to be carried forward.

Enriching the data

If the asset in question is a mutual fund, AutoRek will use the market price from the third party statement or if that is not available, the price from a standing data source to price the transactions and balances.

If necessary, AutoRek will enrich the third party statements with the correct stock code.

Matching

AutoRek will create a separate reconciliation type for each reconciliation. Generally there is an internal reconciliation type, an external reconciliation type and a reconciliation account within these types for each line of stock or ISIN.

In some cases though there may be several internal reconciliations depending on how fragmented the client custody or stock holding records are. CASS gives some leeway on the internal reconciliation allowing it to be replaced by a review if the individual client asset records are integrated with the omnibus records. In practice we believe that the review has to be presented as a reconciliation.

Typically the internal reconciliation will be a reconciliation of the individual client account holdings to the holdings for that asset in the "custody" record.

AUTOREK

AutoRek will write a small number of match rules to match transactions between the two sources automatically. As AutoRek has exploded or disaggregated the data, the match rules quickly highlight the underlying missing transactions rather than the bulk trades.

For the external reconciliation, AutoRek will write a small number of match rules to match transactions or balances automatically. These may include tolerance matching based on, for example, a small value or percentage difference.

AutoRek will run the match rules and present a graph to management of which match rule is making the match. This allows the reconciliation to proceed, gives the firm automatic match rates in the 90%s, while allowing management to monitor the discrepancies and risk in the reconciliation and spot deterioration in statement quality.

Report and Escalate
AutoRek will automatically analyse and label the breaks that remain after matching.

The most common label is "timing/settlement timing difference". Other labels may determine root cause or risk category, or they may initiate a workflow case to control and drive the resolution of a break, and transmit that case to the proposed break resolver inside or outside the firm.

AutoRek comes with a full suite of standard control and reconciliation reports for custody asset reconciliations. Customisable dashboards provide management with real time status updates of financial control procedures.

The case management features of AutoRek provide escalation of exceptions both internally and with third parties where required. Integration with Microsoft Outlook supports real time notification of automated and manually generated alerts.

2. Formal Preparation
A snapshot of the internal and external reconciliations can be taken automatically after the automatic reconciliation process. Alternatively, the snapshot can be taken when a user completes their review.

3. Submission
The snapshotted reconciliations can be automatically submitted or manually submitted in bulk for review.

Alternatively, the user can submit the reconciliations one by one, if they require detailed review and require further manual work before submission.

The electronic signature of the user or the business rule that submitted the reconciliation is attached to the snapshotted reconciliation.

4. Sign off
The reconciliation snapshot can be automatically signed off. Alternatively, the supervisor/manager can sign them off one by one, if say they require detailed review, or are in bulk.

Supervisors/managers can reject the submitted reconciliation back for reworking or sign it off conditionally.

The reconciliation can be routed to different grades of supervisor or through multiple levels of management for sign-off depending on the grade and/or exposure on it.

The electronic signature of the user or the business rule that signed off the reconciliation is attached to the reconciliation snapshot.

5. Enterprise Level Review
The analytical tools that run across the reconciliation and sign off data allow management to control and review those processes.

Audit Trail
Each action undertaken by a user in AutoRek is recorded and date stamped. This audit trail is of particular use not just for rectifying errors, but also for demonstrating to external auditors and the FCA that a robust control regime has been put in place and is operating effectively.

CMAR and CASS Resolution Pack
AutoRek has the ability to store documentation, and so coupled with detailed reporting on asset reconciliations at client level, AutoRek can automate the CMAR and client asset Resolution Pack.

Conclusion
The FCA is determined to drive up the level of client protection. By implementing a robust, automated financial control regime, firms will ensure ongoing compliance with CASS 6 custody asset rules.

AUTOREK

CASS 7 – Client Money Reconciliations

A firm must:

- Be able to determine at any time and without delay the total client money it should be holding for each of its clients;

- Reconcile on a daily basis its internal records and accounts of the amount of client money that the firm holds for each client, with its internal records and accounts of the client money the firm holds in client bank accounts;

- Segregate client money immediately; and

- Undertake an external reconciliation between a firm's internal records and accounts and those of any third party who hold client money.

CASS states that external reconciliations must be undertaken as often as is necessary but at least once a month. In practice this will be a daily reconciliation as 'firms which undertake transactions on a daily basis should conduct an external client money reconciliation each business day'.

Common issues arising with client money reconciliations:

- Governance and management control - existing processes provide little or no management information;

- Excess firm top-ups due to manual reconciliations;

- Inability to perform contra reconciliations at transaction level on a client by client basis;

- Duration of daily client money calculation putting external banks' cash transfer deadlines at risk;

- Lack of transparency on client money breaks; and

- Complexity due to gathering of source data from various and disparate systems.

AutoRek will enable an automated control regime to be put in place that will combat these common issues. Capacity will be freed up to focus on root cause analysis and resolution of breaks, rather than time spent performing the reconciliations. This is turn will help to minimise client money top-ups.

AutoRek will provide a fully auditable, transparent and actionable solution, representing an end-to-end client money reconciliation, calculation and (signed off) submission. With alerts driven by business rules, a series of actionable tasks and meaningful management information will embed client money compliance (and optimisation) in the organisation.

AUTOREK

Client Money Reconciliation Process Overview

| Source | Explore | Enrich | Match | Escalate |

As with custody assets, AutoRek adopts a 5 step "SEEME" (Source, Explode, Enrich, Match and Escalate) approach to client money reconciliations that assume the following process:

1. Constant Activity
2. Formal Preparation
3. Submission
4. Sign off
5. Enterprise Level Review

1. Constant Activity
AutoRek will be configured to be "always on", and so allows instant and real time management control and reporting.

Sourcing the Data
AutoRek can take high volume data, sourcing across multiple source types and auto-synchronise with feeding and receiving systems. Typically for client money AutoRek will take the bank MT940 file, which will be reconciled to the cash book and be ready for review at the start of the working day.

Exploding the data
Using a firm's own data sources, AutoRek will disaggregate client money into commissions, fees and tax. Bulk items, such as BACS payment files, will be split into the underlying transactions to facilitate automatic reconciliation at client level.

Enriching the data
AutoRek will enrich client money data using the narrative on a bank statement to allocate cash to the correct client. Deal references may be used to look up client identifiers in order to find a client's name. FX rates can be stored in AutoRek to translate foreign balances.

Matching
AutoRek can be configured to undertake the alternative and normal methods of client money calculation, as well as firm specific non-standard methods.

AutoRek will undertake contra matching on the cash book, the GL or (in some cases) the bank statement.

Having already exploded or disaggregated the data, the match rules in AutoRek will quickly highlight any underlying missing transactions rather than the bulk trades.

For the external bank reconciliation, AutoRek will write a small number of match rules to match transactions or balances automatically.

AutoRek can include tolerance matching based on, for example, a small value or percentage difference.

Report and Escalate
AutoRek will automatically analyse and label the breaks that remain after matching.

The most common label is "timing/settlement timing difference". Other labels may determine root cause or risk category, or they may initiate a workflow case to control and drive the resolution of a break, and transmit that case to the proposed break resolver inside or outside the firm.

AutoRek comes with a full suite of standard control and reconciliation reports for client money reconciliations. Customisable dashboards provide management with real time status updates of financial control processes.

The case management features of AutoRek provide escalation of exceptions. Integration with Microsoft Outlook supports real time notification of automated and manually generated alerts.

By labelling and analysing client money breaks, a CF10a will know the exact status of client money reconciliations each day and will know in real time if any issues exist.

AUTOREK

2. Formal Preparation

A snapshot of the client money reconciliations can be taken automatically after the automatic reconciliation process. Alternatively, the snapshot can be taken when a user completes their review.

3. Submission

The snapshotted reconciliations can be automatically submitted or manually submitted in bulk for review.

Alternatively, the user can submit the reconciliations one by one, if they require detailed review and require further manual work before submission.

The electronic signature of the user or the business rule that submitted the reconciliation will be attached to the snapshotted reconciliation.

4. Sign off

The reconciliation snapshot can be automatically signed off. Alternatively the supervisor/manager can sign them off one by one, if say they require detailed review, or are in bulk.

Supervisors/managers can reject the submitted reconciliation back for reworking or sign it off conditionally.

The reconciliation can be routed to different grades of supervisor or through multiple levels of management for sign-off depending on the grade and/or exposure on it.

The electronic signature of the user or the business rule that signed off the reconciliation is attached to the reconciliation snapshot.

5. Enterprise Level Review

The analytical tools that run across the reconciliation and sign off data allow management to control and review those processes.

Drilldown analytics allow users to monitor the performance of the reconciliations, identify common issues and optimise the financial controls process.

Audit Trail

Each action undertaken by a user in AutoRek is recorded and date stamped. This audit trail is of particular use not just for rectifying errors, but also for demonstrating to external auditors and the FCA that a robust control regime has been put in place and is operating effectively.

CMAR and CASS Resolution Pack

Detailed reporting also includes automated production of the client money Resolution Pack and CMAR return.

Conclusion

The FCA is determined to drive up the level of client protection. By implementing a robust, automated financial control regime, firms will ensure ongoing compliance with CASS 7 client money rules.

Arrange an AutoRek Demonstration

To arrange a CASS demonstration or a confidential discussion to explore our methodology and credentials, please contact us:

✉ **CASS@autorek.com**
📞 **+44 (0)845 603 3613**
💻 **www.autorek.com/demo**

AUTOREK

AUTOREK