

CASS 15 Reconciliations Best Practice Guide

A Guidance Note for Members of The Payments Association

Purpose of this guidance

This document provides practical guidance to regulated payment and e-money firms on how to interpret and apply the rules around reconciliations in the context of safeguarding customer funds under the Financial Conduct Authority's ("FCA") CASS 15 regime.

Table of Contents

CASS 15 Reconciliations Best Practice Guide	1
Purpose of this guidance.....	1
Contents	1
Foundations: Internal Record Sources for the Reconciliations	2
Internal Records of Relevant Funds Held (Aggregate bank level/custodian level records)	3
D+1 Segregation Requirement.....	6
Internal Client-level Records of Relevant Funds Held	7
A reminder on allocation.....	8
Reconciliations Overview	10
The Internal Safeguarding Reconciliation.....	11
D+1 Segregation Comparison	15
Internal Reconciliation Discrepancy Management	16
The External Safeguarding Reconciliation.....	18
External Reconciliation Discrepancy Management.....	20
Frequency	22
Data Cuts.....	22
Documentation	23

Regulatory context

The FCA has introduced CASS 15 via PS25/12, setting out enhanced safeguarding requirements for payments and e-money firms. Requirements relating to how firms should undertake external and internal reconciliations was previously outlined as 'guidance' in the S10 Approach Document and has now been formalised in the CASS 15 rules.

The reconciliations rules apply to firms operating the 'Segregation method' of safeguarding or a combination of the segregation method and the insurance and guarantee method. A safeguarding institution which only uses the 'insurance or guarantee method' to protect relevant funds does not need to perform external or internal safeguarding reconciliations. However, it must carry out a daily calculation of its safeguarding requirement, including the date it carried out the calculation, the actions it took in carrying out the calculation and the outcome. The method for calculating its safeguarding requirement can be found in the [Internal Safeguarding Reconciliation](#) section of this document.

Foundations: Internal Record Sources for the Reconciliations

Introduction

The FCA's rules regarding reconciliations provide a clear indication to firms of the **underlying records the firm is required to have** to perform the reconciliation methods prescribed. In summary these include:

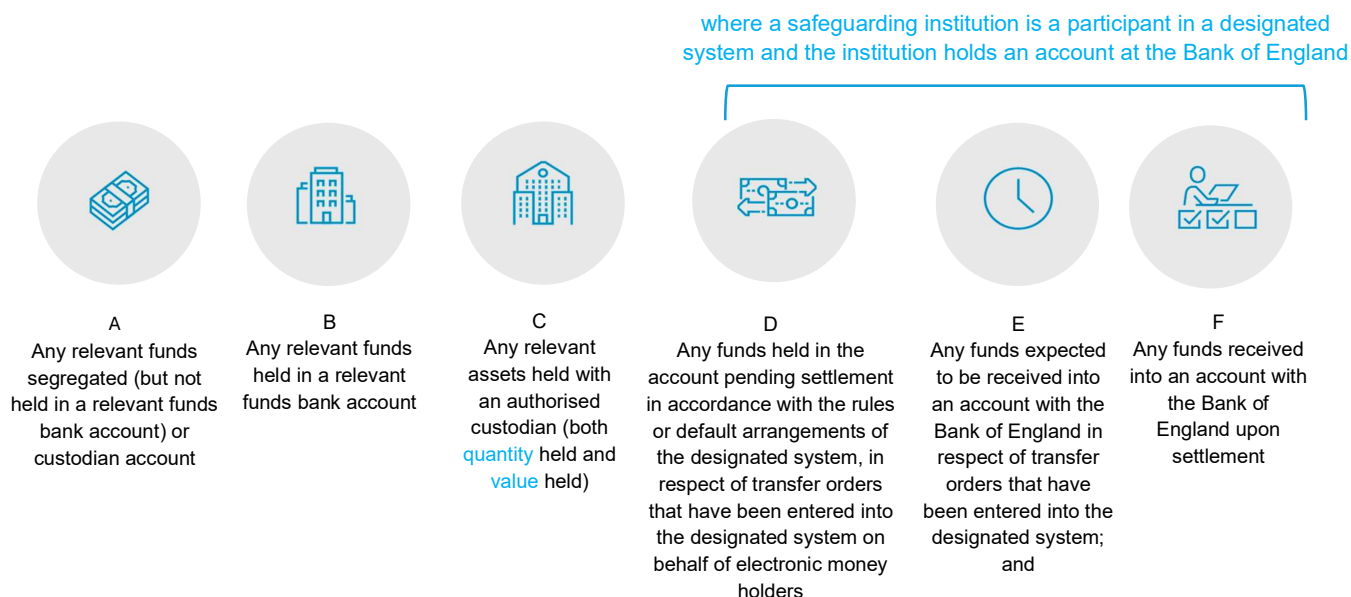
- Internal Records of Relevant Funds Held (**Aggregate bank level/custodian level records**)
- Internal **Client-level Records** of Relevant Funds Held
- The **D+1 Segregation Requirement**
- **Unallocated relevant funds**

Internal Records of Relevant Funds Held (Aggregate bank level/custodian level records)

FCA requirements

The firm must keep an **internal record of how much is held** in each of the accounts in which it holds relevant funds or assets with a third party.¹

Under the EMRs 21.5 and PSRs 23.11, the safeguarding institution must keep a record of:



How should the firm record this?

Firms should maintain an **internal ledger record** or similar for each of the account types listed in the above diagram. This would show on a **transactional level** the amounts **crediting and debiting the third-party account**. The transactional level breakdown can be used to **assist in investigation of any discrepancies** between balances that manifest within the reconciliations. Firms should also be able to sum these transactions to provide an overall '**live**' **internal balance** of the relevant funds/assets held in each third-party account, as well as the balances as at the '**reconciliation point**' chosen by the firm.

For any **relevant assets** held, the internal custodian-level record should be recorded on both a '**quantity**' and '**value**' basis – i.e. the quantity of units held of the assets AND the value of those units held, as both data elements are required in the reconciliations.

¹ CASS 15.8.3R & CASS 15.8.6R

Best practice note on 'Funds Received':

CASS 15.8.6R

"A safeguarding institution must maintain its records and accounts in a way that ensures their accuracy and, in particular, their correspondence to the relevant funds held for clients."

This rule highlights the importance of firms distinguishing on their internal records between funds which they are expecting or have paid out to clients and those which are currently actually "held" by the firm in one of the account types outlined in the last section.

The FCA expects relevant funds under the PSRs to be based on "sums received" (PSR 23.1). Payment Services Institutions or Electronic Money Institutions which are protecting relevant funds for unrelated payment services should therefore update these records only when relevant funds have been 'received' by the firm or its agent and a firm should ensure within its records it is clearly able to distinguish in its internal records between payment services funds received, funds due and funds paid out.

The FCA expects relevant funds under the EMRs to be based on when funds have been received, *and* electronic money has been issued OR by the end of five business days after the date on which the electronic money has been issued. In cases where these two things do not happen simultaneously, firms should be clear in their records which funds have been received and not exchanged for e-money and where e-money has been issued and funds not received so that it can understand what funds should truly be considered 'relevant funds' and form part of their internal relevant funds records within their reconciliations.

Can the firm use third-party records to create or update these internal 'account-level' records?

CASS 15.8.7 G (1) confirms that **the key criteria is that the firm does maintain its own internal record** of the amounts held at third parties, rather than using the third-party records/statements only i.e. the records must be '**separate**' from the records obtained from the third-party.

However, CASS 15.8.7 G (2) states *"A safeguarding institution may use data that is received from third parties for the purpose of creating and maintaining such records where no other method could reasonably be employed (for example, where funds are applied automatically to client balances via application programming interfaces)."*

Best practice that has been established through the longer-standing CASS 7 rules is that firms have their **own methods to determine the amounts held at third parties** which do

not rely on data received from those third parties. For example, the firm knows when money is due to credit its account or leave its account through its own **CRM record-keeping** (e.g. when taking client instructions) or its own **operational record-keeping controls** (when making withdrawals).

However, the rule in CASS 15 shows that there is increasing allowance for arrangements between the two extremes, whereby **firms may use data from third parties to both create and update their internal records if the result is a separate record**. However, firms should ensure the rationale for the method used is documented.

D+1 Segregation Requirement

FCA Requirement

This is the total amount of relevant funds that should be held by a safeguarding institution in accordance with regulation 21(2) of the Electronic Money Regulations or regulation 23(6) of the Payment Services Regulations.

In simple terms, this is the firm's internal record of the total amount of **relevant funds which were held at the close of business on the day following receipt** of those relevant funds.

How should the firm record this?

As we will cover in the [section below on reconciliations](#), firms who do not receive all relevant funds directly into a relevant funds bank account are required, as part of their internal safeguarding reconciliation, to compare two records²:

- The D+1 Resource (which is made up of the Internal Records of Relevant Funds Held outlined in the last section) and
- The D+1 Requirement (as defined above).

This is known as the D+1 comparison.

The essence of the D+1 comparison is to identify instances where a firm continues to hold relevant funds received into a non-relevant funds bank account which **are not** safeguarded in a relevant funds bank account at the end of the business day following the day on which they were received. Therefore, whether something should be included in the firm's D+1 Requirement depends on the timing and whether the receipt should be in the relevant funds bank account by D+1.

Firms should ensure that they can track receipts and payments of relevant funds on a transactional level and that the records capture **the timing** in which:

- The transaction was received by the firm or its agent into its bank account;
- Any deductions in relation to that transaction were made to the client's record (e.g. for fees due to firm) and corresponding monies were moved to the firm bank account; and
- The funds relating to that transaction were paid out of the bank account to the payee.

Using these records, the firm can then determine its D+1 Requirement. This will naturally exclude:

- a) relevant funds which have been paid out on the same day they were received (whether to the payee or to the firm);
- b) relevant funds which were transferred to the relevant funds bank account on the same day they were received;

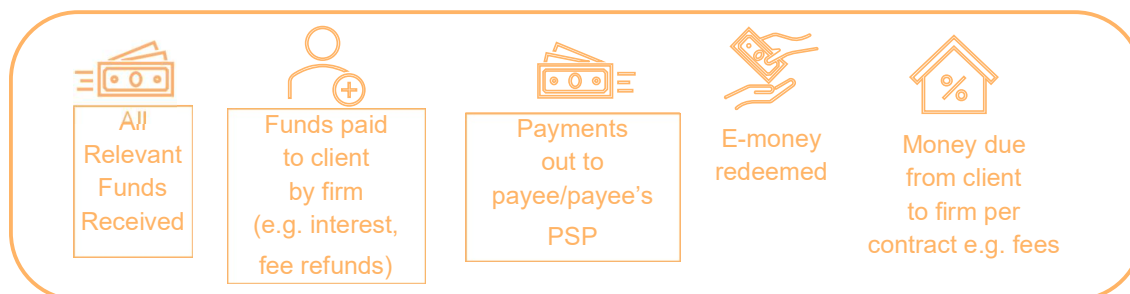
Consequently, any portion of the relevant funds payment received which remains relevant funds (e.g. has not become funds due and payable to the firm) and which has not been paid out to the payee should be included in the D+1 requirement figure.

² CASS 15.8.35R, CASS 15.8.13R

Internal Client-level Records of Relevant Funds Held

CASS 15.8.8R states that “a safeguarding institution must maintain records so that it is **able to determine the total amount of relevant funds it should be holding for each of its clients promptly and at any time**.” It also states that “a safeguarding institution must ensure that its records are **sufficient to show and explain its transactions and commitments for its relevant funds**.”

These records will be used to calculate the [“individual safeguarding client balance”](#). The components required within the calculation include the following (CASS 15.8.33R):



Therefore, to ensure the firm's records are “sufficient to show and explain its transactions and commitments for its relevant funds”, the firm should ensure that the records capture **separate transactions** which can be **distinguished and connected to one of the categories above**.

How should the firm record this?

We recommend that firms maintain a **client ledger record** or similar for each individual client. For firms with the permission allowing them to hold ‘payment accounts’, this will usually be the payment account transactions and balance visible to the client.

For APIs, this will record **only transactions relating to payment services**. For EMIs, there should be a **separate client ledger for e-money held and funds held for unrelated payment services** in the event an institution holds both for the same client.

The client ledger should show on a **transactional level** the amounts crediting and debiting the client's ledger. There should also be the **ability to sum these transactions to provide an overall ‘live’ internal balance** of the relevant funds held for that client. The firm must also be able to review/extract a report of the balances in retrospect ‘as at’ the [‘reconciliation point’](#) chosen by the firm, to use this in its reconciliations.

In cases where the relevant funds have been invested in **relevant assets**, the client records should **show the value of relevant funds used to invest in the relevant assets rather than the unit amount held in the relevant asset**. This is due to the liquid nature of the relevant assets rather than these being a longer-term investment choice which would be captured under CASS 6.

The client-level balances do not need to specify ‘where’ the relevant funds are held (e.g. in a relevant funds bank account or otherwise) but must include records of *all* transactions relating to relevant funds held for the client.

Where clients hold funds with the firm in different currencies, firms have the option to maintain a ledger per currency. However, if the firm segregates relevant funds in a different currency to which they were received, or to which it is liable to the client, then it must ensure that the amount segregated is adjusted each reconciliation day according to the previous days' closing spot exchange rate.

The **transactional level breakdown** can be used to assist in **investigation** of any discrepancies between the firm's resource and requirement in its internal safeguarding reconciliation. These transactional records can also be **provided to auditors** to demonstrate that the **transaction types** listed above were **used in the underlying records to calculate the total individual safeguarding client balance** used in its internal safeguarding reconciliation, as required by CASS 15.8.33R.

A reminder on allocation

CASS 15.2.5R requires that when a firm receives money it must allocate relevant fund receipts to individual clients **promptly** and in any case **no later than the end of the business day following either:**

- a) **the day of receipt** or
- b) **the date the firm identified the funds (or some of them) were relevant funds.**

Allocation in this case means updating the client record in relation to the receipt of the funds. In the case of firms holding payment accounts, this also includes updating the payment account balance visible by the client (if the records are not one and the same).

Unallocated relevant funds

Pending a safeguarding institution's allocation of a relevant funds receipt to an individual client, it must record the received relevant funds in its books and records as 'unallocated relevant funds'.

CASS 15.2.10G clarifies that the unallocated relevant fund records should include cases where a safeguarding institution is able to identify that the funds have been received from a client to execute a payment transaction or in exchange for electronic money but is unable to identify the client entitled to the funds it has received (for example, because they do not have the correct unique identifier).

Unidentified relevant funds

CASS 15.2.9 R states:

If a safeguarding institution receives funds (whether in a relevant funds bank account or another account) which it is unable to immediately identify as relevant funds or other funds, it must:

- (1) take all necessary steps to identify the funds as either relevant funds or other funds; and*
- (2) record the funds in its books and records as 'unidentified relevant funds' while it performs the necessary steps under (1).*

CASS 15.2.11 G states:

If a safeguarding institution is unable to identify funds that it has received as either relevant funds or other funds, it should consider whether it would be appropriate to return the funds to the person who sent them (or, if that is not possible, to the source from where it was received – for example, the bank).

How should the firm record this?

Most firms will record these as:

- separate informational fields in its **internal bank/custodian-level records** against the receipt transaction, at the point of recording the receipt into the firms' bank account. *For example, this may be a column where it records 'allocated' when the related funds have been allocated to a client record, or 'unallocated relevant funds' or 'unidentified relevant funds' depending on which criteria above is relevant; or*
- a pooled client level record named 'unallocated relevant funds' or separately 'unidentified relevant funds' (instead of the client's ID or name as would be used when allocated to clients). This record would be set up in the same way as a client ledger but includes transactions relating to unallocated or unidentified receipts only.

When the firm has completed its investigation and has:

- a) identified the client to whom the funds should be allocated; or
- b) identified the funds as non-relevant funds and removed these from the bank account holding relevant funds; or
- c) returned these to sender as outlined in the guidance.

it must ensure that it not only updates any relevant client records but also updates the unallocated or unidentified relevant fund record in order to deduct the transaction amount from the unallocated/unidentified relevant funds balance. The firm must ensure an audit trail is maintained to identify the transactions which made up the total unallocated relevant funds amount held at any given time. This is so that it can **evidence the reasons for the value of unallocated relevant funds** which it has included in its daily [internal safeguarding reconciliations](#).

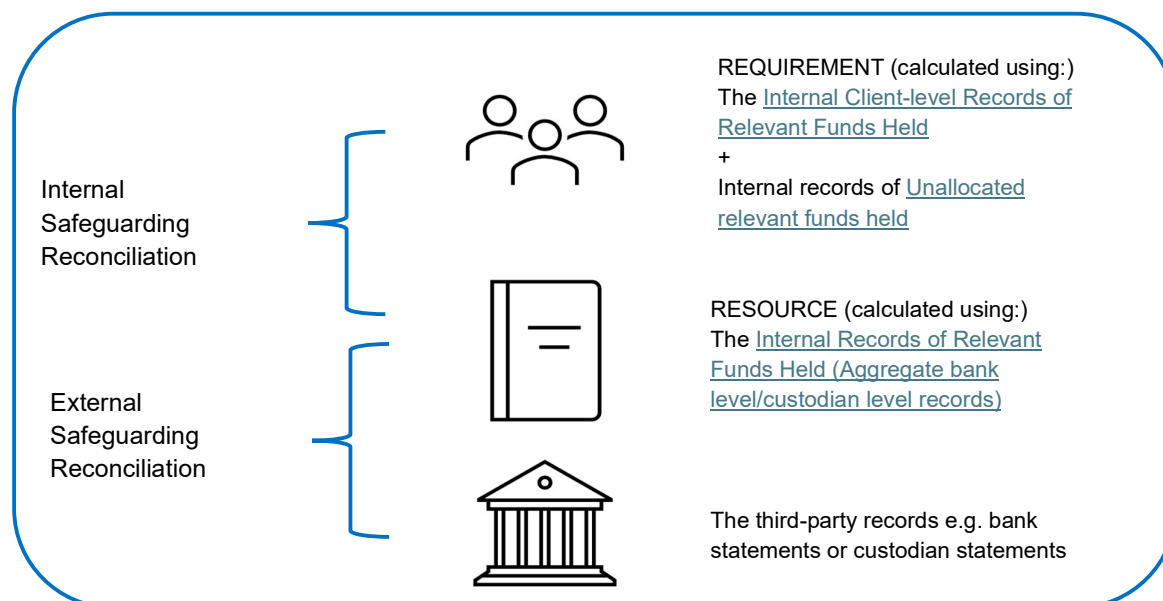
The unidentified funds balance is not included in the internal safeguarding reconciliations, suggesting the firm should not be protecting this or keeping it in accounts with other relevant funds.

Reconciliations Overview

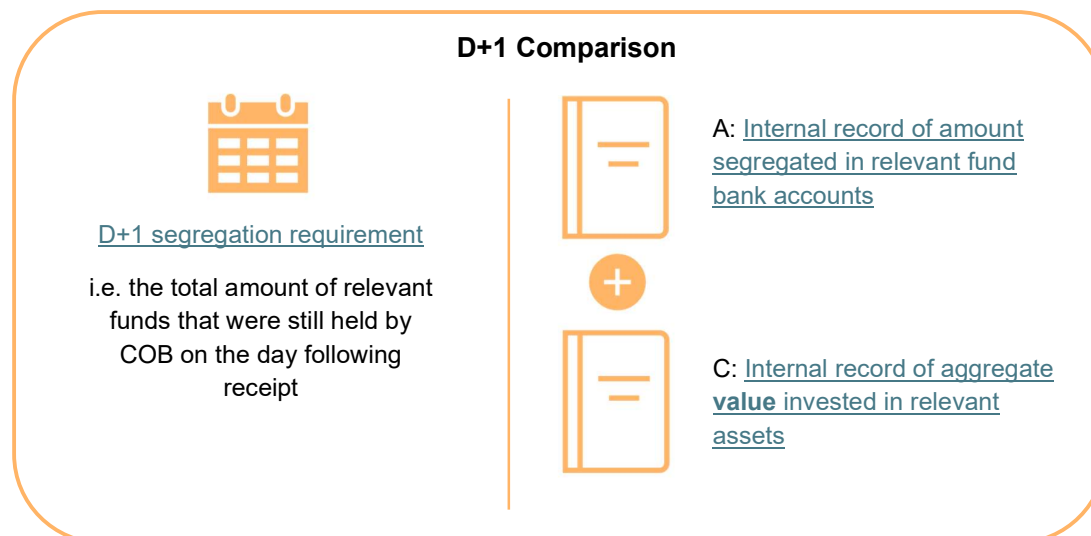
For firms using the segregation method for safeguarding relevant funds, the broad aims of the reconciliations are to perform a detective control to confirm:

- 1) the **completeness** and **accuracy** of the firm's **internal records** and
- 2) that the firm is **holding the correct amount** of relevant funds in its bank accounts or in relevant assets with custodians.

The FCA has taken the blueprint for its reconciliation framework from the existing CASS 7 rules with a few amendments. This tried and tested framework fulfils its objectives through two reconciliations which work together. As it relates to the records outlined in the previous sections, the reconciliations at a high level compare the records as follows:



The CASS 15 rules have added an **additional comparison** to this framework as part of the internal safeguarding reconciliation. This is only required for firms who receive and / or hold relevant funds in one or more non-relevant funds bank accounts. This uses the records as follows:



The Internal Safeguarding Reconciliation

CASS 15 Requirements

CASS 15.8.10 R

An internal safeguarding reconciliation requires a safeguarding institution to carry out a reconciliation of its internal records and accounts:

(1) to check whether:

*(a) its **safeguarding resource** was equal to its **safeguarding requirement**, as at the reconciliation point (see CASS 15.8.21R); and*

(b) the amount of relevant funds and relevant assets it is required to hold in relevant funds bank account and relevant assets accounts is held in such accounts (see CASS 15.8.35R); and

(2) to promptly identify and resolve any discrepancies in accordance with CASS 15.8.50R and CASS 15.8.51R.

CASS 15.8.11 R

A safeguarding institution that uses the insurance or guarantee method to protect relevant funds (whether alone or in combination with the segregation method) and does so using an insurance policy or guarantee that is unlimited in the amount of cover it provides:

(1) does not need to carry out an internal safeguarding reconciliation; but

*(2) **must carry out a daily calculation of its safeguarding requirement** and record:*

*(a) **the date** it carried out the calculation;*

*(b) **the actions** the safeguarding institution took in carrying out the calculation; and*

*(c) **the outcome** of its calculation.*

Firms using only the insurance or guarantee method do not need to complete reconciliations but must **calculate the safeguarding requirement** on daily basis and keep the relevant records surrounding this.

The Safeguarding Resource

Resource



A: Internal record of amount segregated in relevant fund bank accounts



B: Internal records of amount segregated in firm/agent accounts



C: Internal record of aggregate **value** invested in relevant assets



D: Internal record of aggregate value protected using the insurance or guarantee method

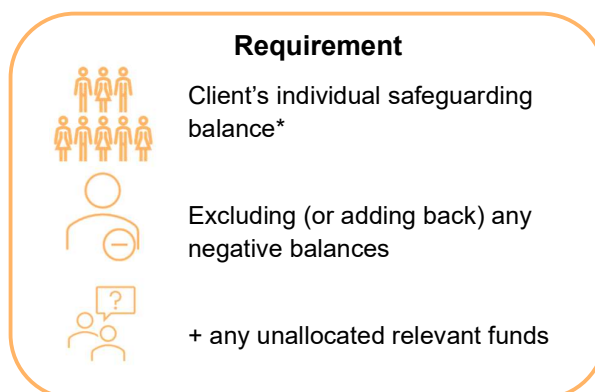
The resource is made up of the **internal records kept of what is held in each account with third parties** that has been outlined further in [this section](#).

In the internal records for relevant assets, the firm should record both the value and quantity of units of assets held. For the resource calculation the firm should use the **value amount** rather than the quantity amount. CASS 15.8.28R requires that “*In determining item C, a safeguarding institution must ensure that any valuation of the relevant assets is performed impartially and with all due skill, care and diligence.*”

If the accounts are held in different currencies, the total resource amount should be calculated by converting all balances into one single currency using the previous day's

The Safeguarding Requirement

The Requirement is made up of the **internal client-level records** and has been outlined.



The Individual Safeguarding Client Balance

The individual safeguarding client balance is calculated by **totalling the transactions at the client level** as follows:

*Individual Safeguarding Client Balance Calculation



CASS 15.8.32 G

A safeguarding institution may calculate either:

- (1) **one individual safeguarding balance for each client**, based on the totality of all the payment services or electronic money products provided to that client; or
- (2) **multiple individual safeguarding balances for each client**, based on the individual payment services or electronic money products provided to that client.

Where a firm is providing separate services which all amount to *either* payment services *or* e-money services, the firm can choose whether to have one total individual client balance per client or separate ones per service.

Firms should, however, ensure that where the firm holds relevant funds for a client across different currencies, if these form part of the same payment service or if the firm chooses to combine all services into one individual safeguarding balance per client, **the firm should convert the various currency balances into one single balance to report one total individual safeguarding balance showing the relevant funds held for that client**. This will mean that, for example, if a client were in a negative position of \$500 in the client-level records on their USD account but a positive of £1000 on their GBP, the equivalent of the \$500 amount in GBP (assuming £400 equivalent) would be subtracted from the GBP amount to provide a net total of e.g. £600.

Best practice: As the FCA's safeguarding return requires reporting in GBP, firms may consider this to be their single base currency, however this is not a requirement.

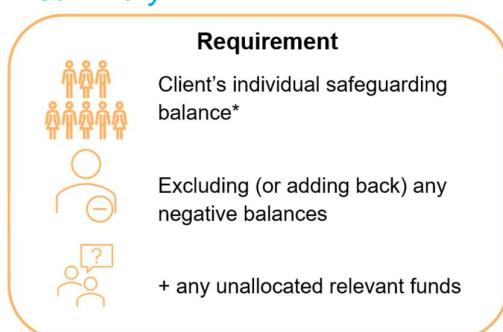
Negative Individual Safeguarding Client Balances

If the net total balance for a client returns as negative, these negatives should not be included in the Requirement calculation (or to put this another way, if the negative balances are already reducing the total client individual safeguarding balance, the amounts deducted should be added back in to the total Requirement amount). This ensures that the total relevant funds held for all clients who have positive balances is safeguarded appropriately.

Unallocated relevant funds

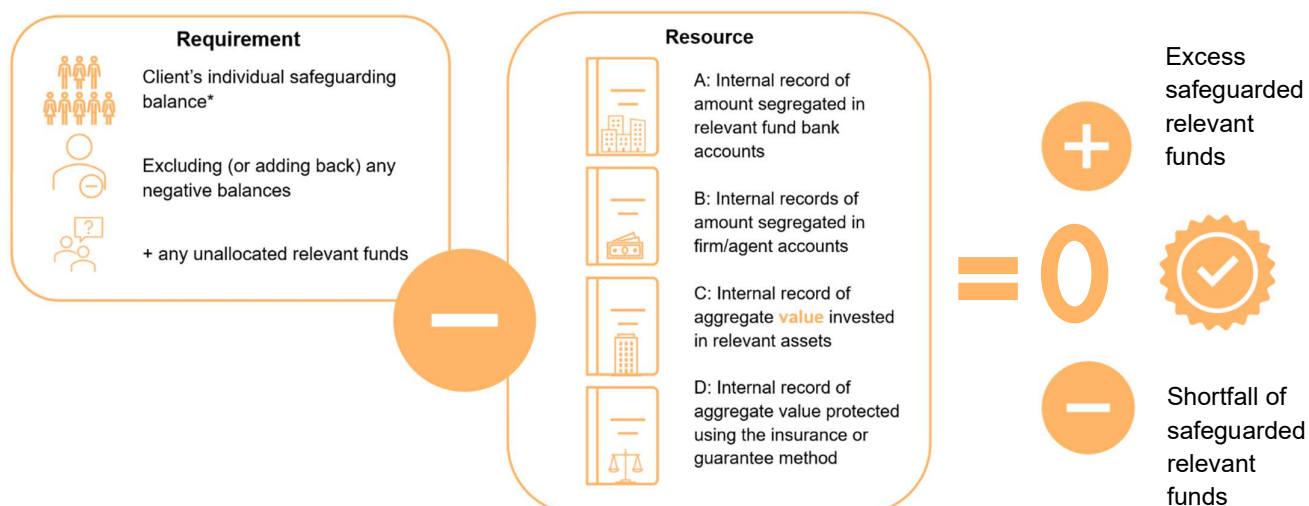
Finally, the amount the firm has recorded as unallocated relevant funds according to [this section](#) should be added into the Requirement calculation.

Summary



The total of all these provides the firm with a **total balance in a single currency reflecting the obligations they hold to clients** and the amounts they should be protecting as relevant funds.

The comparison



The internal client money reconciliation then **compares** the overall Safeguarding Resource against the overall Safeguarding Requirement.

If the overall **Requirement is greater** than the overall Resource, **this shows there is a shortfall** in the amount of relevant funds held.

If the overall **Requirement is less** than the overall Resource, **this shows there is an excess** in the amount of relevant funds held.

Both excess and shortfalls of relevant funds should be remediated with the same level of importance.

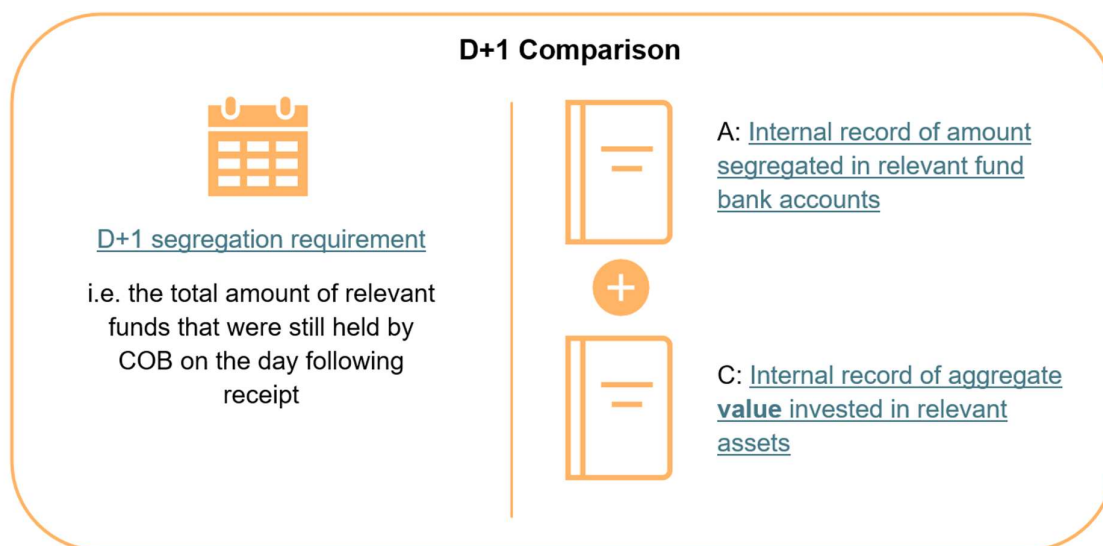
Best practice: Industry snapshot

Many payments firms who only hold relevant funds in relevant funds accounts choose to record which relevant funds account the particular funds are held in within their client-level records. However, this is not required by the rules when the relevant funds are pooled across clients*.

As a result of this set up, these firms may prefer to report a separate resource vs requirement comparison per relevant funds account. However, **such firms must ensure that if they do so, they must also provide a netted, combined view of the total resource and requirement, in one currency**, across all of the relevant funds held (separating unrelated payment services and e-money services as already outlined). The difference between the netted amounts is what should be reported as the firm's excess or shortfall and which the firm should evidence remediating per the next section.

**This is not required because, for example, if client A-G's funds are held with Bank 1, and H-Z's held with bank 2, if Bank 1 goes into administration, it is not only clients A-G impacted but the impact is borne proportionally across all clients A-Z.*

D+1 Segregation Comparison



A new element to the internal safeguarding reconciliation is the D+1 comparison, which aims to **check that the right amount of relevant funds have been paid into a relevant funds bank account or invested in relevant assets**. This therefore does not need to be completed by firms who hold all relevant funds in relevant funds bank accounts or where all relevant funds were (before the last internal reconciliation) invested in relevant assets³.

This element of the reconciliation compares the following:

D+1 Segregation Requirement

This is made up of the total of the records created [here](#).

D+1 Segregation Resource

This is calculated using the internal account-level records created [here](#), but using only the balances held in relevant fund bank accounts and/or the aggregate value invested in relevant assets.

³ CASS 15.8.13R

Internal Reconciliation Discrepancy Management

Discrepancies between Resource and Requirement

In the case of a **shortfall**, the rules require **money to be moved from the firm's own accounts** into the relevant funds bank account (or invested into relevant assets in the relevant asset account) to cover the shortfall. This movement would be recorded on the firm's Resource records only.

The rules confirm this movement must be done **as soon as possible and by no later than the end of the day on which the reconciliation was performed**.

In the case of an **excess**, the rules require **money to be moved from the relevant funds bank account or sold** out of relevant assets to remove the excess. This movement would be recorded on the firm's Resource records only. The firm should remove the excess as soon as practicably possible.

The rules also require that firms identify the **reason(s)** for the discrepancy⁴, *"promptly identify and resolve any discrepancies"*⁵ and remind firms that if a discrepancy has arisen due to a breach of the requirements of CASS 15, the safeguarding institution should ensure **it takes sufficient steps to avoid a reoccurrence of that breach**⁶.

Whilst the rules do not define **'prompt'** when referring to identification and resolution of any underlying transactional errors, the rules are clear that resolution funding should be completed on the day of identification. Firms should therefore also complete the identification of individual discrepancies impacting the overall difference as soon as reasonably practicable and ideally by no later than the business day on which the reconciliation was performed. If there are known reasons why specific break types may take longer to investigate and resolve, then the firm should document reasons for this. Typically, it is best practice for firms to **define in their Safeguarding Policy** what they will internally consider to be 'prompt' investigation and resolution for discrepancies and after what length of time they will consider themselves to have breached this requirement.

Discrepancies between D+1 Segregation Requirement and D+1 Segregation Resource

If the **D+1 segregation Resource is lower than the D+1 Segregation Requirement**, this shows the firm is holding less in its relevant funds accounts than it is required to according to the rules.

Therefore, the firm must determine the reason(s) for the discrepancy and **pay sufficient relevant funds into a relevant funds bank account or invest them in relevant assets**.

The rules require firms to use its own funds to resolve any shortfall if it is not possible to use relevant funds (e.g. because of a delay in the release of relevant funds by a third party), even if this results in a discrepancy between its overall Safeguarding Requirement and Safeguarding Resource⁷. The rules confirm that the discrepancy will be resolved by subsequent reconciliations⁸.

⁴ CASS 15.8.50R

⁵ CASS 15.8.10R (2)

⁶ CASS 15.8.55G

⁷ CASS 15.8.51R

⁸ CASS 15.8.54G

The rules⁹ state these movements must be completed **as soon as possible and in any case by the end of the day on which the reconciliation is performed.**

⁹ CASS 15.8.51R

The External Safeguarding Reconciliation

The comparison

CASS 15.8.39R

A safeguarding institution must conduct reconciliations between its internal records and accounts and those of:

- (1) the banks with which the safeguarding institution holds a relevant funds bank account;*
- (2) the persons with which the safeguarding institution holds any other account in which relevant funds are held; and*
- (3) the authorised custodians with which the safeguarding institution holds a relevant assets account, and any third party that manages relevant assets on behalf of the safeguarding institution.*

CASS 15.8.47R

An external safeguarding reconciliation requires a safeguarding institution to:

- 1. Compare:*
 - a. the **balance, currency by currency**, as recorded by the safeguarding institution, with the balance on that account as set out in the most recent statement or other form of confirmation issued by the person with which those accounts are held, for:*
 - i. **each relevant funds bank account**; and*
 - ii. **any other account** in which relevant funds are held; and*
 - b. the **quantity of relevant assets, investment by investment**, as recorded by the safeguarding institution for each account held with an authorised custodian, with the quantity set out in the most recent statement or other form of confirmation issued by the **authorised custodian**; and*
- 2. promptly identify and resolve any discrepancies between those balances in accordance with CASS 15.8.56R and CASS 15.8.57R.*

This reconciliation is therefore a comparison of the [internal account-level records](#) the firm has already used in its internal reconciliations, and comparing this with the records of the third parties with whom the relevant funds or relevant assets are for:

External Safeguarding Reconciliations



Relevant fund bank account
third party statements



Internal record of amount
segregated in relevant
fund bank accounts



Statements for any other
third parties with whom
relevant funds are held (e.g.
firm a/cs)



Internal record of amount
segregated outside
relevant fund accounts



Statements from authorised
custodian re *quantity* of
relevant assets held/any
third party that manages
assets on a firm's behalf



Internal record of
quantity invested in
relevant assets

Rather than comparing one overall figure on each side like the internal safeguarding reconciliation, this reconciliation is performed on **an account-by-account basis, currency by currency**.

If relevant assets are held, the **relevant assets should be compared by asset type**. For example, the safeguarding institution should compare its records of the number of units in a particular UCITS against the number of units as set out in the statements provided by the custodian of the units or issuer (as the case may be) and repeat this for each different asset.¹⁰

Third-party statements will include, for example, bank statements showing the balances (and optionally also the transactions) as at the reconciliation point, statements provided by the custodian regarding the quantity of relevant assets held for the firm by the third party, and variations of these such as csv downloads from portals and API's.

Whilst the rules require only the overall balances to be compared, where possible it is **best practice to also obtain third-party data on a transactional level** so that if there are differences in the balances it is possible to identify the reason for any discrepancies that may occur between the firm and the third party's balances.

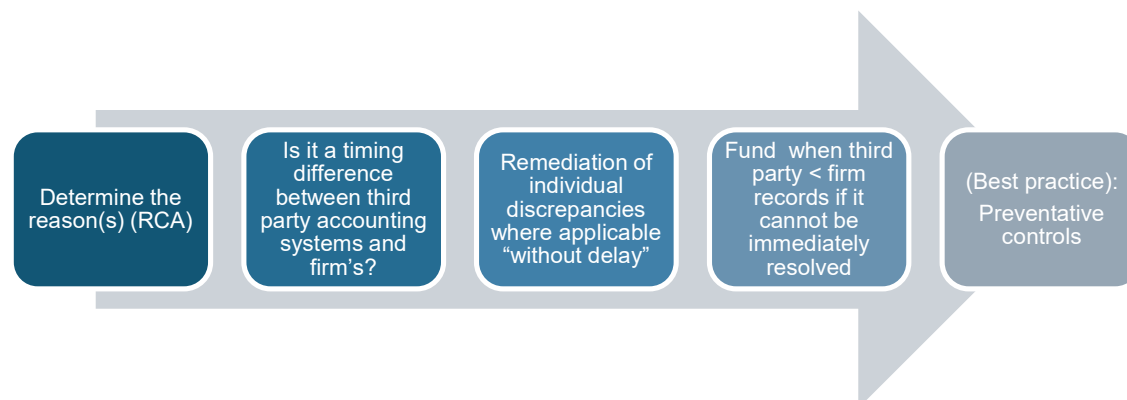
E-money firms which hold both **e-money funds and unrelated payment services funds** must perform **separate external reconciliations for both service lines**, which should naturally occur since the bank accounts used to hold relevant funds for its e-money business must be separate to bank accounts used to hold relevant funds for its unrelated payment services.

¹⁰ CASS 15.8.48G

External Reconciliation Discrepancy Management

CASS 15.8.56R

*If any discrepancy is identified by an external safeguarding reconciliation, the safeguarding institution must **investigate the reason for the discrepancy** and take all reasonable steps to **resolve it without undue delay**, unless the discrepancy arises solely as a result of **timing differences** between the accounting systems of the party providing the statement or confirmation and that of the safeguarding institution.*



Timing Differences

Timing differences are defined as specifically differences between the accounting systems of the party providing the statement or confirmation and that of the safeguarding institution.

Therefore, to consider a break as a 'timing difference' it must

- be a balance discrepancy which **will automatically resolve itself** without any additional intervention by the firm – this is why there is no need for 'resolution' in the case of timing differences.
- where possible, be outside of the firm's control.

As a reminder, firms are nevertheless required to “*maintain [their] records and accounts in a way that ensures their accuracy and, in particular, their correspondence to the relevant funds held for clients.*”¹¹ As part of this firms should be trying to **avoid or limit scenarios in which their internal records are not created in line with the update to records within their third-party relevant funds accounts.**

Undue Delay

The rules are clear that resolution in terms of funding any shortfalls should be completed on the same day¹². Therefore, **firms should complete the identification of the individual underlying discrepancies which make up the overall difference and resolve these as soon as possible** and, in any case, **if there is a shortfall, fund this by the end of the day.**

If there are known reasons why specific break types may take longer to investigate and resolve, then the firm should log reasons for this. Typically, it is best practice for firms to **define in their Safeguarding Policy what they will internally consider to be an 'undue**

¹¹ CASS 15.8.6R

¹² CASS 15.8.57R

delay' for resolution of discrepancies and after what length of time they will consider themselves to have breached this requirement.

Frequency, Data Cuts and Documentation for the Reconciliations

Frequency

Internal safeguarding reconciliations and external safeguarding reconciliations must be completed “**as frequently as necessary**” and **no less than once each reconciliation day**¹³.

The external safeguarding reconciliations must be performed ‘**as soon as reasonably practicable after the date to which the reconciliations relate**’¹⁴. This prohibits a firm from performing its reconciliation on a Wednesday for the funds held at close of business on a Monday unless it is able to justify in its policies why it was not reasonably practicable to perform the reconciliation on the Tuesday i.e. the first day after the day to which the reconciliation related.

A **reconciliation day** is considered a business day that is not:

- (a) a Saturday or Sunday, Christmas Day, Good Friday or a bank holiday in any part of the United Kingdom; or
- (b) where a reconciliation requires anything to be done by reference to a market outside the United Kingdom, any day on which that market is not normally open for business.

Some firms may choose to perform internal safeguarding reconciliations on business days which are not reconciliation days due to the nature, volume and complexity of their business¹⁵.

Data Cuts

Firms must determine the ‘**reconciliation point**’ for their reconciliations.

This must be the point at which the cuts of data used in the reconciliation are taken ‘**as at**’ and must be the **same time every day**¹⁶.

If possible, the reconciliation point chosen for the [internal safeguarding reconciliations](#) should be the **same** as the reconciliation point for the firm’s [external safeguarding reconciliations](#).¹⁷

For this reason, where firms hold their relevant funds bank account in one jurisdiction (for example, the UK), firms will often use **midnight** in that jurisdiction as the ‘reconciliation point’. This is because some authorised credit institutions are only able to provide exportable, backdated statements as at the position at the end of each ‘day’. Therefore, since these are required to evidence the third-party balance for the external safeguarding reconciliation in the absence of any API alternative, the firm will need to perform its external reconciliation, and therefore its internal reconciliation, as at the same cut-off point so that the records are the same.

¹³ CASS 15.8.19R, CASS 15.8.42R (1)

¹⁴ CASS 15.8.42R (2)

¹⁵ CASS 15.8.20G

¹⁶ CASS 15.8.21R

¹⁷ CASS 15.8.40G (2)

Documentation

Firms must ensure that any record made under CASS 15 is retained for a **period of 5 years** starting from the later of:

- (a) the date it was created; or
- (b) if it has been modified since the date it was created, the date it was most recently modified.

Reconciliation Evidence

For each internal safeguarding reconciliation and external safeguarding reconciliation the safeguarding institution conducts, it must ensure that it records¹⁸:

- the **time** and **date** it carried out the relevant process;
- the **actions** it took in carrying out the relevant process;
- the **outcome** of its calculation of its safeguarding **requirement** and, where relevant, safeguarding **resource**; and
- where relevant, the **outcome** of its comparison of its **D+1 segregation requirement** and **D+1 segregation resource**.

Policies

CASS 15.8.1R states:

“A safeguarding institution must establish, implement and maintain adequate policies and procedures sufficient to ensure compliance of the safeguarding institution (including in relation to any services provided through an agent or electronic money distributor) with the relevant funds regime.”

As part of these policies the firm must include:

- the **reconciliation point** it will use for its internal and external safeguarding reconciliations
- **if it uses a different reconciliation point** for its external safeguarding reconciliations than its internal reconciliations, **how the safeguarding institution will ensure its external safeguarding reconciliations are effective** in ensuring the accuracy of its internal records and accounts against those of any third parties that hold relevant funds or hold or manage relevant assets¹⁹.
- the **frequency** with which it performs its safeguarding reconciliations.
- if it performs a “**non-standard method of reconciliation**”²⁰ – i.e. method not aligned with the ‘standard method’ described in this best practice guide, the rationale for concluding that the method it proposes to use instead will check whether:
 - the amount of relevant funds recorded in the firm's records as being safeguarded meets the firm's obligation to its clients under the relevant funds regime; and
 - the amount of relevant funds recorded in the firm's records as being held in a relevant funds bank account or invested in relevant assets and held in a relevant assets account meets the safeguarding institution's obligation to its clients under the relevant funds regime

¹⁸ CASS 15.8.9R

¹⁹ CASS 15.8.40 (3)

²⁰ CASS 15.8.36R

- If it changes the method it uses, documentation regarding its reasons for concluding the changed methodology will meet the requirements per above.

From a best practice perspective, firms should consider including:

- which **method of reconciliation** it uses (the 'standard method' has been described in this best practice guide) and a brief description of this method
- its **processes for discrepancy management** and its own **interpretations** of 'prompt' per [this section](#)
- **any additional explanation of its processes that may help an auditor**, insolvency practitioner or third party understand the firm's rationale, approach or interpretation regarding any elements which are not explicitly clear in the rules.

To ensure policies remain accurate and up-to-date firms should include a **version control table** where it records any changes made ad hoc as key changes to the business occur, and where it also records regular reviews (typically bi-annually or annually) of its policies as a detective control in case any updates required were not made at the time.

Procedures

CASS 15.8.1R states:

"A safeguarding institution must establish, implement and maintain adequate policies and procedures sufficient to ensure compliance of the safeguarding institution (including in relation to any services provided through an agent or electronic money distributor) with the relevant funds regime."

Procedures typically differ from policies as follows:

- **Policies contain high level information** to help an auditor, insolvency practitioner or third party reviewing the policy to get a clear picture of the firm's approaches, rationale, footprint and general control environment around safeguarding relevant funds.
- **Procedures are highly detailed step-by-step guides** which document how the processes involved in the firm's safeguarding framework are carried out. These should be used as guides and in **training** for employees to **prevent key person dependencies** when key staff leave or to **promote consistency** across teams and **detail all the data inputs and dependencies** on the process.

Version control tables are also recommended here as well as annual reviews for accuracy to ensure the procedures are in line with the high-level descriptions in the firm's policies and that both of these are in line with the actual daily practices of the firm.

Other

If performing a **non-standard method**, firms should also retain within its documentation.

- **the written report prepared by an independent auditor** which states the matters set out in CASS 15.8.37R(2).
- The **updated auditor report in respect of any changes** to the non-standard method made at a later date.

- **Evidence to show that the firm took reasonable steps to ensure that the auditor used for the above had the required skills, resources and experience to perform their function per CASS 15.8.38R.**