



INTEREST EARNED ON CLIENT MONEY BANK ACCOUNTS (CASS)

GUIDE

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CASS 7.11.33G provides firms the discretion on whether to pay a client any interest earned on client money balances. How much of the interest that is earned and paid over to the client is subject to a written agreement between the firm and the client.

When interest should be segregated

Post PS14/9, updated CASS 7 rules provided firms with the authority and capacity to provide discretion as to whether it would pay interest to clients on client money bank accounts and permits the firm to contractually agree how much interest they pay to clients.

The below scenarios provide a high-level overview of the implications of the rules although in practice there could be subtle variations, depending on the precise contractual agreements.

Scenario 1 - The regulated firm has a written agreement to pay interest on a specified date and this date is later than that on which the firm receives the interest from the bank:

In this scenario, the bank paid/credited the interest into a client money bank account prior to the due and payable date specified by the agreement.

The interest is not yet client money until it is due and payable to the client. Even if the firm and the client have agreed to split the interest, at the time when the interest is paid/credited by the bank, it contains no client money that is yet due and payable. This makes the mixed remittance rule in CASS 7.13.31(2)R irrelevant. For similar reasons the interest would not be considered to be unallocated client money or unidentified receipt referred to in CASS 7.16.25(1)R.

Therefore, the interest amount should immediately be removed from the client money bank account in accordance with CASS 7.13.4G. CASS 7.15.29R also supports this view by requiring any excess on the daily client money reconciliation to be withdrawn within one business day.

On the date specified by the agreement, ie. when the interest is due and payable to the client and becomes client money, the firm should pay the interest to the client or transfer the amount into the client money bank account within one business day of it becoming due as per CASS 7.13.39R.

Another way of complying with the rules would be for the firm to agree with the bank that interest is to be paid into the firm's own bank account and remain there until it becomes due and payable to the client.

In conclusion: For the firm to comply with the rules, the firm is required to remove any amounts that are not client money from the client money bank account, including interest earned. The agreement should specify the date when client money is due and payable and the amount should be segregated or paid to clients within one business day of that date.

Scenario 2 – The firm has agreed to pay some or all the interest over to its client but the agreement is silent on the date:

According to CASS 7.11.33(2)(c)G, when the agreements are silent on the due date, firms should follow CASS 7.13.36(1)R and are allowed 10 business days to allocate interest to clients.

Therefore, if at the time of its receipt, the interest amount is all client money, money due to the client needs to be credited to the client account and to be allocated to individual clients within 10 business days.

However, if the money is due partly to the firm and partly to the client, rules for “mixed remittance” (CASS 7.13.31(2)R) require consideration. In this case, given that it may not be possible to identify how much of the remittance is money due to the firm without first having carried out the calculation to allocate the amount to clients, the requirement to allocate money to clients within 10 business days appears to conflict with the obligation to remove the firm’s part of the mixed remittance within one business day.

In conclusion: Given the intent stated in PS 14/9 to allow firms 10 days to allocate and in the absence of further guidance and clarification from the FCA, it is presumed that the specific reference to interest in CASS 7.11.33(2)(c)G is intended to take precedence. This gives the firm 10 business days to allocate under CASS 7.13.36R.

Scenario 3 – The interest is fully retained by the firm:

If firms apply this scenario, the written agreement with the client should reflect the fact that the interest earned on client money bank account will not be paid to the client and it is not client money at any point in time. Therefore, to be able to comply with CASS 7.13.1G, the firm should agree with the bank that the interest be paid directly into the firm’s own bank account to avoid co-mingling of firm’s and client’s money in the client money bank account. Any interest received into the client money bank account should be removed immediately. This is in line with the requirements of CASS 7.13.4R as well as CASS 7.15.29R.

However, please note that under CASS 7.11.32R, in the case where the written agreement with a retail client is silent on interest matter, the firm must pay the retail client any interest earned on client money held for that client regardless.

In conclusion: The written agreement should provide clarity if the interest is fully retained by the firm, but in the case of retail clients, if the agreement is silent about it, the interest must be paid to these clients. Firms should agree with the bank that the interest on client money bank account should be paid directly into the firm’s own bank account to avoid co-mingling of firm’s and client’s money in the client money bank account.

Key reminder for CASS auditors

It is important that CASS auditors consider and inspect carefully, the terms of the agreement between the firm and the client.

In particular CASS auditors should consider the following:

- Whether the client is to be paid all, some or none of the interest earned on client money balances;
- The dates on which any interest becomes due and payable;
- Whether the agreement specifies if the interest due to the client is:
 - Based on the interest earned on the bank account or
 - Independently determined such as a fixed rate or
 - Based on a benchmark interest rate.

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