

# **FOA meeting with the FCA CASS team**

**EMIR-related CASS questions/scenarios**

London, 4 October 2013

# Managing Individual Segregation Accounts within the CASS Rules

## - AGENDA

- **Background considerations:**
  - Client cash flow
  - CCP cash flow
  - Trust acknowledgement letters
  - Mixed Remittances
- **Presentation of options**
- **Changes required:**
  - CCPs
  - CASS rules
    - Including calculation

# Risk and Assumptions

- **Assumptions:**

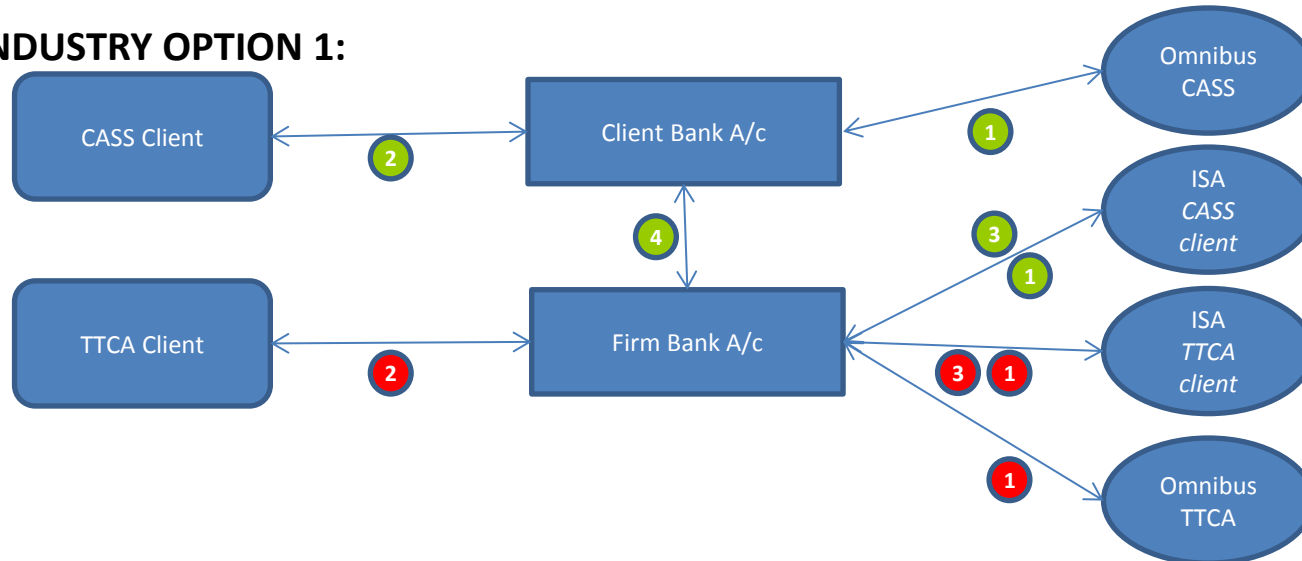
- Some CCPs will be able to interface with only 1 bank account for all ISA's
  - Inability to draw cash from a firm account, and return cash to a client account
  - Lack of visibility allowing CCPs to group ISA's by CASS or TTCA
- CCPs will net VM gains and losses across all ISAs, and in some CCP cases across all accounts, into a single cash settlement
- Most clients will face operational issues attempting to instruct cash to more than one set of bank accounts per broker entity
- Most firms will be operating under the Normal Approach

- **Risks / Impact:**

- **Meeting CCP Margin calls:** If the Clearing Member is required to fund ISA margin via client bank accounts, this must be supported:
  - By pre-funding by customer
  - Buffer
  - Prompt pre-funding by clearing member from firm to client bank accounts
- If any of these processes fail or are delayed, there is a risk of insufficient funds in the CM pool, disadvantaging the entire primary pool
- **Mixed Remittances:**
  - If MR are paid via a Firm bank account, there is a timing risk, which Clearing members would be required to mitigate with a prompt same day process, and could consider use of a prudent buffer on the client bank account
  - Cash flow could be paid from CCP to clearing member solely with relation to a TTCA ISA client, which should not be treated as a MR, but which for operational reasons would be forced to flow through a client bank account

# Option 1 – All ISA cash flow via firm bank accounts

## INDUSTRY OPTION 1:



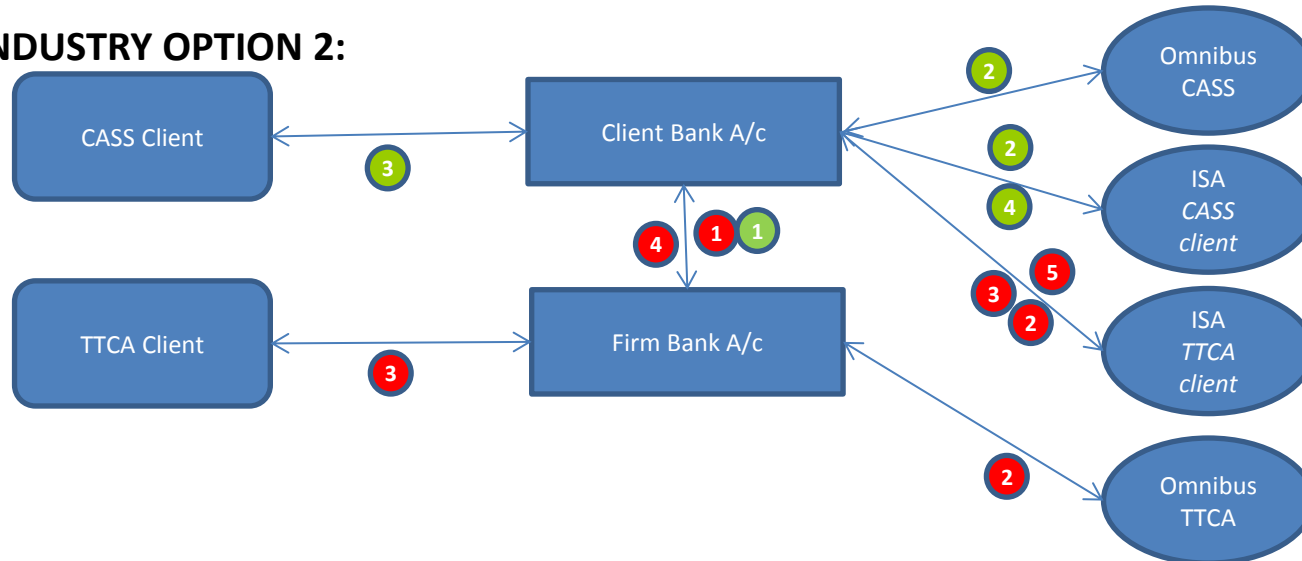
## REQUIREMENTS

- Requires firm to have prompt mechanism to identify incoming credits to Include client from CCP and move to client bank a/c
- CASS rules must retain some flexibility for Mixed Remittances transiting via Firm bank a/cs
  - *Specific scenario of funds returning from CCP to clearing member on behalf of CASS ISA client*

Step	Action
1	CCP debits clearing member for start of day margin requirement
2	Client meets margin requirement to Clearing Member
3	Firm onward posts excess
4	Firm removes margin requirement already funded to CCP, and any excess destined for CCP, from client bank a/c to Firm bank a/c
1	CCP debits clearing member for start of day margin requirement
2	Client meets margin requirement to Clearing Member
3	Firm onward posts excess

# Option 2 – All ISA cash flow via client bank accounts

## INDUSTRY OPTION 2:



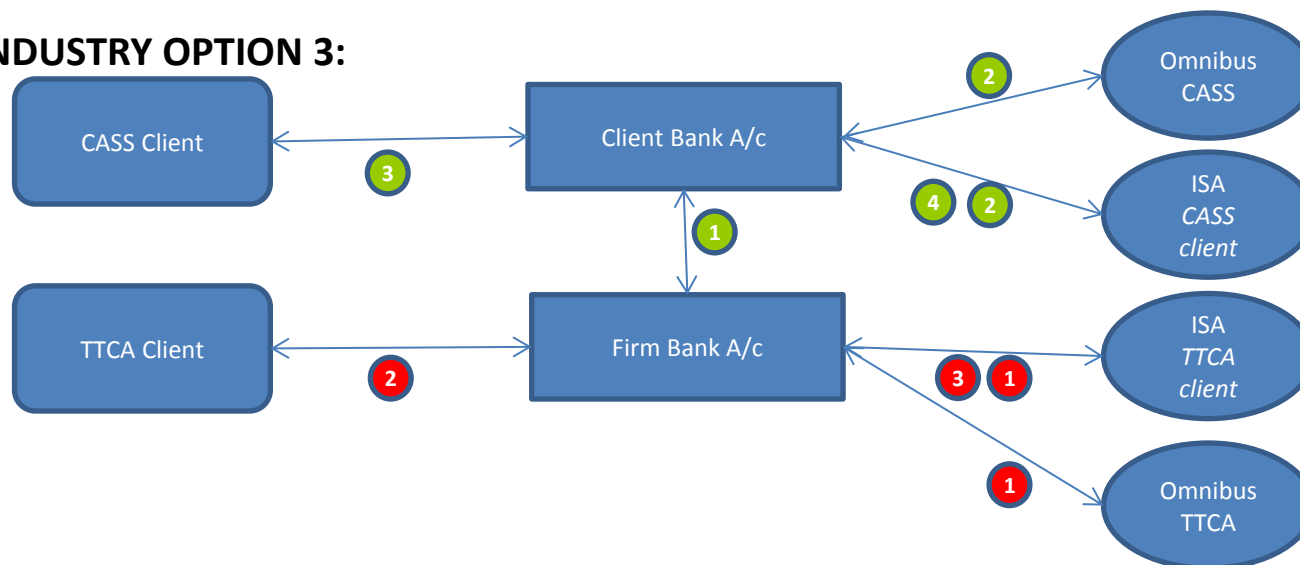
Step	Action
1	Firm pre-funds CASS and TTCA client ISA margin requirement at start of day
2	CCP debits clearing member for start of day margin requirement
3	Client meets margin requirement to Clearing Member
4	Firm onward posts excess
1	Firm pre-funds CASS and TTCA client ISA margin requirement at start of day
2	CCP debits clearing member for start of day margin requirement
3	Client meets margin requirement to Clearing Member
4	Firm identified TTCA ISA client excess and moves from Firm to Client bank account
5	Firm onward posts excess to TTCA ISA client account

## REQUIREMENTS

- Requires firm to pre-fund ISA margin calls for both TTCA and CASS clients from Firm a/c to client bank a/c at start of day
- Elimination of requirement for acknowledgement letters on ISAs unless mandated as part of CCP authorisation process or Clearing Member is forced to double segregate

## Option 3 – ISA cash flow via both client and firm bank accounts

### INDUSTRY OPTION 3:



Step	Action
1	Firm pre-funds CASS client ISA margin requirement at start of day
2	CCP debits clearing member for start of day margin requirement
3	Client meets margin requirement to Clearing Member
4	Firm onward posts excess
1	CCP debits clearing member for start of day margin requirement
2	Client meets margin requirement to Clearing Member
3	Firm onward posts excess

### REQUIREMENTS

- CCPs must be able to distinguish between types of ISA (CASS Include and TTCA)
- CCPs must be able to separate cash transactions between different types of ISA, and direct transaction flow to different bank accounts
- CCPs must provide acknowledgement letters (irrespective of legal arrangements for transfer of collateral) if that remains an FCA requirement and if requested by Clearing Members, or...
- Elimination of requirement for acknowledgement letters on ISAs unless mandated as part of CCP authorisation process, or CASS clients forced to treat ISA as TTCA if Acknowledgement Letter is not available
- Requires firm to pre-fund ISA margin calls for CASS clients from Firm a/c to client bank a/c at start of day

# Summary of proposals

- **CASS Rules / CP 13/5:**
  - Acknowledgment letters: CASS rules must provide a framework in which a clearing member should never have to double fund the balance on an Individual Seg account at a CCP (irrespective of legal arrangements for transfer of collateral).
    - Eliminate acknowledgment letter requirement for Individual Seg accounts, or create specific acknowledgement letter format for Individual Seg accounts, which states that protection is applied under EMIR 39.3
    - Provide recourse for clearing members in event that CCP rejects standard template letters (eg referring to their rules as a substitute), or explicitly refuses to provide an acknowledgement letter for an ISA.
  - Mixed remittance rules. Flexibility must be retained in the Normal Approach for credits to Normal Approach Include clients being paid back to clearing members on the client's behalf from a CCP (eg VM credit, option premium, reduced IM requirement) to transit via firm bank accounts to client bank accounts, in the event that the transaction flow between the clearing member and the CCP for Individual Seg Accounts is via a firm bank account.
  - Client Money calculation. The client money calculation methodology must be updated to ensure there is a balanced reduction between assets and the client requirement with relation to Individual Seg Accounts.
    - *Either the balance on an ISA at the CCP is never included in the calculation, along with an equal corresponding requirement on the client's account in B&R, or the calculation is amended to reduce both the location balance and the requirement by the actual value of collateral on the Individual Seg account at the CCP.*
- **CCP Functionality:**
  - CCPs must be able to separate CASS and non-CASS cash flows for omnibus as well as Individual Seg accounts.