

Clients' money helpsheet and guidance

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This is a guidance document to provide further information and explanation of ICAS' Clients' Money Regulations.

Introduction

This helpsheet is intended to assist members in practice in understanding the [Clients' Money Regulations](#) ('the CMR') by including some further definitions and explanations as well as a useful summary of the most commonly asked questions.

Within this helpsheet we will use the term 'Firm' to mean the following:

1. a Member who is engaged in practice as a sole practitioner, providing accountancy or related services;
2. a body corporate, partnership, limited liability partnership or unincorporated practice, which contains one or more Members, and which provides accountancy or related services; or
3. a Member or Affiliate who is licensed by ICAS as an Insolvency Practitioner.

Firms which are authorised by the Financial Conduct Authority

For firms authorised by the FCA, any monies received or held which include an element of Investment Business Clients' Money, as defined in the FCA Handbook, must be dealt with in accordance with the Handbook.

What is Clients money?

It is any form of money, of any currency, which a Firm holds or receives, for, from or on behalf of a client.

In addition to traditional forms of money such as cash, cheques, bonds, and funds held in accounts, the definition of money under the CMR includes cryptocurrencies (also known as virtual currencies or digital currencies), for example the likes of Bitcoin, Ethereum, Ripple and Litecoin.

Clients' money will also refer to estate money held by an Insolvency Practitioner licensed by ICAS for the prevailing statutory purposes of an insolvency appointment and money which is held by a Firm as stakeholder, providing such money is not immediately due and payable on demand to the Insolvency Practitioner or to the Firm's own account.

Clients' money does not include fees paid for professional work performed or agreed to be performed, and clearly identifiable as such.

Any money received by a Firm which is intended for payment to a client or third party is also not Client's Money. For example, where a client provides a cheque payable to HM Revenue & Customs in respect of a tax payment which will be sent by a Firm along with other enclosures, the cheque is not Clients Money. Similarly, a cheque received by the Firm from HM Revenue & Customs where the cheque is made payable to the client is not Client's Money.

Clients' Bank Accounts should only be used only for receiving or making payments which relate to accountancy services which the Firm is performing, has performed, or has been engaged to perform, for the client.

A Clients' Bank Account should therefore not be used, for example, to hold staff charity donations, rental for a property owned by a Principal of the Firm personally, or used to process a draft or other instrument made payable to a client or third party. Similarly, a Clients' Bank Account should not be used as a transactional banking facility for clients.



Clients' money would include money in which the Firm is a stakeholder. For example, where a Firm agrees to hold money independently in 'escrow' pending the completion of a transaction or settlement of a dispute. Such funds however are not subject to the requirements set out in the CMR in relation to accounting for interest on clients' money. The Firm may not earn interest for itself on such monies unless the Firm and client agree this in writing. Firms should consider carefully the risks associated with dealing with funds in this type of arrangement which are likely to be high risk in terms of money laundering and terrorist finance risk assessment.

Do the CMR cover other types of money?

The CMR also contain provisions relating to Mixed monies. These are monies received or held which contain Clients' money and money due to the Firm. Mixed money received is required to be paid into a Client Bank Account in the same way as Clients' money.

Do the CMR cover any other property?

Occasionally clients may ask for other property to be kept for safe keeping. This could include documents or moveable property. The CMR do not apply in these circumstances. However, any property held relating to an investment is governed by the Designated Professional Body (Investment Business) Handbook and the Firm should hold an appropriate Designated Professional Body licence. In addition, you should maintain details of receipt of this property, together with its current location.

If the client asks you to pass this property to a third party, then you should obtain prior written instructions to do so. You shall also need to obtain an acknowledgement of the receipt of the property from the third party.

What must be done on receipt of Clients' money?

If you receive any Clients' money you must immediately pay them into a Client Bank Account. If your Firm does not have a Client Bank Account, then the Regulations require you to open one before you receive any Clients' money.

Are there any restrictions on where Clients' money can be held?

The Regulations require that client's money must be deposited in a bank. The bank does not require to be in the UK but there are specific criteria that require to be met for the bank to be acceptable under the Regulations. Details are contained within regulation 3.1 of the CMR.

Exceptional care should be taken in relation to 'challenger banks' and other similar online services. While many such providers might be commonly referred to as banks, in some instances they will not meet the definition of a bank under the CMR. In regulatory terms they may be an Electronic Money Institution, Money Remitter, or similar (terminology will differ depending upon legal jurisdictions).

You should contact ICAS if you are not sure if a 'bank' you intend to use satisfies the criteria in the CMR.

Is a single bank account acceptable for all clients' money?

A Client Bank Account must be a separate account from other accounts of the Firm and include 'client' in the account name (or in the case of an account relating to an insolvency appointment clearly indicate the name of the insolvency estate to which it relates, for example XYZ Ltd (in liquidation) or John Smith as liquidator of XYZ Ltd).

The account can either be a general client bank account into which clients' money for multiple clients can be held at any one time, or a specific account relating to an individual client in which case the client must be clearly identifiable in the name of the account either through the client name being included or through numeric/alphabetic reference (e.g. client reference) which identifies the client.

Although not a requirement of the CMR, funds relating to insolvency appointments cannot be held in a general account (see SIP 11 requirements).

Are there any other requirements in relation to opening a Client Bank Account?

On opening a Client Bank Account, the Firm should notify the bank in writing that:

- a) all money standing to the credit of the account is held by the firm as Clients' Money;
- b) the Bank may not combine the account with any other account, or exercise any right to set off or counterclaim against the account for any money owed to it by any other account of the Firm;
- c) interest payable on the money in the account must be credited to that account;
- d) the Bank must describe the account in its records to make it clear that the money in the account does not belong to the Firm.

If it is not otherwise clear from the Bank's terms and conditions for the account that the above provisions are incorporated, the Bank must acknowledge in writing that it accepts these terms.

The bank must acknowledge this in writing within 30 days, otherwise the Firm should remove all money from the account and deposit the money to an alternative bank. If this is not possible, then the money should be returned to the Client.

The notice provided to the bank and a copy of the terms and conditions for the account (or the Bank's written acknowledgement of acceptance of the notice) should be retained by the Firm as part of the Clients' Bank Account records.

There are additional requirements that apply to money held in a bank account outside of the UK, the detail of which can be found in the CMR.

Money Laundering and Terrorist Financing (MLTF) considerations

In complying with MLTF obligations a firm must adopt a risk based approach. More detailed information on MLTF requirements is available in the [AML helpsheet](#).

In implementing a risk based approach, the [CCAB AML Guidance for the Accountancy Sector](#) requires the ongoing monitoring of a client relationship. On identifying that Clients' Monies are expected, or on receipt of unexpected Clients' Money, consideration should be given to whether an event driven review would require to be undertaken. This may be influenced by factors such as the value of Clients' Money to be received (in a single or linked transactions), the nature and source of the funds and the current risk assessment level associated with the client.

Where appropriate, client due diligence should be carried out, including where necessary ensuring that all client identification has been undertaken and remains appropriate.

Operating a Client Bank Account

Please refer to the CMR for a full list of requirements. The main points are as follows:

- Any Clients' Money or Mixed Money received by the Firm or a Principal of the Firm must either be paid to the client or paid into a Client Bank Account no later than the end of the next business day following receipt.
- Where money of any one client is in excess of £10,000 is held or it is expected to be held for more than 30 days, the money must be deposited into a separately designated Client Bank Account.
- If it is found that the Firm has incorrectly paid money into a Client Bank Account, it should immediately take the necessary steps to rectify this.
- Any withdrawals from a Client Bank Account may only be made where a specific authority in respect of that withdrawal has been formally approved by a Principal of the Firm, or by an employee of the Firm to whom authority in writing has been delegated.
- The Firm must always ensure the sum of the credit balances held for clients is at least equal to the total balance held in the Client Bank Accounts. No amount should be withdrawn which is greater than the credit balance held on that account.

Use of Clients' Money to settle fees due to the Firm

Money may only be withdrawn from a Client Bank Account for or towards payment of fees payable by the client to the Firm if:

- the precise amount has been agreed by the client or has been finally determined by a court or arbiter; or
- the fees have been accurately calculated in accordance with a formula agreed in writing by the client on the basis of which the amount can be determined; or
- thirty days (or such other period as may have been formally agreed with the client) have elapsed since the date of delivery to the client of a statement of fees and the client has not questioned the amount specified as due,

providing always that withdrawal has been formally approved by a Principal of the Firm, or by an employee of the Firm to whom authority in writing has been delegated from the Principals of the Firm.

Withdrawing fees from money held in a Client Bank Account can lead to complaints against practitioners. One scenario in which a firm may not comply with the CMR is where the client receives a tax rebate, and the firm draws up a fee and withdraws funds immediately after.

The fee cannot be taken unless one of the three requirements above has been met.

It is also important to remember not to withdraw funds before the funds have been cleared by the bank.

Fees paid by standing order or direct debit

Some firms offer clients the ability to pay fees in instalments either by way of standing order or direct debit. Where funds are received in advance of a fee being raised this is **not** captured within the definition of Clients' Money. It is acceptable to pay these amounts into the firm's own account.

Client overpayments

Any overpaid balance should not be kept without the knowledge and consent of the client. Firms should have procedures in place to identify such amounts within a reasonable time, return the overpayment to the client immediately upon discovery; or if unable to do so, transfer the balance to the Client Bank Account and inform the client immediately.

Referral fees or commission payable to the Firm

The CMR sets out treatment relating to the withdrawal of fees from monies held in a Client Bank Account. The CMR do not deal with referral fees or commissions receivable by the Firm.

In this respect, the attention of members is drawn to paragraph R 330.5A and associated application material in paragraphs 330.5 A1 and 330.5 A2 of the [ICAS Code of Ethics](#).

Any element of referral fee or commission included within money paid into a Client Bank Account should only be withdrawn where the explicit written consent from the client to retain the commission has been obtained in accordance with the ICAS Code of Ethics (see section R 330.5A).

Foreign currency funds

The CMR requires all funds to be held in the currency in which it was received unless the client has instructed otherwise. The client's instructions must be recorded formally and therefore all instructions should be in writing from the client.

Care will be required where funds are expected to be received from a foreign jurisdiction. The client must have provided written confirmation that it is acceptable for the funds to be received into a GBP bank account prior to the bank account details being provided to the other party to carry out the transfer unless there is evidence that the other party is in agreement that funds will be transferred in GBP.

Client instructions will also require to be obtained prior to receiving cryptocurrencies, virtual currencies or digital currencies.

Interest payable on Client Money

Money should not be held in a Client Bank Account for longer than is necessary and if there is no longer a reason to retain the funds they should be returned promptly to the client.

Although the default requirement of the CMR is that Client Money is required to be placed in an interest-bearing account, ensuring an appropriate rate of interest on the money is earned, this is not necessary where the interest earned would not be material.

Given the consistently low rates of interest in recent years, it is likely that in most circumstances interest earned will not be material. It is therefore acceptable currently for the Client Bank Account to be non-interest bearing.

The Firm must however have procedures in place to identify circumstances where it may be appropriate for client money to be placed in an account where interest is earned. As the Firm may be called upon to justify decisions on whether interest is likely to be material, it is recommended that determinations of whether interest is material be periodically recorded.

To assist Firms in their assessment of whether interest is likely to be material the following tables can be used as a guide. The obligation remains on the firm to take reasonable steps to ensure that the client does not lose material sums of interest because the money remains in low or non-interest bearing accounts. There may be circumstances, for example, where money should be placed on overnight deposit.

The fair rate of interest earned must be at least the minimum deposit rate offered publicly by a bank for small deposits.

Where Clients' Money is received by way of cheque, consideration of whether interest is likely to be material can be calculated either from the day the cheque is received or when it is cleared. For the purposes of calculations both payments and withdrawals must be treated in the same way. If the Firm chooses to credit interest from the date the cheque is cleared, and wants to include interest in a payment to a client, it should assume that the cheque will clear on the third business day after the cheque is sent to the client.

Interest would be considered material if the money is likely to be held for at least the number of weeks shown in the left-hand column of the following table and the minimum credit balance of the client equals or is more than the sum in the right hand column.

Interest rate <0.25% Interest rate 0.25% - 0.5%

Number of weeks	Minimum balance
8	£10,000
6	£15,000
4	£20,000
2	£40,000

Number of weeks	Minimum balance
8	£4,000
6	£5,000
4	£10,000
2	£15,000

Interest rate >0.5% - 0.75%

Number of weeks	Minimum balance
8	£2,000
6	£2,000
4	£5,000
2	£7,500
1	£15,000

Interest rate >0.75% - 1%

Number of weeks	Minimum balance
8	£1,500
6	£2,000
4	£3,000
2	£5,000
1	£10,000

Where funds are deposited into an interest-bearing bank account, even where the interest rates are extremely low, all clients must receive their share of the interest credited, unless an alternative arrangement such as only paying interest above a certain level is agreed in writing with the client.

Where the firm and client agree in writing different arrangements for the payment of interest on Client Money held, this may be included in the engagement letter with the client.

Consideration must be given to any income tax implications relating to interest received and paid on Client Bank Accounts.

The above general provisions do not apply to Clients' Money held by a Firm as stakeholder. The Firm may not earn interest for itself on such monies unless the Firm and client agree this in writing.

Dealing with funds which cannot be traced to a client or where the client's whereabouts is unknown

Where clients' money cannot be attributed to identifiable clients or cannot be sent to them because their whereabouts are unknown, this money is referred to within the CMR as 'unclaimed money'.

To minimise the likelihood of this occurring, it perhaps goes without saying that Firms should always make sure that clients' money is remitted out of the Client Bank Account to its rightful recipient as soon as possible.

Where amounts are identified as being held within a Client Bank Account for a long period these should either be transferred in accordance with the nature of the amounts or returned to the client.

The client should not lose a material sum of interest because the money has remained in a low or non-interest bearing account. The interest due, therefore, needs to be calculated and accounted for to the client.

It may be appropriate, before accepting funds from clients, to enter into an agreement in writing, either in the engagement letter or otherwise, as to how the money should be dealt with should circumstances arise where funds are held and it is no longer possible to remit funds to the client. You could, for example, agree that sums under a certain amount be donated to charity. It is permissible for such written agreements to be incorporated within Letters of Engagement.

A Firm may treat Clients Money as Unclaimed Money only where the sums remain unclaimed following the taking of reasonable and proportionate steps by the Firm to trace the client.

Attempting to trace the client

Where the value of funds is less than £200, then following actions should be undertaken (as appropriate) to try and trace and make contact:

- Email to last known email address (with delivery and read receipt), with follow ups if appropriate
- Letter to last known address
- Recorded delivery letter to last known address
- Phone using last known phone number
- Electoral roll search
- Enquiry through other known related contacts (e.g. a co-director where the client was a director of a limited company, or other family member who is also a client of the firm)
- Social media search and messaging services

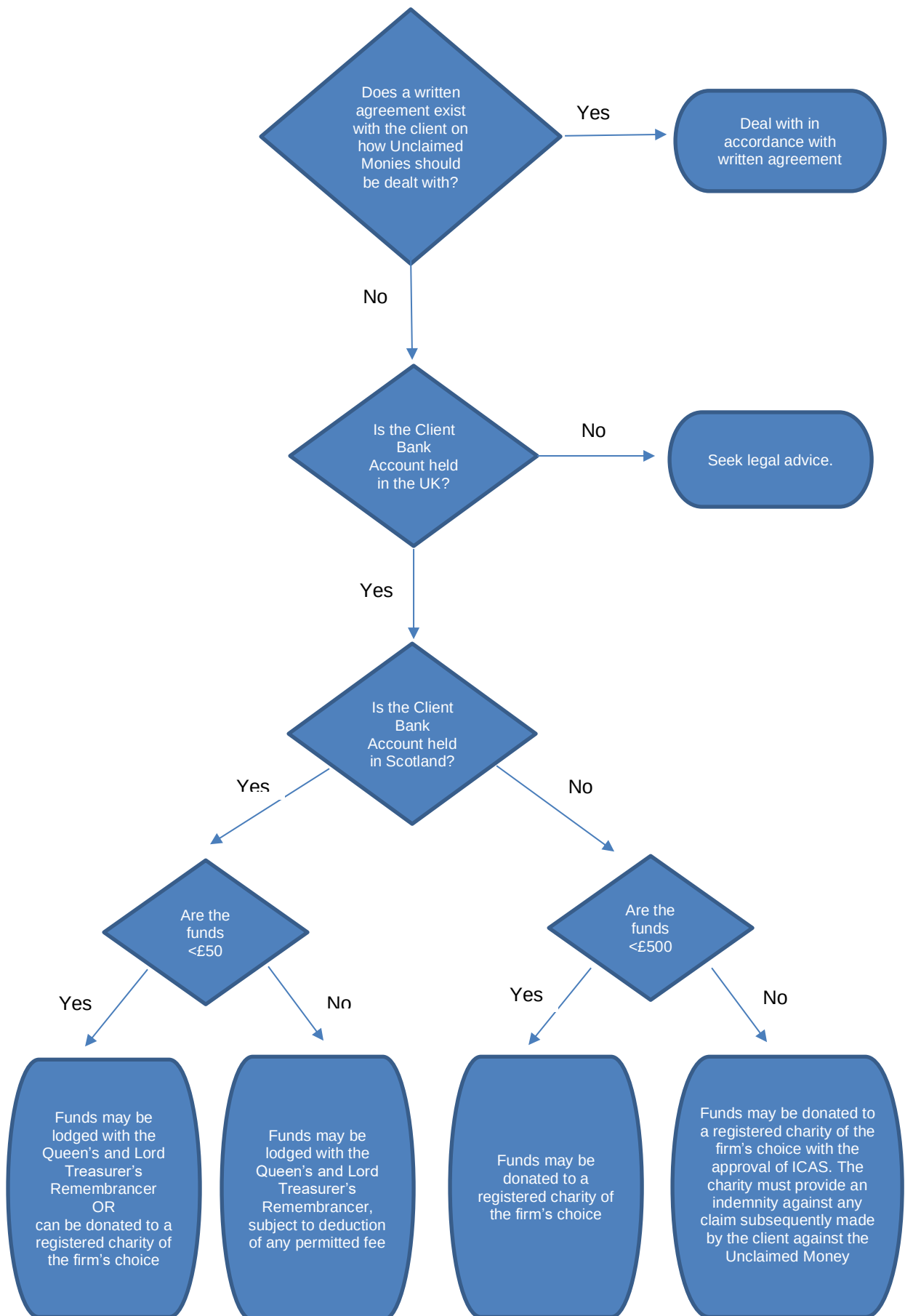
Where the value of funds is more than £200, where the actions above do not result in the client being traced then consideration should be given to using a 'desktop' tracing agent service or instructing sheriff officer tracing services.

Where the value of funds is more than £1,000 consideration should be given to whether a public notice advertisement should be placed in an appropriate newspaper.

Dealing with unclaimed money after reasonable attempts to trace the client

Where reasonable and proportionate attempts to trace the client have not resulted in the client being traced, whilst the Firm could continue to hold the funds as Clients' Money in a Client Bank Account (continuing to apply interest), the firm may take further action such that the funds would no longer require to be managed by the Firm.

The following flowchart explains how Unclaimed Money can be dealt with after reasonable and proportionate attempts to trace the client have been unsuccessful.



Prior to remitting any money to the Queen's and Lord Treasurer's Remembrancer, their office should be contacted to confirm that they are agreeable to accepting the funds.

It is important to remember that different rules on Unclaimed Money apply in different countries. If the money is held in an account outside the UK, the practitioner should ensure that the rules of the country are followed, taking legal advice if the application of the rules is not clear. It should not be assumed that the UK rules can be followed elsewhere.

Record keeping

A Firm must keep records which show:

- details of all money paid into and out of all Client Bank Accounts;
- entries of all Clients' Money paid direct to the client, or, on the client's instructions, paid to a third party, identifying that person;
- entries of all cheques received and endorsed over by the Firm to the client or, on the client's instruction, endorsed over to a third party, identifying that person;
- entries of all electronic transfers received or made of money and transferred direct to the client or, on the client's instructions, transferred to a third party, identifying that person; and
- details of all transactions on each client's ledger account which will easily identify the balance held for each client and which will reconcile to the total of Clients' Money held in the Client Bank Accounts.

Records must be retained for a minimum of 6 years.

Control and safeguards over Clients Bank Accounts

Principals within a Firm are responsible for safeguarding Clients' Money from misapplication or misappropriation. Access to Clients' Money should only be given to persons in respect of whose actions adequate safeguard arrangements are in place. Those arrangements should include appropriate financial controls.

Firms may wish to consider whether it would be appropriate to have fidelity insurance cover in respect of misapplication or misappropriation of Clients' Money. Many business insurance or professional indemnity insurance policies will include fidelity cover either as standard or as an optional extension to cover.

Clients' Money should always be held subject to appropriate financial controls. These controls may include (but are not limited to):

- a) ensuring transactional processing is conducted in a timely manner;
- b) allowing only appropriate persons within the entity to conduct transactions;
- c) adequate supervision of personnel with access to funds;
- d) limiting the size of transactions that can be processed by staff;
- e) implementing secure and robust authorisation procedures within the Firm;
- f) regular reconciliation of Client Bank Accounts (see below);
- g) periodic risk assessment of transactional processes within the Firm;
- h) requiring joint signatories or joint authentication.

Financial controls and safeguards applied should be proportionate to the number of Client Bank Accounts being administered, the quantum of funds held (individually and cumulatively), the number of transactions processed and the structure and ownership of the Firm.

Financial controls and safeguards, including levels of insurance cover, should be fully documented and reviewed for their adequacy, as and when appropriate, and at least annually as part of the Annual Compliance Review (see below).

Clients Bank Account reconciliations

Reconciliation of the Client Bank Accounts should be undertaken at least once every five weeks and any differences must be rectified immediately. This process should include a reconciliation of the total balances of all your Client Bank Accounts and a reconciliation of each individual client balance.

The reconciliations must be retained for a minimum of 6 years.

Annual compliance review

A compliance review of the procedures in place to ensure compliance with the Regulations must be undertaken at least annually.

A specimen document [annual compliance review](#) is available separately.

Evidence of the review should be retained for a period of 6 years.

Control over a client's own bank account

Firms will on occasion have the authority to instruct and authorise transactions on the client's own bank account. This may for instance facilitate the payment of wages and salaries where the firm provides a payroll service.

This will also include trust accounts, where trust monies will require to be held in the trustees names, as required by law.

Where a Firm has control over a client's own bank account (partial, complete, solely or jointly), it must ensure that it has the specific written authority of the client and acknowledged by the Bank.

The Firm must maintain adequate records of the transactions over which it has exercised its control and carried out through the client's own bank account.

Sole Principals & alternates

The CMR require a Firm, which is a sole practitioner, to certify in writing to ICAS that arrangements are in place to enable the proper distribution or processing of Clients Money held by the firm, with minimum disruption, in the event of the incapacity or death of the sole practitioner.

An alternate can be an individual who is member of one of the professional bodies comprising of the Consultative Committee of Accountancy Bodies (CCAB), and holds a current practicing certificate issued by the professional body or it could be a corporate entity, providing that the majority of its Principals are individuals who meet the aforementioned criteria.

Insolvency practitioners should ensure that the arrangement is with a firm which contains at least one insolvency practitioner or, if it is being made with an individual, that they are an insolvency practitioner. The alternate must hold a current insolvency licence with the appropriate authorisations (personal, corporate or full). The insolvency licence held by the alternate does not have to be an appointment taking licence.

If the Firm carries out registered audit work, it is recommended that the Firm also has alternate arrangements in place with another audit registered firm for audit work to be completed in the event of the death or incapacity of the sole practitioner as Statutory Auditor . It is not necessary that the alternate for CMR purposes is the same as any alternate for regulated audit work or other client work (other than as noted above in relation to insolvency work).

It is recommended that alternate arrangements are documented in writing.

Clients' money must be available with minimal disruption. The alternate must be able to legally operate relevant bank accounts when necessary.



Banks should be made aware of the alternate arrangements. It is unclear if all banks will give effect to alternate mandates and in any case any agency arrangement would cease on death of a practitioner. Alternates should therefore be a joint account holder, with the continuity agreement including provisions that they shall not provide instructions or request information in relation to the bank accounts except in event of incapacity or death.

Any breach of the agreement by the alternate would not only give rise to civil remedies for breach of contract but would also be viewed by ICAS as a departure from acceptable standards of conduct and may result in disciplinary proceedings.

Specimen documents

Several specimen documents/sample wording are available to assist firms with compliance with the CMR.

Within the specimen documents, guidance and instruction are shown in italics. None of this italicised text is for inclusion in your finalised document, and you should be careful to ensure that it is removed from the final copy.

In some paragraphs, we have provided optional or alternative wording. This is shown in [square brackets] and each suggestion requires your individual consideration and possible amendment.

If additional specific information is needed, such as a name or year end, we have indicated this by a dotted line: or have provided a field for completion

Download individual documents:

[Specimen letter to bank in UK regarding client bank account](#)
[Annual Compliance Review](#)

Useful links

[Clients' Money Regulations](#)
[CCAB AML Guidance for the Accountancy Sector](#)
[ICAS Code of Ethics](#)

For further information and assistance

Further assistance and information can be obtained from the Practice Support team. You can contact them through the Practice Support section of the [ICAS Technical helpdesk](#).

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