

Guidance on using a third-party managed account (escrow arrangement) to hold client money

Who is this guidance for?

This guidance is for CILEx firms considering using a third-party managed account (TPMA) as an alternative way to hold client funds. This is permitted, subject to our approval, under Rule 16.1.2 of the CILEx Accounts Rules (where it is referred to as an 'escrow arrangement').

This guidance sets out the requirements for an arrangement to be approved. It also set out what you need to tell your clients and us, as your regulator.

While the money held in a TPMA does not have to be held in accordance with our rules on the holding of client money, the CILEX Code of Conduct still applies to the way you engage with your client and your TPMA provider.

About escrows and third-party managed accounts

An escrow arrangement is where a third party receives and distributes money on your and your client's behalf. The money in the escrow must be held by the third party for the benefit of the represented parties (the lender or clients). An escrow arrangement is commonly known as a third-party managed account or TPMA.

The benefits of using a TPMA can include:

- additional fraud protection
- full transparency for clients
- identity checks
- real-time notifications
- no need for an accountant's report

What you should check before you engage a TPMA provider

We expect that any TPMA provider you use is regulated by the Financial Conduct Authority (FCA). The TPMA provider must be:

- an authorised payment institution
- a small payment institution which has adopted voluntary safeguarding arrangements to the same level as an authorised payment institution, or
- an EEA authorised payment institution

You can check the authorisation status of a provider on the [Financial Services Register](#).

What you need to tell your clients

At the outset of the transaction, your client needs to understand that you are using a TPMA. They should understand:

- how their money will be held and how the transaction will work
- their right to terminate the agreement
- their right to dispute payment requests made by you

- who will be responsible for costs associated with the agreement
- that the TPMA is regulated by the FCA and that complaints about the TPMA provider should be made to that provider in accordance with the TPMA's complaints procedure
- that the regulatory protections that apply to TPMAs are different from those that apply to client money held in a firm's client account

You need to be able to demonstrate that your client has understood this.

Your systems and procedures

When using a TPMA, we would expect you to have effective systems, procedures and controls to ensure your firm and employees comply with our regulatory arrangements.

These should include:

- having appropriate internal systems setting out how you will monitor the transactions on the account and keeping appropriate records
- obtaining regular statements for your records, ensuring that these reflect the transactions on the account correctly, and making sure that the funds in the TPMA are only used for their designated purpose

You will need to make sure that the use of the TPMA does not result in you receiving or holding the client's money.

What you need to tell us

You need to tell us that you would like to use a TPMA. We need to know:

- the name and CILEx Authorisation number of your firm
- the name of the TPMA provider
- the TPMA provider's FCA authorisation number
- the date on which you plan to start using a TPMA as part of your business

We will then confirm that a waiver to use an escrow arrangement has been provided and update our records to show that you are using a TPMA.

If you decide to change your provider or change the way you deal with client money, we expect you to tell us so we can update our records.