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# FAQs

# CP24/20 Safeguarding



## FAQ: Safeguarding Customer Funds in Payment and E-Money Services

### 1. What is safeguarding and why is it important in the context of payment and e-money services?

Safeguarding refers to the measures taken by payment and e-money institutions to protect customer funds. It's crucial because these institutions often hold significant sums of money belonging to their clients. Should an institution become insolvent, safeguarding ensures that customer funds are protected and returned promptly.

### 2. Who do the proposed safeguarding rules apply to?

The proposed rules apply to all authorised payment institutions, e-money institutions, small e-money institutions, and credit unions issuing e-money in the United Kingdom under the Payment Services Regulations (PSRs) and Electronic Money Regulations (EMRs).

### 3. What are the key changes being proposed regarding safeguarding rules?

The key changes include:

- 🕒 **Statutory Trust:** Establishing a statutory trust over all relevant funds (customer money) and assets held by a payment or e-money institution.
- 🕒 **Designated Safeguarding Accounts (DSAs):** Requiring firms to hold customer funds in DSAs with authorised credit institutions to ensure better segregation.
- 🕒 **Enhanced Monitoring and Reporting:** Introducing a more robust monitoring framework with periodic reporting obligations and annual audits.
- 🕒 **Third-Party Reliance:** Implementing stricter requirements for firms using third parties for safeguarding, including due diligence and diversification.

#### 4. How will a statutory trust benefit me as a customer?

A statutory trust offers you greater protection and certainty in case your payment or e-money institution fails.

**Beneficial Ownership:** It clarifies that you remain the beneficial owner of your funds, with the institution acting as a trustee.

**Ringfencing:** Your funds are protected from claims by the institution's creditors in case of insolvency.

**Established Legal Framework:** A trust provides a clear legal framework for insolvency practitioners, leading to faster and less costly fund return.

#### 5. What are Designated Safeguarding Accounts (DSAs) and how are they different from existing accounts?

DSAs are accounts held with authorised credit institutions specifically for safeguarding customer funds. Currently, firms can hold funds in non-designated accounts until the end of the business day following receipt (D+1). This can lead to commingling of funds and operational risks. DSAs address this by ensuring immediate segregation and reducing reliance on potentially less stable non-bank providers.

#### 6. What is the rationale behind requiring diversification of third-party providers for safeguarding?

Diversification reduces the risk of losing access to all safeguarded funds if a single third-party provider fails. It ensures that even if one provider faces difficulties, your funds held with other providers remain accessible. This strengthens the overall resilience of the safeguarding framework.

**7. I understand that investing customer funds in secure liquid assets is still permitted. Are there any changes in this area?**

Yes, firms can still safeguard by investing in secure liquid assets. However, they will need appropriate permissions to manage investments on your behalf. If they lack these permissions, they must deposit the assets with a custodian firm that does. Additionally, if a firm holds the assets, it must comply with relevant custody rules like CASS 6.

**8. How will the proposed changes impact the cost of payment and e-money services for me?**

While there will be costs associated with implementing these changes, the FCA's cost-benefit analysis suggests that the benefits to consumers, such as reduced shortfalls in funds returned upon insolvency, outweigh the costs. Increased competition in DSA provision is also expected to mitigate cost increases.

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