Safeguarding

Vixio PaymentsCompliance Outlook

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About This Report

This report is part of Vixio PaymentsCompliance's Outlook series, which provides subscribers with forward-looking insights and consolidated research on key segments of the global payments industry.

This edition is designed to provide high-level intelligence on safeguarding in 2025.

Contents

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Introduction

The goal of safeguarding regulation is to **protect consumers and ensure trust in the financial system**, so that individuals can confidently use payment services in their daily transactions without the worry that they will lose out if a firm collapses.

Safeguarding client funds is naturally **a top priority for regulators** in jurisdictions around the world, as it should be for payment service providers (PSPs) and other financial institutions entrusted with customers' assets.

Of course, no system of regulation is 100 percent effective, so the relevant authorities must constantly review and revise the rules in place to iron out any issues and respond to developments in the market.

For example, regulators are currently having to consider how to bring **crypto-asset providers** within the regulatory perimeter, bearing in mind factors such as what safeguarding rules should apply to organisations offering payment services in this fast-developing area.

PSPs should prioritise making sure that their customers and their funds are protected as effectively as possible, in case things go awry.

On a more pragmatic level, however, firms must protect themselves against **the threat of enforcement action** by implementing proper systems and controls and ensuring they have diversified, vetted custodians.

Regulators will scrutinise firms via inspections, interviews and audits, and have recourse to a number of punishments for breaches of safeguarding rules, including substantial fines and the revocation of licences.

These stakes mean that safeguarding of client funds is an issue of significance to compliance departments and management teams.

As regulations in different jurisdictions evolve, PSPs must **track their obligations** and ensure they are meeting all that apply to their businesses, including relevant auditing and reporting requirements.

This Outlook seeks to provide guidance on developments in key markets, including **the UK, the EU and Canada**, and to equip firms operating in those jurisdictions with the information they need to update and hone their processes and practices.

With new rules imminent, payments organisations should be clear on how the changes will affect their operations, and act accordingly.

Notable Numbers

€324,240

The amount the Central Bank of Ireland fined BlueSnap Payment Services Ireland Limited for a breach of safeguarding requirements.

130

The number of responses to the Financial Conduct Authority's consultation on proposed changes to the UK's safeguarding regime.

£23bn

The FCA's calculation of the amount held in UK safeguarding accounts in 2023, with around £18bn in e-money issuer safeguarding accounts and £5bn in payment firm safeguarding accounts.

Vixio Safeguarding of Funds Horizon Scanning Updates Per Jurisdiction, June 2024-May 2025

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North America

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Western Europe

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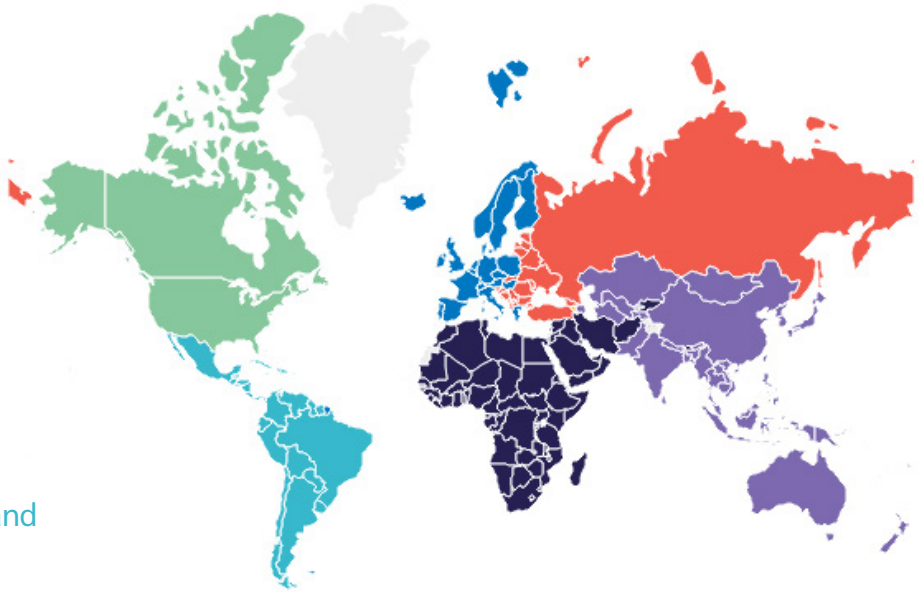
Central and Eastern Europe



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Latin America and the Caribbean

Asia-Pacific

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Middle East and Africa

Regulation To Watch

Jurisdiction	Notable Date	Summary	Legislation	More Info
UK	July 31, 2025 - Consultation deadline	The Financial Conduct Authority (FCA) has launched a consultation on stablecoin issuance and crypto-asset custody amendments to the Regulated Activities Order. The regulator proposes that issuing a qualifying stablecoin and safeguarding qualifying crypto-assets be introduced as specified activities.	A Prudential Regime for Crypto-Asset Firms The Financial Services and Markets Act 2000 (Regulated Activities and Miscellaneous Provisions) (Cryptoassets) Order 2025	FCA Sets Out Plans To Regulate Stablecoins And Reinforce Safeguards Regulatory Influencer: What Should Crypto-Assets Firms Be Thinking About in Advance of a UK Regulatory Regime?
Canada	September 8, 2025	The Retail Payment Activities Act 2021 (RPAA) created specific rules for Canadian payment service providers (PSPs) and brought them under the regulatory purview of the Bank of Canada (BOC). As of the September 2025 deadline, safeguarding provisions will apply to PSPs conducting retail payment activities in, or directed at, Canada.	Retail Payment Activities Act	Canada Lays Out Supervisory Expectations For Payment Firms

Jurisdiction	Notable Date	Summary	Legislation	More Info
Nevada	January 1, 2026 - Legislation comes into force	Senate Bill 44 (SB 44) revises financial services provisions, including those on safeguarding customer information. It requires financial service providers to follow existing federal regulations (16 C.F.R. Part 314) for protecting customer information.	SB 44	Nevada Enacts Senate Bill 44
EU	Expected in 2026–27	PSD3 will build on PSD2 to shape the EU payments industry. It will expand open banking and cover cryptocurrencies and instant payments. It aims to improve customer rights, combat fraud, modernise open banking, increase cash access in shops and ATMs, level the playing field between banks and non-bank financial institutions.	PSD3	PSD2 and PSD3 Comparison: What the Update Could Mean for You

Policy Points To Watch

United Kingdom 

The Financial Conduct Authority (FCA) published long-awaited proposals to reform safeguarding requirements for payment and e-money institutions in 2024.

After consultation, the rules will apply to all authorised and small e-money institutions, payment institutions and credit unions issuing e-money in the UK.

The change has been spurred by legal issues that have surfaced as a result of the safeguarding compliance requirements that firms are subject to under UK legislation.

With the intention of strengthening consumer protection and market integrity, the regulator now plans to introduce interim measures subsequent to longer-term "end-state" rules.

The hope is that the interim rules will create a level playing field, setting clear, consistent safeguarding standards across payment firms. They strengthen the FCA's ability to supervise and intervene by requiring firms to conduct monthly reporting. The interim rules also ensure firms hold the correct amount of safeguarded funds with proper systems, controls and diversified, vetted custodians.

The end-state rules will build on this by introducing a statutory trust over safeguarded funds, giving consumers clear beneficial ownership and applying trust law principles to protect their funds from other creditor claims in insolvency.

To allow firms time to adjust, the FCA is proposing a phased approach: six months to comply with the interim measures, and a further 12 months to implement the full end-state regime, which may depend on legislative changes as well.

Although the FCA has not clarified when these measures will be introduced, it seems certain that the regulator wants them to apply to payment institutions, bringing their compliance obligations into line with other sectors, such as asset management.

Firms should prepare for increased scrutiny from the regulator and more obligations relating to how they safeguard the funds of their customers.

For more on the UK, see the **Spotlight** section.

European Union

The European Union (EU) is reviewing its safeguarding regime as part of the revisions to the Payment Services Directive (PSD2).

Safeguarding rules are set out in Article 9 of PSD3, and although the directive keeps the PSD2 requirements relatively intact, it introduces a requirement to mitigate concentration risk by ensuring safeguarded funds are not held entirely with one institution.

PSD3 also clarifies that e-money funds must be safeguarded by the end of the next business day; in addition, the directive mandates prior notification to regulators of any material changes to safeguarding measures.

The European Banking Authority (EBA) is to develop regulatory technical standards (RTS) on safeguarding, which will cover risk management, segregation, reconciliation and fund calculation.

The EBA may find inspiration in the UK's enhanced framework, which should have been in place for at least a year by the time that the EU's payment services framework is agreed by co-legislators and passed into law.

Firms in the EU should look at the UK framework as a potential benchmark for what is to come from the EBA, and pay attention to what their local regulators are saying.

The Commission has also proposed allowing payment institutions "the possibility" of safeguarding in an account of a central bank — at the discretion of the latter.

This is intended to extend payment service providers' (PSPs) options and to help them avoid concentration risk in safeguarded funds.

However, this seems unlikely to happen now, as the European Central Bank (ECB) has effectively said no to the prospect, feeling that the risks are too high.

The European Council has set out more extensive requirements for the safeguarding of funds in its position on PSD3, which introduces clearer obligations and enhanced protections for payment service users.

For example, it clarifies that when a payment institution provides credit to the payer and executes a transaction for both payer and payee, safeguarding obligations apply once the funds represent the payee's claim.

Meanwhile, in recognition of the fact that international card schemes often settle on a net basis, the Council stresses that payment institutions must always safeguard the full amount owed to users, regardless of any deductions.

In addition, the position introduces new transparency requirements, obligating institutions to inform users about which member state's insolvency laws apply to their safeguarded funds and the potential risks involved.

The Council also calls for RTS to mitigate concentration risks where funds are safeguarded in a single institution, and says that funds held in settlement accounts with designated payment systems can be considered safeguarded.

This should help payment institutions meet instant payments obligations without incurring disproportionate costs.

Separately, further alignment with the EU's Markets in Crypto-Assets (MiCA) Regulation ensures that electronic money tokens are governed by MiCA's safekeeping rules, avoiding duplication.

Malta

At member state level, the Malta Financial Services Authority (MFSA) has raised concerns over how authorised firms are safeguarding client funds following a thematic review of compliance with regulatory standards.

In a Dear CEO letter, published in February 2025, the regulator highlighted a notable increase in firms opting for the "investment method" to safeguard funds, rather than the traditional deposit safeguarding with an authorised credit institution.

Whereas the deposit method is relatively straightforward, the MFSA investment method requires firms to conduct detailed assessments to ensure that assets are secure, low-risk and liquid.

The MFSA reminded firms that safeguarding must comply with the Safeguarding Regulations and FIR/03 R3-2.9, specifically emphasising that credit institutions used must be authorised in an EU or EEA member state.

For investment safeguarding, firms must provide the MFSA with comprehensive analyses of the assets involved, including risk assessments under Capital Requirements Regulation (CRR) standards, liquidity classification under EU liquidity rules, and supporting evidence demonstrating the assets' low-risk and liquid nature.

The MFSA's review also identified risks arising from firms relying on a single safeguarding arrangement, warning that this creates concentration risk for funds.

To mitigate this, the authority recommends that firms establish multiple safeguarding arrangements. Where firms use the investment method, a proportion of client funds should still be deposited with credit institutions to maintain liquidity for payment transactions.

The MFSA also expects firms to appoint a responsible individual, typically the chief financial officer, to oversee safeguarding, ensure compliance and report annually to the board.

Boards must take active responsibility for safeguarding arrangements, ensuring robust internal controls to prevent fraud, misuse or negligence, with full access to safeguarding accounts.

In addition, firms must implement clear reconciliation procedures, properly documented and independently reviewed.

The MFSA recommends applying the four-eyes principle for safeguarding account access and explicitly warns against ultimate beneficial owners (UBOs) signing off transactions, considering this poor governance practice.

Because of this intervention from the regulator, firms with a presence in Malta should absolutely anticipate overall increased scrutiny of their safeguarding practices.

Such scrutiny could be wide ranging. The MFSA is relatively active, and may opt to issue more guidance on safeguarding, especially for the investment method or managing concentration risk.

However, if perceived weaknesses are not addressed, then the MFSA may choose to take enforcement actions. This means that firms need to ensure that they are fully in line with the Maltese regulator's expectations if they have a presence on the island.

Ireland 

The Central Bank of Ireland (CBI) has identified the safeguarding of customer funds as a supervisory priority for 2025.

In its Regulatory & Supervisory Outlook, it cited persistent weaknesses in governance and internal controls across the payments and e-money sector.

It warned that despite some improvements following regulatory interventions, deficiencies, including poor account reconciliation, co-mingling of funds and failures to properly designate safeguarding accounts, remain widespread.

The CBI has stressed that safeguarding user funds is a fundamental obligation, and pointed to ongoing issues including:

- Ineffective board oversight.
- Inadequate control frameworks.
- Elevated concentration risk due to reliance on a small number of, sometimes unrated, banks for safeguarding accounts.

The regulator has warned that business growth must not outpace firms' ability to maintain strong governance, risk management and internal controls.

The CBI has also signalled zero tolerance for safeguarding failures from an enforcement perspective.

For example, in a 2024 enforcement action, BlueSnap Payment Services Ireland Limited was fined €324,240 for breaching safeguarding requirements, including failure to use designated safeguarding accounts and delaying notification to the regulator.

Firms operating in Ireland should ensure that their boards are well aware of the CBI's active approach to enforcement, and put frameworks in place for issues such as account reconciliation.

If the regulator undertakes an inspection and it is revealed that funds have been co-mingled or safeguarding accounts are not properly designated, then there is a high chance that it may opt to take enforcement action to guarantee that better governance and risk management are instilled.

Canada 

The Retail Payment Activities Act (RPAA), originally enacted in June 2021, grants the Bank of Canada authority to supervise payment service providers (PSPs).

Like the updates to the UK and EU's payment services regimes, the act is designed to strengthen integrity and consumer confidence.

And, like its European counterparts, the Canadian regulator requires firms to safeguard user funds, with a compliance deadline of September 8, 2025.

As of that deadline, safeguarding provisions will apply to PSPs conducting retail payment activities in, or directed at, Canada. PSPs that are in possession of end-user funds must either place them in trust, in a prescribed account or in a segregated account backed by insurance or a guarantee.

Firms will also be required to maintain a safeguarding-of-funds framework detailing their systems, controls and procedures to protect funds and ensure timely access, even in insolvency.

This framework will need to include daily ledgers of customer funds, provisions for insolvency administrators to access records and clear procedures for return of funds.

A designated senior officer is responsible for overseeing compliance, with annual approvals required from both the officer and the board.

Regular reviews of the framework are mandatory, especially following significant operational changes, with independent reviews required every three years, and records of these reviews must be maintained and reported to the senior officer.

Firms with a presence in Canada should anticipate active supervision of their compliance with these new rules, through methods such as inspections, interviews and audits.

PSPs that fail to meet the safeguarding requirements will face enforcement actions, including fines.

Spotlight: UK

Status

The UK's Financial Conduct Authority (FCA) is planning major reforms to the country's safeguarding regime for payments and e-money firms. Last year, it conducted a consultation on its proposed changes, with responses to CP24/20 due by December 17, 2024.

The proposals introduce a two-stage approach: interim rules aimed at strengthening current practices around reconciliation, audits and governance, as well as end-state rules that will impose a statutory trust over safeguarded funds, aligning the regime with the FCA's Client Assets (CASS) framework.

The reforms respond to persistent concerns over shortfalls in client funds during insolvency and legal uncertainty following the ***Ipagoo LLP*** ruling.

In the ruling, the Court of Appeal held that electronic money holders do not have a proprietary interest in their funds once received by an electronic money institution (EMI), and no statutory trust arises under the Electronic Money Regulations 2011.

However, both the safeguarding regime and Regulation 24 ensure consumers are given priority in insolvency, and any shortfall due to safeguarding failures must be remedied from the EMI's general estate. Both the FCA's appeal and the administrators' cross-appeal were dismissed.

Unfortunately, the ruling also left significant questions unanswered about creditor priority and fund distribution in insolvency. This lack of clarity has led to higher costs, delays and ongoing court involvement during insolvencies.

A later ruling in the ***Allied Wallet*** case extended this uncertainty to authorised payment institutions under the payment services regime, meaning similar legal ambiguities now apply across both sectors.

The changes to the safeguarding regime are intended to enhance consumer protection and uphold the Consumer Duty, but will significantly raise compliance expectations and operational costs. Smaller firms may wish to opt in early as safeguarding obligations are consolidated into the FCA Handbook.

Although the regulator's proposals were largely anticipated, given the clear need for stronger safeguarding standards, they nonetheless prompted critical responses from UK Finance and the Payments Association.

Both industry bodies voiced concerns over the proposed end-state rules, warning that the changes may impose significant operational and financial strain on firms.

They also argued that the new requirements fail to account for the diversity of business models within the sector and are not sufficiently cost effective to support sustainable implementation.

Outlook

The FCA's proposed overhaul of the safeguarding regime will introduce significant changes for UK payments and e-money firms.

In the near term, firms will need to enhance their safeguarding practices through stronger reconciliation processes, improved recordkeeping, and the maintenance of a "resolution pack" to assist insolvency practitioners.

Mandatory annual safeguarding audits and new monthly reporting requirements will also be introduced, alongside the appointment of a designated individual responsible for safeguarding compliance.

In addition, firms will need to diversify their safeguarding arrangements, ensuring appropriate due diligence on third-party custodians and obtaining acknowledgement letters for held funds.

In the longer term, the FCA intends to implement a statutory trust over safeguarded funds, providing greater legal certainty and giving customers priority in insolvency proceedings.

The proposals will clarify the start and end points of safeguarding obligations and require firms to segregate funds into approved safeguarding accounts.

Additional requirements will apply to investments in secure liquid assets, use of insurance or comparable guarantees and the management of funds held in fixed-term accounts. Specific rules will also apply to agents and distributors regarding fund segregation.

Vixio Regulatory Influencers

Vixio's Regulatory Influencers deep dive into imperative regulatory changes across the globe. Discover what the world's regulatory leaders are up to and use Vixio's unique insights to understand market developments and accelerate your decision making.

Read these and more:

Regulatory Influencer: The FCA's Safeguarding Overhaul

Regulatory Influencer: Canada Retail Payments Activities Act — Safeguarding of End-User Funds

What we are watching for

In overhauling its payments and e-money safeguarding regime, the UK is taking decisive steps to address long-standing weaknesses in its framework.

Existing regimes under the Payment Services Regulations 2017 and E-Money Regulations 2011 have proven inadequate in practice, with poor implementation and limited enforcement leading to inconsistent safeguarding, contributing to firm failures and consumer harm in insolvency scenarios.

The FCA's proposal to introduce a statutory trust over customer funds is a direct response to these structural failings, aiming to create legal certainty and ensure client funds are properly protected.

We are watching how the FCA balances this legal overhaul with the practical burden it places on firms, particularly through stricter reconciliation, reporting and fund segregation requirements.

Embedding the regime within the FCA Handbook signals a move toward a more integrated and enforceable supervisory framework.

Given the UK's status as a key payments market, these reforms could set a new benchmark for safeguarding standards internationally, especially as other jurisdictions assess how to strengthen fund protection in the wake of similar insolvency risks.

However, recent industry feedback has raised legitimate concerns regarding the proportionality and cost-effectiveness of the proposed rules, especially for firms with varying business models.

These critiques suggest that the safeguarding reforms may not have been sufficiently tailored to operational realities across the sector.

In light of this, it remains to be seen whether the FCA will revise its approach in response to stakeholder input. Any indication of a recalibration would be a critical development to monitor as the regulatory timeline advances.

Finalised interim rules are expected in 2025, with implementation within six months, followed by 12 months to transition to the full regime.

References

Regulatory Influencer: Canada Retail Payments Activities Act — Safeguarding of End-User Funds (June 2025)

In June 2021, the Retail Payment Activities Act (RPAA) was enacted, granting the Bank of Canada supervisory authority over payment service providers (PSPs). According to the central bank, the aim of the RPAA is to build confidence in the safety and reliability of PSP services while protecting end users from specific risks.

PSD2 and PSD3 Comparison: What the Update Could Mean for You (May 2025)

The EU's third Payments Services Directive (PSD3) is set to revolutionise how banks and non-bank payment service providers (PSPs) in Europe operate, with new requirements in key areas such as safeguarding of client funds, strong customer authentication (SCA), and rights and obligations.

Central Bank Accounts Cannot Safeguard Funds Under PSD2, Says EBA (May 2025)

The European Banking Authority (EBA) has ruled out payments and e-money firms being able to use their new access to central bank settlement accounts to meet safeguarding compliance requirements.

Norwegian Regulator Flags Serious Safeguarding Failings At Payments And E-Money Firms (April 2025)

A new report from the Norwegian Financial Supervisory Authority (Finanstilsynet) has identified areas of non-compliance in how payment and e-money institutions safeguard customer funds.

Central Bank Of Ireland Flags Safeguarding Failures As Critical Concern For 2025 (March 2025)

Persistent weaknesses in governance and internal controls have led the Central Bank of Ireland (CBI) to put safeguarding of customer funds at the top of its regulatory and supervisory agenda for 2025.

Malta Regulator Raises Concerns Over Safeguarding Of Client Funds And Outsourcing Risks (February 2025)

Following a thematic review assessing compliance with regulatory standards, the Malta Financial Services Authority (MFSA) has flagged significant concerns about the safeguarding of client funds and outsourcing arrangements among financial institutions.

EBA Clarifies PSD2 Rules On Safeguarding, Fraud And Transparency (January 2025)

The European Banking Authority (EBA) has issued a variety of legal clarifications regarding the payments landscape in the EU, responding to queries from both the market and regulators.

Regulatory Influencer: The FCA's Safeguarding Overhaul (September 2024)

The UK's Financial Conduct Authority (FCA) has unveiled its long-awaited proposals to overhaul the safeguarding regime for payments and e-money services, aiming to enhance consumer protection and market integrity by addressing what the regulator perceives as weaknesses in how firms safeguard customer funds.

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Vixio PaymentsCompliance is a fast, effective and user-friendly platform that supports compliance activities, removing time-consuming and resource-heavy manual searches and lowering associated costs. With PaymentsCompliance, customers can access real-time regulatory intelligence and updates in 140+ jurisdictions across the world through horizon scanning, expert analysis, and insights to better understand and prepare for changes in payments regulations.

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