

Safeguarding Reforms in the UK and EU – Preparing for Change

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Why this matters

The Financial Conduct Authority (**FCA**) has completed a major review of safeguarding for payment and e-money institutions. Its new rules are designed to reduce the risks seen in recent failures - where customers faced long delays and, on average, recovered only 35 per cent of the funds they were owed.

At the same time, the EU is progressing with [Payment Services Directive 3 \(PSD3\)](#) (which is currently in draft form and is expected to take effect in 2027) and the [Markets in Crypto-Assets Regulation \(MiCA\)](#) (which took effect in December 2024), which will also tighten safeguarding requirements but in a different way. Cross-border firms will therefore need to plan for two parallel regimes.

The UK position – new rules now finalised

The FCA's Policy Statement PS25/12 (7 August 2025) sets out a two-stage reform:

1. Supplementary Regime: Effective 7 May 2026, after a nine-month transition. This overlays the existing Payment Services Regulations 2017 (**PSRs**) / Electronic Money Regulations 2011 (**EMRs**) with new provisions in the FCA Handbook (notably the Client Assets Sourcebook (**CASS**) and Supervision manual (**SUP**).
2. Post-Repeal Regime: This will take effect once the HM Treasury revokes the PSRs and EMRs, replacing them with a statutory trust framework for safeguarding. The implementation date remains to be confirmed.

FCA sources: [Policy Statement](#), [PDF](#), and [Draft Approach Document \(May 2026\)](#).

Core UK requirements

Governance

- A named senior manager responsible for safeguarding.

- Board-level approval of safeguarding policy, including what counts as a “material discrepancy”.

Reconciliations and records

- Reconciliations must be performed on every reconciliation day (not weekends / bank holidays).

Funds relating to e-money and payment services must be safeguarded separately

- Firms must keep a resolution pack – a living document linking to current reconciliations, contracts and account information.

Audits and regulatory returns

- Annual safeguarding audit required unless the firm has safeguarded under £100,000 over a rolling 53-week period.
- First audit report must be submitted within six months of the period end (then within four months in subsequent years).
- New monthly returns to the FCA covering reconciliations, safeguarding methods, amounts, shortfalls, breaches and safeguarding accounts.

Third-party providers

- Due diligence must be carried out on the specific safeguarding of the bank, custodian, insurer or guarantor – not just the wider group.
- Firms must review diversification regularly, and if the review shows diversification is needed, they must implement it and document the action taken.
- The FCA expects firms to consider the availability of deposit protection (Financial Services Compensation Scheme look-through applies where UK banks hold safeguarded funds).

Insurance and guarantees

- Notify the FCA at least two months before taking out or changing cover.
- Renewal decisions must be made three months before expiry, with contingency plans if not renewing.
- Policies can only be cancelled for non-payment with 90 days’ notice to both firm and FCA.

- Payouts must cover the full amount owed, even where insolvency stems from fraud or negligence.

Acknowledgement letters

- Prescribed safeguarding acknowledgement letters are now mandatory.
- Firms must check the signatory's authority, keep letters for five years after account closure and review them annually.

Start and end of safeguarding

- Safeguarding starts once the firm has an entitlement to funds.
- If e-money is issued before card funds have cleared, the firm must use its own resources to settle payments.
- Standalone FX transactions are outside the safeguarding regime, but firms must keep evidence that they are standalone.

EU developments – PSD3 and MiCA

The EU's approach is less prescriptive but moving in the same direction:

- Segregation at receipt: Relevant funds must go directly into a safeguarding account, with no commingling or later segregation.
- Central bank safeguarding PSD3 will allow firms to safeguard directly with central banks (if permitted), supporting access to payment systems.
- Diversification: Explicit obligation not to place all client funds with one institution.
- Notification duties: Material changes to safeguarding processes must be notified to regulators in advance.
- E-money tokens (**EMT**): Must be safeguarded in line with MiCA rather than PSD3.
- No statutory trust: EU law avoids reliance on trust concepts, focusing instead on segregation and regulatory oversight.

What this means for firms

- **UK-only firms:** Immediate priority is readiness for the Supplementary Regime by May 2026; the focus should be on reconciliations, resolution packs, acknowledgement letters, auditor engagement and monthly returns
- **Cross-border firms:** must design safeguarding frameworks that can satisfy both regimes – a UK trust-based approach and the EU's strict segregation model;

payment flows may need restructuring so that relevant funds are received directly into safeguarding accounts in the EU, while UK operations prepare for statutory trust overlay.

Practical checklist

Governance

- Senior manager responsible; board policy including “material discrepancy” rules.

Reconciliations & records

- Daily reconciliations (business days).
- Separate ledgers for e-money vs payment services.
- Resolution pack maintained as a live document.

Audits & reporting

- Auditor appointed; scope and timetable agreed.
- First audit report deadline tracked (six months).
- Monthly return tested and ready.

Third parties

- Entity-level due diligence (capital, credit, FSCS cover).
- Diversification review carried out and acted upon.
- Records retained of diligence and diversification actions.

Insurance/guarantees

- FCA notifications (noting the two months / three months / 90 day deadlines, respectively).
- Policy terms checked for cancellation/payout provisions.

Acknowledgement letters

- Prescribed form signed by authorised individual.
- Annual review and five-year retention after closure.

Scope clarifications

- Controls to prevent use of safeguarded funds before card settlement.
- Evidence log for standalone FX transactions.

Cross-border (EU)

- Dedicated safeguarding accounts for incoming funds.
- Assess feasibility of central bank safeguarding.
- EMT issuers aligned with MiCA.
- Processes for advance regulatory notifications.

Next steps

- Begin gap analysis against finalised amendments to CASS/SUP now, prior to the changes taking effect on 7 May 2026.
- Engage auditors early to avoid capacity issues.
- Repaper acknowledgement letters and update third-party due diligence.
- For cross-border firms, plan for divergent requirements under UK and EU regimes.

For further information, please contact the individuals listed.

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