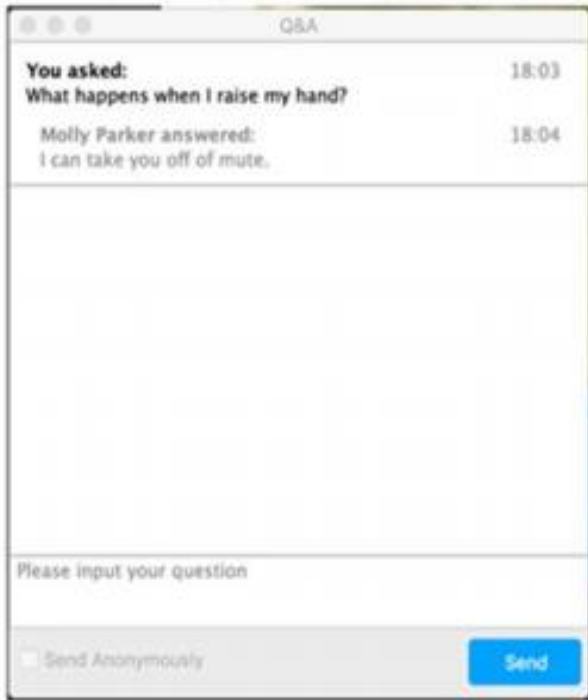




FCA Safeguarding regime for payment and e-money firms

22 January 2026

Ask a question



The screenshot shows a window titled 'Q&A'. It contains a history of questions and answers. The first entry shows a question 'What happens when I raise my hand?' asked at 18:03, followed by an answer 'I can take you off of mute.' from Molly Parker at 18:04. Below this is a large text input area with the placeholder text 'Please input your question'. At the bottom left, there is a checkbox labeled 'Send Anonymously'. At the bottom right, there is a blue button labeled 'Send'.

To ask a question

Click on the **Q&A** button in the bottom toolbar to open the submit question prompt.

Type your question and click send

NOTE: If you wish to ask your question anonymously check the **send anonymously** box shown on the illustration.

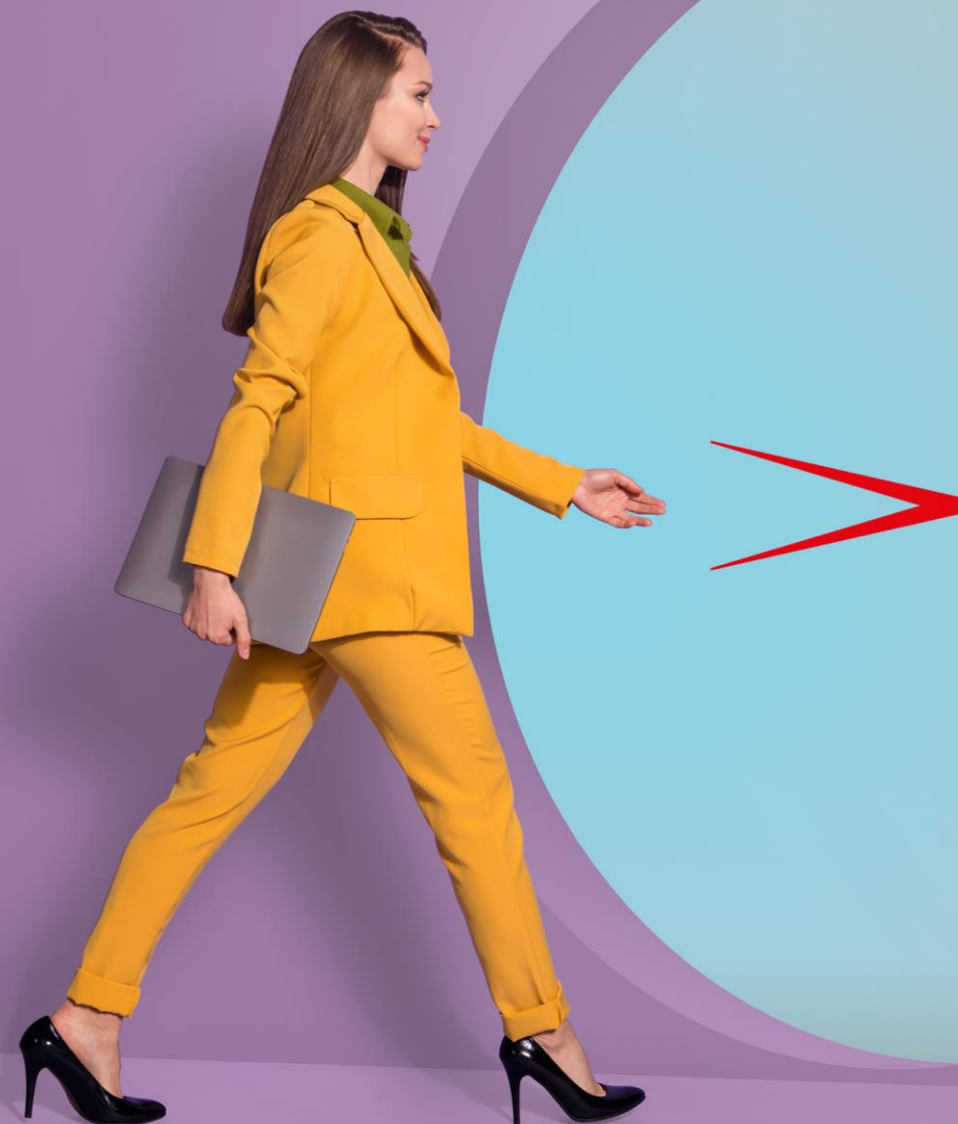


Did you know?

ICAEW's revised Continuing Professional Development (CPD) Regulations brought in new CPD requirements, including a minimum number of hours and an ethics requirement.

This webinar could contribute to up to 1 hour of verifiable CPD, so long as you can demonstrate that the content is relevant to your role.

Find out more about how these changes affect you at [icaew.com/cpdchanges](https://www.icaew.com/cpdchanges).



Today's speakers



Shermeen Kazmi
Grant Thornton



Poppy Proborespati
Forvis Mazars



Megan Fuller
KPMG



Tiana Raviranjan
BDO LLP



Current Landscape & Importance of Safeguarding

Current regulatory landscape



Growth of payments industry*

- 26.1 billion debit card payments in the UK in 2024. This is projected to reach 30.6 billion in 2034.
- Card payments are expected to account for 67% of all payments in the UK in 2034.
- The number of FPS transactions payments increased by 14% compared with the previous year, to reach 5.6 billion payments.
- Consumers are increasingly using services from non-bank payment providers



Regulatory context

- Sector is facing waves of regulatory change: Consumer Duty, Operational Resilience, PSD3, Safeguarding
- Conversely, deregulation trends are evident in current proposals to reduce the prescriptiveness of payments security rules (contactless limits and SCA) and the announced absorption of the PSR by the FCA.
- This delicate balance requires firms to apply a strong focus on regulatory intelligence, risk management, and operational efficiency



Issues with current safeguarding regime

- Firms are not currently segregating the correct amount of client funds from their own funds
- Poor record keeping systems in place to segregate client and firm money
- Delays caused in return of client funds – average time to return funds over 2 years for first distribution
- Uncertainty about the legal status of customer funds in the event of firm insolvency

* UK Finance data

Importance of Safeguarding

Why does it matter?



What's happening currently?

- Lack of sufficiently robust safeguarding practices
- Risk of harm to consumers and market integrity
- As firms become more complex, more structure is required



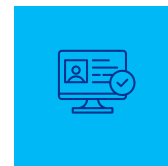
What are the stats?

- £26bn of relevant funds in 2024 vs £11bn in 2021
- Average shortfall of 65% in insolvent firms between 2018-2023
- 40% of e-money users have at least 1 element of vulnerability



How will weaknesses be addressed?

- Minimising shortfalls in safeguarded relevant funds
- Ensuring these funds are returned to customers as cost-effectively and quickly as possible if a payments firm fails
- Strengthening ability to identify and intervene in payments firms that do not meet the FCA's safeguarding expectations to ensure these outcomes are met



Why does it need an audit?

- Market integrity, confidence and trust
- Consistent requirements and consistent results
- Early visibility of potential issues



What outcomes does the FCA want to achieve?

- Safe and secure holding of funds
- Proper segregation
- Recoverability of claims
- Timely return of funds

Overview of Safeguarding

Shermeen Kazmi
Partner, FS Audit

What is safeguarding?

The FCA's safeguarding requirements are designed to **protect customer funds** received for the **provision of payment services or e-money**.

Safeguarding of 'relevant funds'

In accordance with regulation 20(1) of the Electronic Money Regulations and regulation 23(1) of the Payment Services Regulations:

- (a) funds received in exchange for electronic money that has been issued;
- (b) sums received from, or for the benefit of, a payment service user for the execution of a payment transaction; and
- (c) sums received from a payment service provider for the execution of a payment transaction on behalf of a payment service user.

Applicability of safeguarding rules

Required

- Authorised PIs (except payment institutions which solely provide payment initiation services or account information services)
- Authorised EMIs
- Small EMIs
- Credit Unions that issue e-money in the UK

***Principle 10 of the FCA' Principles for Businesses requires all firms, including small PIs to arrange adequate protection for clients' assets when they are responsible for them**

Voluntary*

- Small PIs
- Small EMIs that provide unrelated payment services



CASS 15 rules, applicability and audit requirement

PS 25/12 has introduced the Supplementary Regime (CASS 15), and related amendments to the Approach Document, to come into force on 7 May 2026.

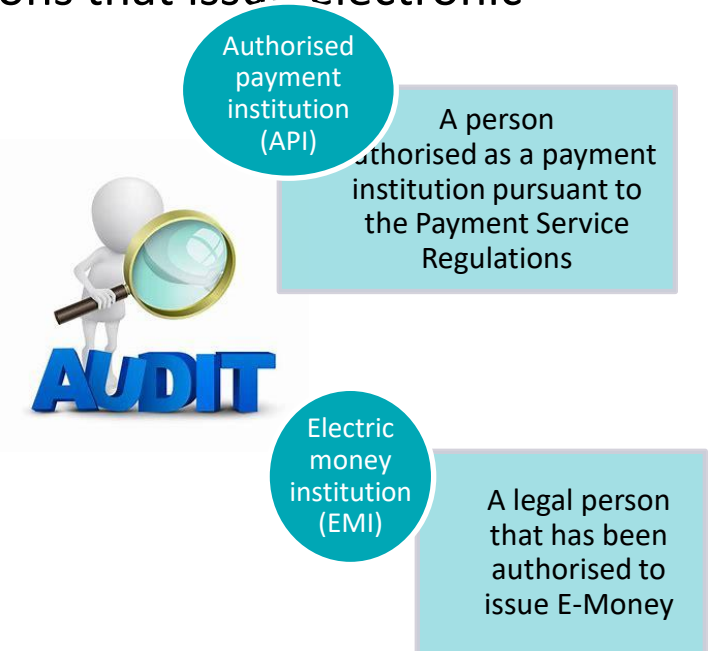
(PS25/12: Changes to the safeguarding regime for payments and e-money firms)

CASS 15 applies to:

- Authorised payment institutions, small PI that opt in , EMI's and credit unions that issue electronic money

Safeguarding audit requirement:

- All payment services institutions and electronic money institutions that CASS 15 applies to
- Exemption from safeguarding audits for those who have not been required to safeguard more than £100,000 in relevant funds at any time over a period of at least 53 weeks.



Safeguarding audit opinion

FCA Approach document

The auditor to provide an opinion addressed to the firm on:

- whether the firm has maintained organisational arrangements adequate to enable it to meet the FCA's expectations of its compliance with the safeguarding provisions of the EMRs/PSRs (as set out in chapter 10 of our Approach Document), throughout the audit period; and
- whether the firm met those expectations as at the audit period end date.

CASS 15

The auditor to provide an opinion addressed to the FCA on:

- whether the firm has maintained systems adequate to enable it to comply with the relevant funds regime, throughout the audit period; and
- whether the firm is in compliance with the relevant funds regime as at the audit period end date.

Reasonable Assurance Opinion – no limited assurance audit required

Safeguarding audit requirement - Approach Document

Annual audit of compliance with safeguarding requirements

- specific annual audits of its compliance with the safeguarding requirements under the Payment Services Regulations 2017 (PSRs) / The Electronic Money Regulations 2011 (EMRs)
- carried out by an audit firm, as referred to in regulation 24(2) of the PSRs or regulation 25(2) of the EMRs, or by another independent external firm or consultant
- exercise due skill, care and diligence in selecting and appointing auditors for this purpose.

Framework

No assurance
standard mandated
-
ISAE 3000, FRC
CASS Assurance
Standard

Type of opinion

Reasonable
assurance – during
the period & at
period end

Regulatory Framework

Chapter 10 of the
FCA Approach
Document (Nov 21)

Time period and submission

Submission of report
within 4 months of
period end (not
mandated)

Independence

ICAEW Code applies

Safeguarding audit requirement - CASS 15

Annual audit of compliance with safeguarding requirements

- specific annual audits of its compliance with the safeguarding requirements under the relevant funds regime, Payment Services Regulations 2017 (PSRs) / The Electronic Money Regulations 2011 (EMRs)
- carried out by a qualified auditor (audit firm) as detailed in CASS 15, referred to in regulation 24(2) of the PSRs or regulation 25(2) of the EMRs.
- exercise due skill, care and diligence in selecting and appointing auditors for this purpose.

Framework

FRC Assurance
Standard in
progress
Interim assurance
standard to be used
in interim

Type of opinion

Reasonable
assurance opinion
as per template in
CASS 15
During the period &
at period end

Regulatory Framework

CASS 15
PSR
EMR

Time period and submission

Submission of report
to the FCA within 4
months of period
end (6 months for
the first year)

Independence

ICAEW code applies
FRC ES scope TBC

Hybrid audit periods – CASS 15 and Approach Document

With the interim CASS 15 rules coming into effect on 7th May 2026 there may be firms where their audit period will straddle both regimes.

- Identifying the two distinct audit periods or shorten the period to 6th May 2026
- Clear scoping the work required in each period under the 2 regimes e.g. reconciliation testing may look different for the two regimes
- Breaches identified, the period they are related to, references to the correct regulatory regimes in reporting

Key changes under CASS 15

Daily reconciliations

- D+1 comparison reconciliation: firms may be required to undertake a high-level comparison between relevant funds that should be held in relevant funds bank accounts against the balance of those accounts.
- The FCA have confirmed Internal and External Reconciliations are required to be performed every reconciliation day, this will exclude weekends, bank holidays and days which relevant foreign markets are closed
- Firms should still consider the nature, volume and complexity of their business, but non-standard method of reconciliations can be used with FCA permission

Resolution packs

- Firms will be required to have a resolution pack in line with CASS 10.

Monthly reporting

- Monthly returns to be submitted to the FCA, applicable to all firm sizes

Third Party Due Diligence

- Third parties will be subject to periodic reviews of their suitability

Audit report and acknowledgement letter templates

- Updated audit report template as per SUP 3A Annex 1.1
- Acknowledgement letter template updated in CASS 15 (firms are allowed to utilise previous acknowledgement letters if in line with the Approach document template until they require updating)



Safeguarding Audits

Poppy Proborespati

Partner, Financial Services Audit

January 2026

Agenda

1. FRC standard and implications for regulated firms and Auditors
2. Planning and Risk Assessment (including independence considerations)
3. Evaluation & Design of Controls (Walkthroughs)
4. Testing Operating Effectiveness of Controls
5. Key Takeaways & Next Steps

1. FRC standard and implications for regulated firms and Auditors

what applies now and what's coming

New FCA rules – safeguarding audits under SUP 3A

- Effective 7 May 2026 - PS25/12 introduces annual safeguarding audits to give the FCA and firm boards assurance over systems and compliance with the relevant funds regime (CASS 15 + PSRs/EMRs safeguarding regs).
- Audits must be performed by a qualified auditor and most APIs/EMIs with relevant funds above the £100k threshold are in scope.
- Reasonable assurance report addressed to the FCA

Where the FRC safeguarding standard is today

- FCA has confirmed it is working closely with the FRC on an updated assurance standard for safeguarding audits.
- Public statements from the FRC indicate that project is at an early stage, with consultation on a safeguarding assurance standard only expected in 2026 and a final standard *after* the regime goes live on 7 May 2026.
- So there will be a period where the FCA rules are in force but a dedicated FRC safeguarding standard is not.

What to use in the meantime – FRC CASS standards

- The existing Client Asset Assurance Standard (CASS Standard) already sets out how to provide reasonable assurance to the FCA on:
 - Systems adequacy through the period; and
 - Compliance with relevant rules at period end, plus a breaches schedule.
- PS25/12 and the FCA both assume that the new safeguarding standard will follow this model – similar structure, reporting templates and assurance concepts.

Practical expectation: until a specific assurance standard is issued, auditors may base their safeguarding audit methodology on the current FRC CASS Standard, adapted to the relevant funds regime (CASS 15 / PSRs / EMRs), plus the general assurance standards (ISAE/ISAE 3000 - type principles).

1. FRC standard and implications for regulated firms and Auditors

Competence, training and mindset: applying the CASS standard to safeguarding

Specialist area – same bar as CASS

- The CASS Standard treats client assets as a specialist assurance field.
- Ethics & independence – FRC Ethical Standard still applies
- Engagement acceptance – only take safeguarding work where the team has had appropriate training and has the right capabilities
- Quality control – use of EQCR and Safeguarding audits will normally be treated as high-risk under firms' quality management systems

Competences and training the standard expects

- Deep rule knowledge – CASS / safeguarding rules, and relevant SUP rules, sufficient to identify and evaluate breaches.
- Understanding of the firm's business model and flows of funds, so the team can assess where relevant funds should sit and how they move.
- Experience testing design and operating effectiveness of controls around all the business proves where relevant fund footprint present
- Familiarity with insolvency implications – would current records and arrangements allow an IP to identify and return funds quickly without rebuilding ledgers?

Required mindsets – carried straight into safeguarding

- Professional scepticism – challenge management's explanations of governance, Judgemental areas like application of funds segregation decisions and breach handling.
- Compliance mindset – assume the firm must comply with *all* relevant rules, report all breaches identified, even if individually small. (Under the CASS Standard there is no materiality threshold for breaches, and FCA has said it expects to see breaches in safeguarding reports too.)
- Insolvency mindset – plan work on the basis the firm could fail, focus on whether records, reconciliations and resolution packs are good enough to support a rapid return of funds.

What regulated firms should do now for robust audits

- Treat CASS 15 rules as core part of the business model and execute well during implementation - not a compliance exercise.
- Governance & ownership - clear SMF responsibility for safeguarding regime
- Build and maintain a risk and control mapping for the relevant funds regime - FCA expressly expects firms to evidence this and auditors will look for it.
- Invest in organisational arrangements (governance, MI, second line), reconciliations and records that are near real-time and resolution packs.
- Ensure their chosen safeguarding auditor meets SUP 3A eligibility.

2. Planning and Risk Assessment

Objective of Safeguarding Audit

- Independent assurance that client funds are protected
- Protect client funds and maintain trust
- Ensure compliance with regulatory safeguarding requirements
- Minimise shortfalls in safeguarded funds



2. Planning and Risk Assessment

Planning for a Safeguarding Audit

Scope
definition

Key
stakeholders

Audit
milestones /
timelines

Resourcing

Prior year
breaches

Evaluate
business
model

Identify key
safeguarding
risks

Prioritize
high-risk
areas

2. Planning and Risk Assessment

Risk Assessments considerations

Evaluate business model

Complexity of service
/ products

Cashflows

IT systems

Risk and control framework

Risks / regulatory
requirements mapping

record of non-
compliance

Breaches and incident
management

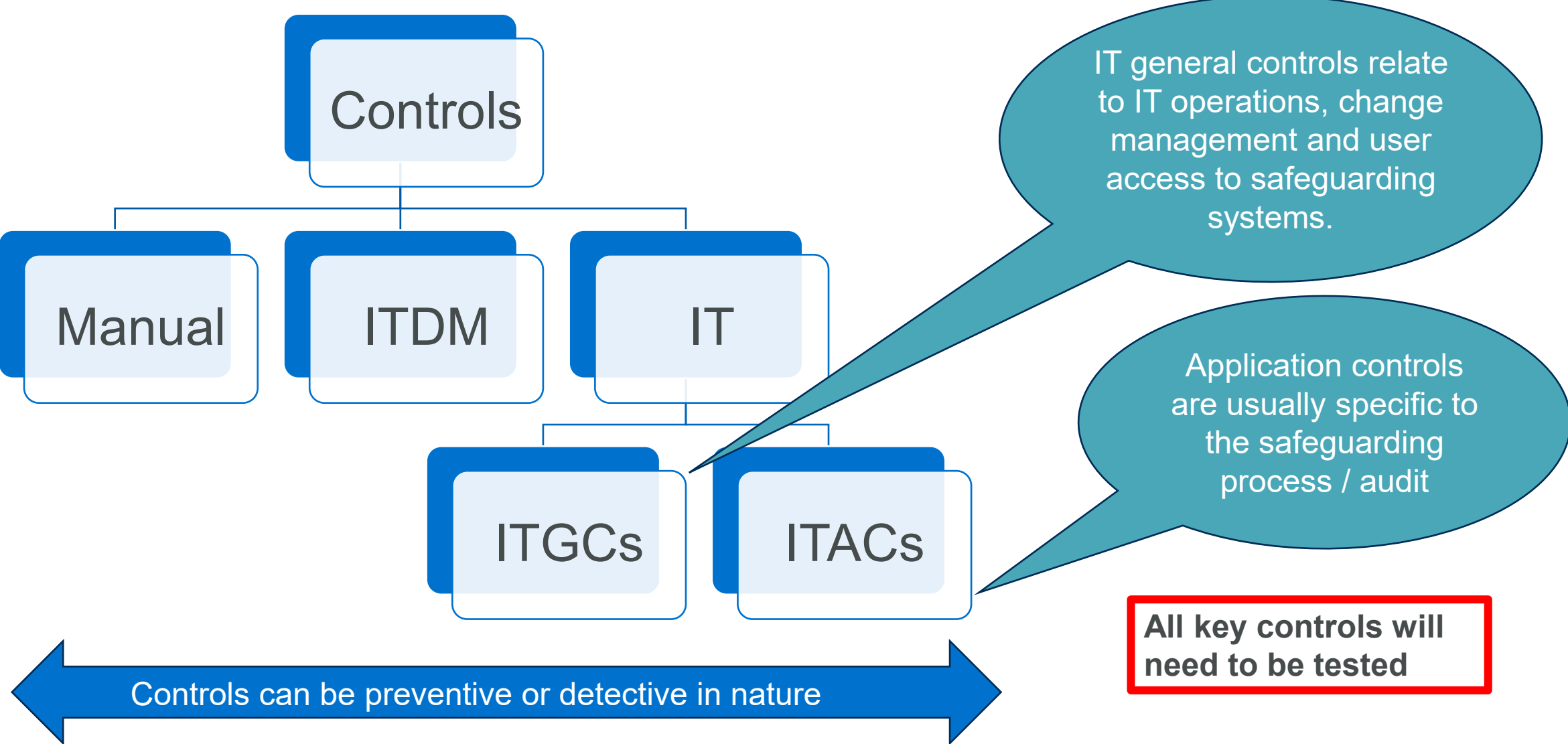
Safeguarding Culture

Governance

Training

Internal monitoring

3. Evaluating controls - Types of Controls



3. Evaluation of design of internal controls and walkthroughs

Understand Control Environment

- Governance structure
- Oversight mechanisms (e.g, 2LoD, 3LoD)
- Review Risk and controls assessment
- Understand landscape of manual and IT controls across relevant safeguarding process
- Review governance, policies, and procedures, terms of reference for safeguarding oversight bodies
- Breach log – Are there self-identified breaches?

Control Design Evaluation

- For relevant safeguarding processes, **assess control adequacy against safeguarding rules**. Is control designed and implemented efficiently?
- Review **control documentation and evidence**
- Assess IT controls including **ITGCs and ITACs** around relevant Safeguarding system
- Review escalation and reporting mechanisms

Walkthroughs

- Perform walkthroughs of key processes (e.g., daily reconciliations, payments and settlements, funds segregation, bank relationships, Merchant / client arrangements)
- Validate that controls are implemented as designed by tracing transactions through the process to confirm control implementation.
- Document process flows and identify gaps or inconsistencies

5. Testing Operating effectiveness of controls

Techniques / methods

- Re-performance
- Inquiry
- Observation
- Inspection

Test Execution

- Define testing period
- Select sample based on risk-based methodology
- Outline control attributes to test
- Perform tests:
 - **Manual Controls:** Review approvals, reconciliations, and documentation.
 - **IT Controls:** Review system configurations, access logs, and automated validations.

Evaluation of Results

- Identify deficiencies and control failures
- Assess impact on compliance with safeguarding rules
- Assess if deficiency or failure results in breach of safeguarding rules

Reporting



Reporting

Conclusions on Testing & Forming Opinion



Conclusions on testing

Who sees the report?



Types of opinions

- Unmodified
- Modified:
 - Qualified
 - Adverse



Differences between a statutory opinion and a CASS opinion

'During the period' and 'As at'



Breach types

- Systemic
- Operational breaches

Link to rules/regulations

Reporting

Reporting to TCWG & Statutory Duty to Report



**Management
letter**



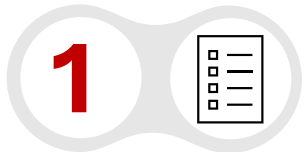
**Matters of
'material
significance' to
the Regulator
(ISA 250b)**

Firm and Audit Readiness

Tiana Raviranjana, Director, BDO

FIRM EXPECTATIONS

Key strategic approaches to ensure firm readiness



1

MAINTAIN ACCURATE DOCUMENTATION OF ALL SAFEGUARDING ACTIVITIES

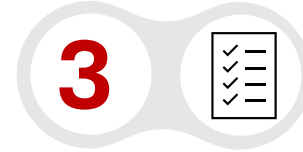
- Related processes & controls, policies, procedures
- Banking & governance arrangements, breach monitoring and reporting



2

OVERSIGHT/ TONE FROM THE TOP

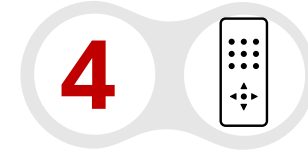
- Regular and ongoing focus on Safeguarding
- Safeguarding officer, Committee/ Board



3

PERFORM REGULAR RISK ASSESSMENTS

- Identifies potential vulnerabilities, allowing for the development of effective risk mitigation strategies
- Strengthens risk management framework (i.e PS25/12 gap analysis)



4

IMPLEMENT INTERNAL CONTROLS

- Continually monitor safeguarding practises
- Use of 3 lines of defence



5

FACILITATE COMMUNICATION WITH AUDITORS

- Establish communication channels with auditors
- Ensures smooth transfer of information and audit processes



6

ENSURE SEGREGATION OF CUSTOMER FUNDS FROM OPERATIONAL FUNDS

- Ensures customers funds are protected in the event of insolvency
- Internal and External reconciliations



7

PROVIDE REGULAR EMPLOYEE TRAINING ON SAFEGUARDING MEASURES ACROSS FIRM

- View as a firmwide responsibility
- Board and staff

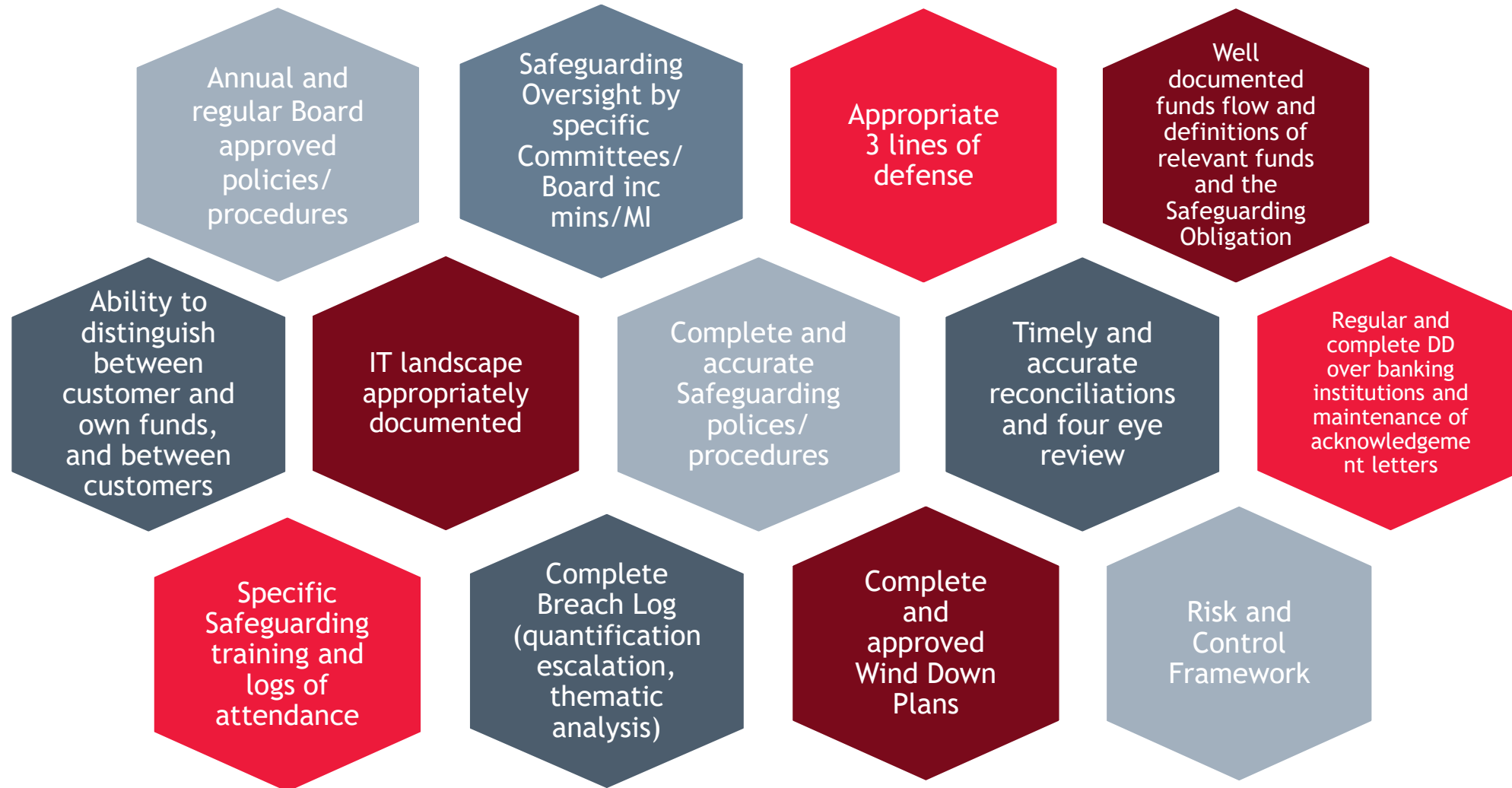


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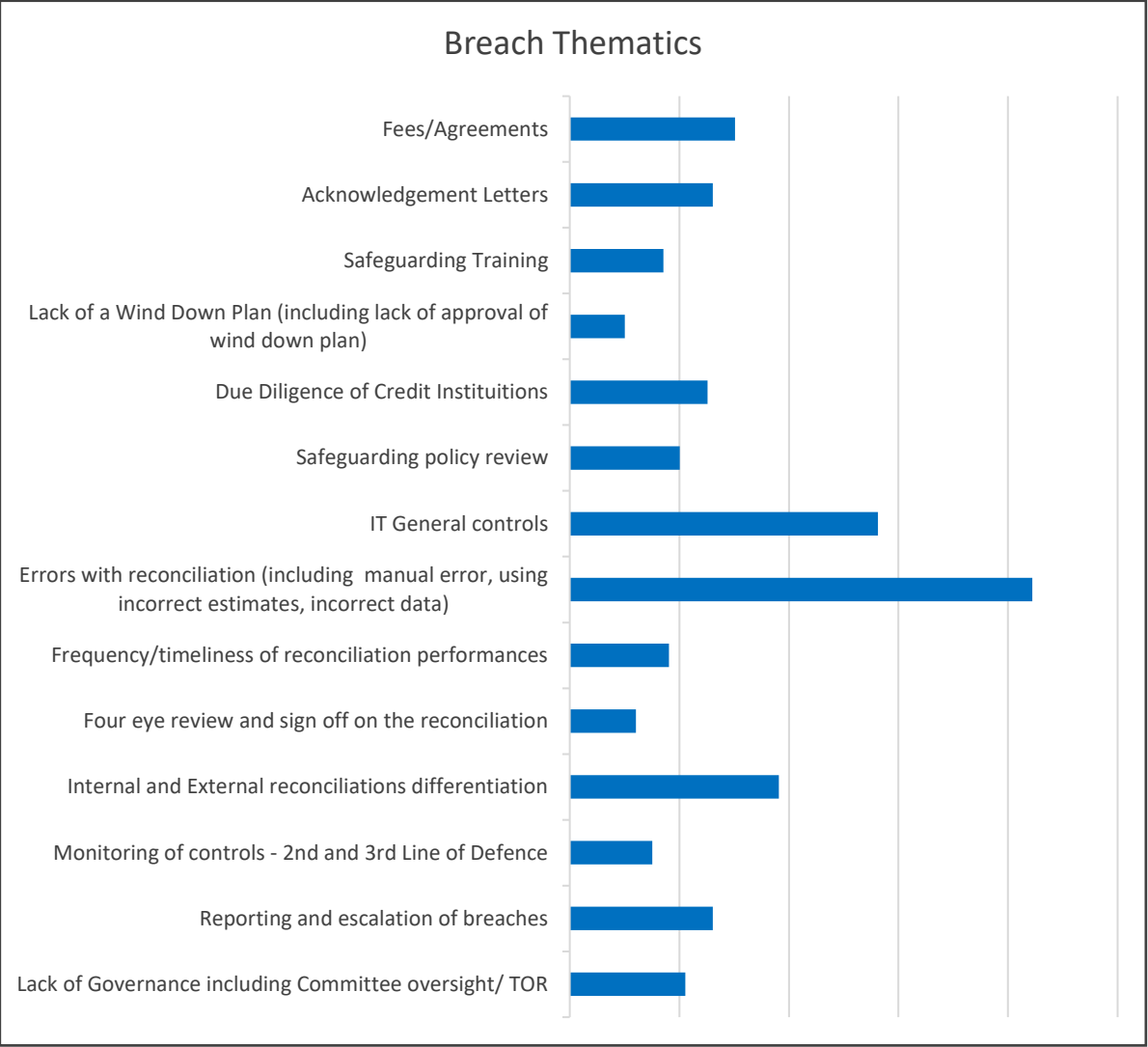
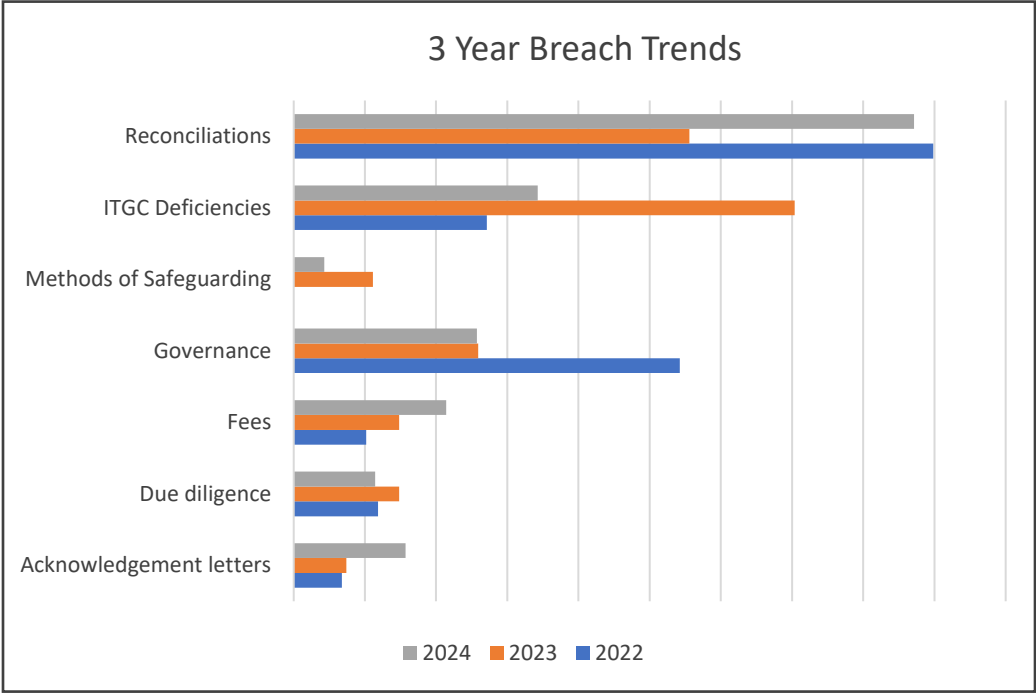
STAY UPDATED ON REGULATORY REQUIREMENTS

- CASS 15, FCA Approach Document

WHAT GOOD LOOKS LIKE NOW?



SAFEGUARDING TRENDS



AUDITOR EXPECTATIONS

Key strategic actions to ensure auditor readiness



THOROUGH REGULATORY KNOWLEDGE

- ▶ Relevant regulations and applicability
- ▶ Approach Document and CASS 15
- ▶ EMRs/PSRs



DETAILED AUDIT PLANNING

- ▶ Outline specific areas to be tested
- ▶ Safeguarding arrangements, internal controls, compliance with regulations



DOCUMENTATION REVIEW

- ▶ Provided by the firm
- ▶ Helps in understanding current safeguarding measures & identifying potential areas of concern.



ENGAGEMENT WITH KEY PERSONNEL

- ▶ Understand their roles and responsibilities
- ▶ Essential for assessing the effectiveness of the firms safeguarding practices
- ▶ Communicate findings in a timely manner



RISK ASSESSMENT

- ▶ Evaluate the firm's risk management practices related to safeguarding client money
- ▶ How risks are identified, assessed, and mitigated



INTERNAL CONTROLS EVALUATION

- ▶ Controls designed to prevent and detect safeguarding issues
- ▶ Reviewing how firm segregates client funds, reports to the FCA



PREPERATION FOR FIELDWORK

- ▶ Plan for on-site visits to observe safeguarding practises
- ▶ Understand which records and processes need to be inspected to ensure compliance



PRELIMINARY FINDINGS COMPILATION

- ▶ Prepare a framework for the audit report
- ▶ Will outline the findings, conclusions & recommendations for improving safeguarding practices



Q&A



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