

Payment and E-Money Institution Webinar

Safeguarding and wind-down planning

21 January 2020

Agenda

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Introductory remarks

Paul Roe, Ted MacDonald

10 minutes

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Safeguarding with Q&A

Mark Whiting, Ross Studholme

25 minutes

3

Wind-down planning with Q&A

Jim Feasby, Peter Charles

25 minutes

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Closing remarks

Jane Moore

5 minutes

Payments sector supervisory priorities

Our focus today will be on safeguarding and wind-down planning.

Today's focus



Robust
Safeguarding*



Prudential
Resilience

● Wind-down planning



Financial Crime
Prevention

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* For firms required to safeguard or that opt into the safeguarding regime

Safeguarding

Safeguarding is at the core of looking after customers' money. Despite this, we consistently see firms failing to adhere to safeguarding requirements.



Firms must consider the basics when setting up (or establishing) safeguarding accounts.



Firms must maintain appropriate record-keeping and reconciliation practices.



Safeguarding and reconciliation policies and procedures must be usable, documented and up-to-date.

Safeguarding



It is paramount that firms consider the basics when setting up (or establishing) safeguarding accounts*

Firms must be able to evidence clearly designated safeguarding accounts held with authorised credit institutions and perform periodic due diligence on the credit institutions.

An acknowledgement letter between the credit institution and PI or EMI should set out that the funds in the safeguarding account(s) are held for the benefit of the firm's customers and that the safeguarding credit institution or custodian has no interest in, recourse against or right over the relevant funds or assets in the safeguarding account, unless permitted by the PSRs or EMRs.

An insolvency practitioner should be able to easily identify a firm's safeguarding accounts.

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* This applies to firms required to safeguard or that opt into the safeguarding regime.

Safeguarding



Firms must maintain appropriate record-keeping and reconciliation practices.

Firms must be able to identify and segregate relevant funds, as applicable to their business model, if using the segregation model.

Record-keeping must be robust and accessible at all times, including where firms are in a principal and agent / distributor model.

A firm that does not undertake frequent reconciliations will not be able to satisfy us that it is meeting its safeguarding obligations.

Safeguarding



Safeguarding and reconciliation policies and procedures must be usable, documented and up-to-date.

Safeguarding policies should be tailored to the firm's business model. A firm's policies and practices should be regularly reviewed, particularly as the business grows and evolves.

Policies should be practical, specific and usable so anyone in the business would be able to use them if needed.

Firms should also ensure staff have appropriate capability to execute policies effectively - and staff capability needs to keep pace with evolution in business models.

Wind-down planning

The FCA does not seek to prevent all firm failure. Our focus is on ensuring that when firms fail, they do so in an orderly manner such that harm is minimised.



Wind-down plans should address liquidity, operational and resolution risks, proportionate to the size and nature of the firm.



Plans should include realistic triggers to start a solvent wind-down.



Wind-down plans should address funding to cover the solvent wind-down of a firm, including the return of all customer funds.

Wind-down planning



Wind-down plans should address liquidity, operational and resolution risks, proportionate to the size and nature of the firm.

We have reviewed firms' wind-down plans and made the following observations:

Effective wind-down planning is based on the firm's business and individual circumstances.

Beyond plans for a wind-down of the entire business, the most robust plans include consideration of the potential wind-down of a product or subsidiary.

Common omissions include consideration of how to return customer funds efficiently and communication with clients/external stakeholders.

Wind-down planning



Plans should include realistic triggers to start a solvent wind-down.

We have reviewed firms' wind-down plans and made the following observations:

An effective wind-down plan will contain agreed scenarios and triggers as to when to initiate the wind down plan.

To adequately manage risks the agreed triggers should be monitored regularly.

Effective plans ensure that a firm will be prepared to wind-down when the triggers are met.

Wind-down planning



Wind-down plans should address funding to cover the solvent wind-down of a firm, including the return of all customer funds

We have reviewed firms' wind-down plans and made the following observations:

It is good practice when financial projections are regularly revisited to ensure they are up-to-date and accurate.

Risk-sensitive projections will be realistic and take into account changes in market environment.

A robust wind-down plan will consider all potential wind-down costs, such as redundancy payments and contract penalties.

Thank you for attending today's webinar.

For further information on the topics discussed today, please visit:

- **Payment Services and Electronic Money – Our Approach**
<https://www.fca.org.uk/publication/finalised-guidance/fca-approach-payment-services-electronic-money-2017.pdf>
- **Temporary Guidance on Coronavirus and Safeguarding Customers' Funds**
<https://www.fca.org.uk/publication/finalised-guidance/coronavirus-safeguarding-customers-funds-additional-guidance-payment-e-money-firms.pdf>
- **Dear CEO Letter for Payment Institutions and E-Money Issuers** <https://www.fca.org.uk/publication/correspondence/payment-services-firms-e-money-issuers-portfolio-letter.pdf>
- **FCA Webpage for Payment Institutions and E-Money Issuers** <https://www.fca.org.uk/firms/electronic-money-payment-institutions>



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