TRUST & COMPLIANCE · FUND SAFEGUARDING

A Guide to Fund Safeguarding

What safeguarding requires under EMI regulation, how client funds are held apart from FinXP's own balance sheet, and what to verify as a counterparty.

FINXP · GUIDES SERIES

"One EMI Licence, Independent, Direct SEPA access, built to say yes."

INTRODUCTION

Who this guide is for

This guide is for CFOs, finance directors, and risk and compliance teams who want an accurate picture of how client funds are protected under Electronic Money Institution regulation, and what that protection means for treasury and counterparty risk assessment.

It covers what safeguarding requires in practice, how segregation differs from a deposit guarantee, why the protection matters most in closely regulated sectors, and what to verify before relying on it.

What safeguarding means in practice

Safeguarding is a regulatory requirement for Electronic Money Institutions to keep client funds apart from their own money at all times. It is not a marketing term or an optional internal policy. It is an obligation under the EU Electronic Money Directive and, for FinXP, it is supervised by the Malta Financial Services Authority.

In practice, client funds are held separately from FinXP's operational and corporate funds. They are never used for working capital or operations, and they are not exposed through lending or investment. The obligation begins as soon as funds are received for a client and continues until those funds are paid out, transferred or returned.

> Safeguarding is structural rather than reputational. The protection is built into how the funds are held, not into an assurance that depends on the institution remaining solvent.

What the obligation covers

- ✓ All client funds held by the institution, from receipt through to payment out, transfer or return.
- ✓ Funds in every currency and account structure, since the duty attaches to the funds rather than to one account.
- ✓ A prohibition on lending, investing or applying client funds to the institution's own operations.
- ✓ Ongoing supervision by the licensing regulator rather than self-certification by the provider.

SEGREGATION

How segregation actually works

Safeguarding operates through segregation. Client funds are held in accounts separate from the institution's own accounts, so that if the institution becomes insolvent those funds can be identified and returned to clients rather than applied to the claims of general creditors.

ASPECT	SAFEGUARDED CLIENT FUNDS (FINXP)	FUNDS WITHOUT A SAFEGUARDING DUTY
Legal treatment	Held apart from FinXP's own funds at all times.	May be commingled with the provider's operational funds.
Use of funds	Never lent, invested or used for FinXP's working capital.	May be available to the provider for its own operations.
Insolvency treatment	Ring-fenced and returnable to clients ahead of general creditors.	Exposed to claims from the provider's general creditors.
Regulatory basis	Mandatory under EMI regulation and supervised by the MFSA.	Dependent entirely on the provider's own policy, if any.

Why the distinction matters to a counterparty

When assessing counterparty risk, treat segregation as the answer to a single question: what happens to our money if this provider fails? A safeguarding requirement answers it structurally. A provider without one can answer only with a policy, and a policy can change.

> Safeguarding and deposit insurance solve the same problem differently. A guarantee scheme reimburses depositors up to a limit after a failure. Segregation keeps the actual client funds outside the estate in the first place.

What to expect from a safeguarded provider

- ✓ A clear statement of where client funds are held, and on what legal basis they are held apart.
- ✓ Confirmation that the obligation arises from the licence rather than from internal policy.
- ✓ A named regulator that supervises compliance and can require evidence of it.

Why this matters more in regulated sectors

Businesses in closely supervised sectors such as iGaming, FX and brokerage, and digital assets often assume that heavier regulatory attention means more risk in how their funds are handled. For safeguarding, the opposite holds. A regulated EMI under active supervision must segregate client funds, and that obligation is verifiable.

Businesses using unregulated payment arrangements, or providers in lighter-touch jurisdictions, have no equivalent structural protection, however the relationship is described commercially. For finance directors managing treasury risk, safeguarding belongs at the start of a provider assessment rather than after commercial terms are agreed.

What a finance or risk team should check

- **Regulatory or discretionary**
  Establish whether safeguarding is a licence obligation for this provider or an internal policy it has adopted.
- **Account separation**
  Confirm that client funds sit in accounts separate from the provider's own operational accounts.
- **Independent verification**
  Ask whether the arrangement is subject to audit or regulatory verification rather than self-reporting.
- **Insolvency procedure**
  Understand what happens to safeguarded funds procedurally if the provider fails, and who administers the return.
- **Direct or intermediated**
  Check whether the provider holds the licence and the safeguarding duty itself, or through a further intermediary.

> Each of these can be answered specifically by a provider that holds the obligation itself. A provider relying on an intermediary will usually answer in general terms, because the arrangement belongs to someone else.

FAQ

Frequently asked questions

Q. How is safeguarding different from deposit insurance?

Deposit insurance reimburses depositors up to a set limit if a bank fails, drawing on an industry-funded scheme. Safeguarding works differently: client funds are kept apart from the institution's own money at all times, so on insolvency the actual funds are returned to clients rather than compensation being paid from a separate fund.

Q. What would happen to client funds if FinXP became insolvent?

Safeguarded funds sit outside FinXP's own balance sheet, so they are not available to meet the claims of general creditors. That outcome is precisely what the segregation requirement exists to produce.

Q. Is safeguarding independently verified, or self-reported?

For EMIs, safeguarding is a regulatory requirement rather than a voluntary choice, and compliance is overseen by the licensing regulator. For FinXP, that is the Malta Financial Services Authority.

Q. Does safeguarding cover funds held across multiple currencies and accounts?

Yes. The obligation attaches to the client funds themselves rather than to a single account, so it applies regardless of currency or the account structure used to hold them.

Q. When does the safeguarding obligation start and end?

It begins as soon as funds are received for a client and continues until they are paid out, transferred or returned. There is no window in which client funds sit unprotected on the institution's own balance sheet.

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Related guides in this series

A Guide to Electronic Money Institution Licensing
What an EMI licence permits, and how it differs from a banking licence.

A Guide to Choosing a Payments Partner
A due-diligence checklist covering licensing, safeguarding and scheme membership.

A Guide to Onboarding for Complex Businesses
What human-reviewed onboarding looks like, and why it suits businesses that do not fit an automated checklist.

Client funds held apart.
Never lent, never commingled.

FinXP is a privately owned European payments company with twelve years of experience supporting regulated businesses across fintechs, PSPs and banks, digital assets and Web3, marketplaces and platforms, payroll and contractors, and digital commerce.

As an independent company, FinXP has built its own infrastructure without the constraints of a parent group. With an Electronic Money Institution licence in Malta, Mastercard Principal Membership, and direct participation in CENTROlink, FinXP holds its own authorisations and safeguards client funds under MFSA supervision.

12+	€4bn+	12,000+	41
YEARS IN PAYMENTS	PROCESSED ANNUALLY	BUSINESS ACCOUNTS OPENED	EUROPEAN NATIONS, DIRECT CENTROLINK

For businesses turned away elsewhere for being “too complicated”, FinXP’s independence and experience open a route to a workable answer instead of a closed door.

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