

### How we keep your money safe

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We think it's important that you understand how we protect your money when you send it to Modulr Finance B.V. (Modulr) and we work closely with industry partners and our regulators to make sure this message is communicated clearly. Our Dutch regulator, De Nederlandsche Bank (DNB), also shares our view that the safeguarding of customer funds is a key priority. While we set this out in our terms and conditions with you, this note provides more detail on how we achieve that protection.

Background

Modulr is an Electronic Money Institution (EMI) and is licensed and regulated by De Nederlandsche Bank (DNB). This means Modulr is allowed to do certain things which include issuing electronic money (e-money) to clients, holding client funds and providing payment services to clients.

Like all EMIs registered in the Netherlands, Modulr falls under the supervision of the De Nederlandsche Bank (DNB) and the Dutch Authority for the Financial Markets (De Autoriteit Financiële Markten - AFM). DNB is responsible for issuing authorisations and exercising prudential supervision of EMIs. The AFM is responsible for supervision of market conduct. Combined they regulate the supervision of the Financial Supervision Act (Wet op het financieel toezicht - Wft). It is worth noting that all payment services within the Netherlands are subject to Wft. This means there are great similarities in how payment services are regulated at Modulr and banks. As an EMI, Modulr protects your money through "safeguarding" and this is different to how your money is protected by Credit Institutions (banks). We believe it is important for customers to understand this difference, so we will explain safeguarding below.

## How Modulr protects your money

We hold 100% of your funds separately from Modulr's own funds and in an account at a bank. The account is clearly identifiable as being for our clients. This means that any money you send to your Modulr account is held separately from Modulr's money and we must put it into an account held with a bank where it is labelled as being specifically for our clients. These bank accounts are held by a separate legal entity, a 'stichting' which is similar to a foundation, that has the sole purpose of holding the funds in accordance with the Segregation Structure prescribed by DNB and referred to as stichting derdengelden (named "Stichting" Custodian Modulr Finance"). The Modulr Stichting is an independent custodian that holds the bank accounts according to Dutch law. The rules concerning how we protect your money in this way are referred to as 'safeguarding'. We safeguard your money through the use of one A rated bank, with both of these being authorised and regulated in their own right. In the unlikely event that Modulr ceases trading, the safeguarding account is protected from other creditors making a claim against Modulr. In this scenario, you would get the majority of your money back, except for costs deducted by an insolvency professional (see below) for distributing the money to you, which will only be deducted from the safeguarded balances if there are no funds available from Modulr itself.

## Credit Institutions (banks) protect your money through the Deposit Guarantee Scheme ("DGS") (depositogarantiestelsel, "DGS") in The Netherlands, which

In what way is safeguarding different from the protection given by Credit

DNB and if a DGS-protected firm ceases trading, the DGS will pay back eligible customers up to a maximum compensation amount. This happens regardless of whether the DGS-protected firm actually has that money. If Modulr ceases trading, our customers' claims will be paid from the safeguarding account. As Modulr cannot use this protected money, there will be enough in the safeguarding account at all times to cover all customer balances, subject to insolvency practitioner costs. As an EMI, we're not allowed to lend your money or make any investments with it. The pay-out may take longer than it would with the DGS.

Further funds an EMI must hold

# To reduce risk further, an EMI is also required to hold additional 'own funds' to the value of 2% of all client money that it holds and has a responsibility to notify the DNB if funds fall below this level. This money is held separately, over and

Institutions (or banks)?

above your money that we hold. The primary purpose of these additional 2% own funds is to ensure that, in the case of any financial issue with an EMI, there's enough money to support an orderly business winddown and the return of funds to clients. The DNB can also intervene in the running of an EMI, if it has concerns around their financial stability, in order to ensure your money is protected. This can include requiring the EMI to hold more additional 'own funds'

Insolvency

In addition to the safeguarding and further 'capital' requirements we're also

required to prepare orderly wind down planning. These plans include the early identification of a potential insolvency event and the return of your funds before an insolvency process. We must provide these plans to DNB, and they are subject

to external audit review. This further reduces the unlikely event of your funds

In the unlikely event that Modulr becomes insolvent, your funds are separate from the funds of Modulr and therefore the creditors of Modulr (other third parties that are owed money from Modulr) are not able to make a claim or have any effect

An independent insolvency professional (referred to as a 'guardian) will be appointed to return your funds to you. However, where a guardian is unable to take their costs of sending the funds to you from elsewhere (for example, the general pot of Modulr funds remaining or from the additional 2% own funds described above) they are entitled to take their costs from your funds. In this circumstance, while you'll likely receive most of your funds you may not receive the total value if costs are deducted.

In the unlikely event that either of these banks were to become insolvent / bankrupt, what protection is offered against the safeguarded funds that they hold for Modulr?

The safeguarding accounts we hold with JPM are designated specifically as "client accounts" which means funds held therein would not form part of the estate of JPM in the unlikely event of their insolvency. Additionally, special insolvency regimes are in place (with local differences) to assist with the efficient return of assets to customers in these circumstances.

For the purposes of safeguarding in the EU, Modulr use JP Morgan (JPM) only.

# We hope this note was useful and helps you understand how your money is protected. Please do not hesitate to contact your customer success representative if you have any additional questions on the ways in which Modulr

protects client funds.

**Further information** 

on your funds.

Yours faithfully

Modulr

