



Banc Ceannais na hÉireann  
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## Consultation on Authorisation of Regulated Firms, Funds and Intermediaries: Process Improvements and Service Standards

### Consultation Paper CP 67



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## 1. Executive Summary

Authorisation of regulated financial institutions and funds is an important supervisory gateway and a significant operational activity of the Central Bank. The Central Bank's Authorisation work seeks to ensure a rigorous assessment of applicable regulatory standards through an efficient process that recognises the competitive pressures of getting to market in a timely manner. Evolving regulatory standards and market innovation provide a changing backdrop that constantly challenges the ability of the Bank to ensure the right balance between scrutiny and efficiency.

This paper describes the programme of work at the Central Bank to improve the authorisation processes applied to firms, funds and intermediaries with the goal of improving efficiency and timeliness of response, while maintaining rigorous assessment of new applicants. This paper also sets out proposed new service standards for authorisation activities across a variety of sectors and the proposed dates for their introduction.

The Central Bank has initiated a programme of process re-engineering and automation designed to improve efficiency and cost effectiveness relating to key supervisory processes. This programme provides an opportunity to take the risk-based principles that govern our approach to supervision and apply them to authorisation and other processes. This programme commenced in 2012 with the creation of the Regulatory Transactions Division, which has centralised responsibility for on-line reporting and for processing pre-approval controlled function (fitness and probity) applications, through on-line applications and automated workflow. The next phase of this work programme, over the current three year strategic plan (2013-2015), is to progressively streamline and provide automated work flow processing, including on-line application functionality, for key high-volume authorisation activities. This paper provides an overview of the Central

Bank's strategy in this area including the main elements and timelines of our work programme.

Our work is already well progressed and has involved the redesign of streamlined authorisations and post-authorisations processes for funds and fund service providers. Similar process re-engineering is taking place for retail intermediaries. We have found that a significant number of process steps can be eliminated from existing application processes without compromising regulatory scrutiny. These changes, which are described in more detail in this paper, will be rolled out for funds and fund service providers in Q1 2014<sup>1</sup> and for retail intermediaries in Q3 2014<sup>2</sup>. On-line applications and automated work flow processes are cost-effective changes for sectors with high-volumes of applications but are unlikely to be appropriate for low volume sectors, where applications are infrequent and "lumpy". The Central Bank has, however, recently reviewed the operation of its investment firm authorisations activities in order to develop a more risk-based approach and to improve the timeliness of application processing. The changes recommended by the review and our proposed implementation timeline are detailed further in this paper.

In terms of consultation on this matter:

- The Central Bank has separately concluded its consultation regarding levies for regulated firms, where we have decided to introduce application fees from 2014 to help cover the costs of processing applications directly from the applicant, rather than imposing these costs on existing regulated entities.
- The Central Bank intends to have a further consultation in 2014 on the quantum of these fees - see Section 10 of this paper.

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<sup>1</sup> With Service Standards published in Q1 2014, and initially measured in Q2 2014.

<sup>2</sup> With Service Standards published in Q3 2014, and initially measured in Q4 2014.

- In conjunction with this policy, the Central Bank will introduce service standards for its authorisation activities, differentiated by principal sector/applicant type, and is committing to publish regular information on our performance against these standards. We will also take account of the completeness of applications in determining the calculation of performance against the standards. These standards will be introduced by industry sector on a phased basis. We have set out our proposed standards in this paper for comment.

The Central Bank is committed to dialogue with firms as part of the application process. The Bank encourages early engagement, before a formal application, for more complex or innovative structures, although we expect firms to take their own legal advice and do their homework, rather than rely on our staff as consultants for poorly thought through proposals. To help improve the level of engagement, we are also committing to introduce a post-authorisation feedback mechanism, in a manner appropriate to the size and scale of the applicant.

**Comments on the matters discussed in this paper are invited by Monday October 28<sup>th</sup> 2013 to [AuthorisationStandards@centralbank.ie](mailto:AuthorisationStandards@centralbank.ie).**

## 2. Introduction

Authorisation refers to the process of a Financial Service Provider<sup>3</sup> (hereinafter “FSP”) obtaining the approval of the Central Bank to carry out certain regulated activities. The Central Bank’s authorisation process includes at present completion of paper based application forms which request basic information such as: head office, legal & organisational structure, owners and qualifying shareholders, financial situation, regulated and unregulated activities and directors.

The typical criteria for assessing applications for authorisation are:

- Acceptability and transparency of the ownership of the FSP;
- Fitness and probity of individual directors and senior management;
- Adequacy of proposed capital to be invested;
- Adequacy of internal controls, including anti-money laundering and business continuity procedures and risk management systems;
- Level of resources and expertise of staff;
- Copies of constitutional documents, e.g. Certificate of Incorporation, Memorandum & Articles of Association, partnership agreements etc.;
- Copies of legal agreements, e.g. between the firm/fund and its service providers; and
- The firm’s business plan which should set out how the firm intends to operate and comply with its regulatory obligations.

It should be noted that these criteria may vary by sector type.

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<sup>3</sup> FSPs includes Brokers/Retail Intermediaries, Bureaux de Change Businesses, Credit Institutions, Credit Unions, Electronic Money Institutions, Funds, Fund Service Providers, Insurance/Reinsurance Undertakings, Investment Firms, Moneylenders, Money Transmission Businesses, Payment Institutions, Regulated Markets, Retail Credit Firms/Home Reversion Firms

The granting of any new authorisation is a key element of the supervisory framework as it is where the supervisory authorities exercise the ‘gatekeeper’ role to permit or refuse an applicant to provide financial services to the public. Having regard for the Central Bank’s statutory obligations, the Central Bank’s authorisation processes are designed to deliver a rigorous level of scrutiny so as to mitigate the risk that firms could pose harm to customers, counterparties and the wider market once they are authorised and start operating and consequently divert scarce supervisory resources. The process is designed to assist in the timely consideration of new applications and make the most effective and efficient use of authorisation and supervision resources.

The authorisation framework adopts a risk based approach to the making of regulatory decisions, with higher levels of seniority being required to process applications as the nature, scale and complexity of the applicant’s business increases. A three tier framework for authorisation is in operation within the Central Bank.

*Tier 1* - Applicants in this tier will be considered for approval by the Authorisation Committee. This Committee is assembled, as required, from the following panel of officers: (a) Deputy Governor Financial Regulation (b) Directors and (c) Risk Advisors. The Deputy Governor of Financial Regulation notifies the Commission of all approvals granted by the Authorisation Committee. Examples of the types of firm that may be authorised under this tier include Banks and Insurance Undertakings.

*Tier 2* - For this mid-tier of firms, authorisation would take place at the level of the Head of Division of the relevant supervisory department with delegation permissible to the Deputy Head of

Division in his/her absence. Examples of the types of firm that may be authorised under this tier include Credit Unions, Fund Service Providers, Investment Funds, Investment Firms and Moneylenders.

*Tier 3* - For firms in the lowest risk category, authorisations would be granted at divisional management level. Examples of the types of firm that may be authorised under this tier include Retail Intermediaries and Bureaux de Change.

This tiered framework was adopted in 2010 and means that decisions on major applications no longer need to await the next Commission meeting, which was previously the case prior to the delegation to the Authorisation Committee. In 2012 the Central Bank authorised approximately 1,289 FSPs and are currently responsible for supervising approximately 13,000 entities. Table 1 below highlights authorisations per directorate for both 2011 and 2012, and Table 2 a more detailed breakdown by industry sector for 2012.

**Table 1: Central Bank Authorisations by directorate, 2011 and 2012**

Directorate	2011		2012	
	Volume	%	Volume	%
Markets <sup>4</sup>	1,033	77	943	73
Consumer Protection <sup>5</sup>	305	23	343	27
Credit Institutions and Insurance	8	0	3	0
<b>TOTAL</b>	<b>1,346</b>	<b>100%</b>	<b>1,289</b>	<b>100%</b>

<sup>4</sup> Includes Funds; Fund Service Providers; and MiFID Investment Firms

<sup>5</sup> Includes Payment Firms (Payment Institutions, Electronic Money Institutions and Money Transmission Businesses); Moneylenders; Mortgage, Insurance, Re-Insurance and Investment Intermediaries; and Bureaux De Change Businesses.

**Table 2: Authorisations by Industry Sector, 2011 and 2012**

Industry Sector	2011		2012	
	Volume	%	Volume	%
Qualified Investor Funds (QIFs)	320	24%	367	28%
UCITS Funds	440	33%	360	28%
Mortgage, Insurance, Re-Insurance, Investment Brokers	255	19%	300	23%
Investment Managers	124	9%	103	8%
Moneylenders	48	4%	43	4%
Promoter & Investment Manager	58	4%	37	3%
UCITS Self-Managed Investment Companies	37	3%	24	2%
Promoters	13	1%	16	1%
Funds - Other	17	1%	16	1%
Non UCITS Management Companies	10	1%	12	1%
Investment Firms – MIFiD	6	1%	5	1%
Fund Administrators	2	0%	2	0%
Life Insurers	2	0%	2	0%
Non-Life Insurers	4	0%	1	0%
UCITS Management Companies	4	0%	1	0%
Banking	2	0%	0	0%
Payment Institutions	2	0%	0	0%
Trustees (Branch)	1	0%	0	0%
Trustees (IIA)	1	0%	0	0%
Bureau De Change Businesses	0	0%	0	0%
Credit Unions	0	0%	0	0%
Electronic Money Institutions	0	0%	0	0%
Investment Firms – IIA Non- Retail	0	0%	0	0%
Money Transmission Business	0	0%	0	0%
Regulated Markets, Stockbrokers	0	0%	0	0%
Reinsurance	0	0%	0	0%
Retail Credit Firms / Home Reversion Firms	0	0%	0	0%
<b>TOTAL</b>	<b>1,346</b>	<b>100%</b>	<b>1,289</b>	<b>100%</b>

The Central Bank Strategic Plan (2013-2015) sets out eight high level goals derived from the Bank's current and pending statutory objectives and responsibilities.

It is important when authorising new FSPs that the Central Bank applies a rigorous level of scrutiny commensurate with the goals of "ensuring the proper and effective regulation of financial institutions and markets", and the "protection of consumers of financial services".

A further high-level goal is to "ensure that efficiency and cost-effectiveness will underpin all our operations" and that "the bank will strive to have the people, systems and structures in place to maximise our effectiveness".

The Central Bank's preferred approach is to improve operational efficiency and cost control without reducing the level of scrutiny required in line with our statutory objectives. This is currently being achieved through the re-engineering of authorisations processes and deployment of appropriate online and workflow technology to support and automate the authorisations process.

### **3. Process Improvements Strategy for high volume processes**

The aim of the Regulatory Transactions Strategy (RTS) is to deliver more effective and efficient regulatory processes; and to improve the quality of both regulatory information and service to all stakeholders. In this context regulatory transactions are supervisory processes which are suited to standard processing, controls and a high degree of automation. By

centralising, streamlining and automating processes, implementing the RTS will:

- Reduce administrative work, thus allowing staff to increase their focus on authorisation and supervision;
- Improve the consistency of decision making for regulatory transactions;
- Deliver an information gathering portal that allows the Central Bank to adapt more quickly to market changes;
- Deliver a clearly measurable and transparent service with improved turnaround times; and
- Improve the quality of regulatory information.

In devising the strategy for authorisations, the Central Bank undertook a combination of primary and secondary research to ensure the optimal process is delivered, including inter-alia review meetings with peer European Regulators, analysis of best practice in non-European jurisdictions, and stakeholder engagement with representative trade bodies.

Following a detailed analysis of authorisation volumes by sector it was decided to exclude Credit Institutions, Credit Unions, Insurance Companies and Investment Firms from the RTS. This decision was based on the fact that the authorisations process for these sectors was low volume, highly specialised and thus not suited to significant process re-engineering and automation. (However, process improvements are also being introduced for investment firm applications.)

All high volume current authorisation processes were documented with key steps being cross-referenced against legislative requirements to ensure non-mandatory tasks would be challenged in the subsequent re-engineering initiative. Key Performance Indicators (KPIs) were defined and all existing

processes measured in accordance with these KPIs to determine the average standard throughput times and resource effort required to authorise a FSP.

The process re-engineering exercise was underpinned by a number of agreed strategic organisational principles to deliver a significantly improved model, including:

- Moving towards a paperless environment by accepting applications and supporting documentation only in an electronic format;
- Enabling the Applicant / Legal Firm to submit the application online through a new secure portal and user-friendly online application form with the documentation being stored electronically for future reference;
- Promoting the re-use of approved authorisation documentation in future processes, such as passporting;
- Maximising self-certification by the FSPs;
- Promoting dialogue (exchange of comments on applications) through a secure on-line portal;
- Maximising on-line validation of initial submission;
- Issuing of authorisation letters and relevant certificates of authorisations online;
- Providing Industry with online functionality to track the progress of applications;
- Introducing electronic workflow which will support the movement of tasks from one internal division to another and obviate the need to move paper around;
- Creating a central repository of authorisation and supervisory information for each FSP by bringing the new authorisation and online returns together; and
- Maintaining a complete electronic audit trail of submissions, communications, comments, edits, document versions, etc.

A full life cycle approach was adopted whereby all core regulatory processes relating to a FSP were reviewed. This full life cycle approach comprised:

- Authorisation / renewal of authorisation of entity;
- Extension to authorisation (to new areas of regulated activity);
- Passporting inwards and outwards to other European Jurisdictions;
- Acquiring transactions;
- Administrative changes (e.g. product producer appointments, change of Administrator / Investment Manager, address changes); and
- Revocations.

All existing processes were constructively challenged; with non-value added steps eliminated, culminating in re-engineered processes that maximise process standardisation and consistency where possible. The Bank is currently defining appropriate KPIs for the new processes, which will underpin new service standards on turnaround times.

The Bank is currently engaged in a public procurement process for a regulatory transactions software solution to underpin the new processes, and expect to conclude this procurement process in Q3 2013.

The implementation roadmap is focused on ensuring those sectors with the highest volumes are targeted first. Hence the Bank will deliver a solution for the funds sector by Q1 2014, followed by a solution for Retail Intermediaries in Q3 2014. The post-authorisation and voluntary revocation processes will also be reviewed as part of the RTS programme, with service standards published accordingly at a later date. Table 3 refers.

**Table 3: RTS Authorisations Roadmap – Key Milestones**

	<b>Credit Institutions, Credit Unions &amp; Insurance Undertakings</b>	<b>Markets</b>	<b>Consumer Protection</b>
<b>Authorisations</b>	n/a	Funds & Fund Service Providers.  Target Date: Q1 2014  Scope excludes Investment firms.	Retail Intermediaries and other regulated entities.  Target Date: Q3 2014
<b>Passporting In</b>	Target Date: 2015  Scope includes Low Impact Firms within Insurance & Banking.	Target Date: 2015	Target Date: 2015
<b>Passporting Out</b>	n/a	Target Date: 2015	Target Date: 2015

## **4. Credit Institutions and Insurance Undertakings Authorisation**

The business of (re)insurance companies can be broadly split into the categories of life, non-life and reinsurance. However, in reality many firms and the risks they write are heterogeneous and therefore Insurance Supervision must carefully consider each application for authorisation on a case-by-case basis.

While different categorisation does not apply in the case of bank licence applications, the business model can differ in the case of each applicant, resulting in each one requiring case by case assessment.

The number of applications for both Insurance Undertakings and Credit Institutions has tapered off since the financial crises; the Insurance Supervision division has over the past 18 months had to consider applications for authorisation including low impact Special Purpose Reinsurance Vehicle (SPRVs), medium low impact life companies writing cross border business and a high impact domestic non-life company. In the same period one bank licence has been granted. All (re)insurance authorisation applications (other than captives and SPRVs), in addition to bank licence applications must be brought to the Authorisations Committee. The Central Bank has published Guidelines on Completing and Submitting Licence Applications for both banking and insurance applications and seven different checklists depending on the type of authorisations being sought. Service standards currently apply for both banking and insurance applications based on completed applications, but relating to elapsed time with the Central Bank (to take account of the time inquiries rest with firms). These would be replaced by the service standards described in Section 11 of

this paper. Service Standards will apply from Q1 2014 with performance data published on a half-yearly basis in arrears.

## 5. Funds & Fund Service Providers Authorisation

The process for considering applications for fund and fund service providers authorisation has been reviewed in the last twelve months with a view to (a) re-engineering the process; and (b) creating an electronic (paperless) workflow.

The review of the current process has identified a number of sources of inefficiency:

- The volume of paper submitted is substantial. The application is typically made by a law firm who sends multiple documents hardcopy<sup>6</sup> of varying lengths depending on the complexity of the fund. Typically this will amount to 200-250 pages. By the end of the application process, the full paper-trail may amount to 800 pages;
- Central Bank queries in relation to the application are typically exchanged via a number of media, i.e. email, telephone and letter which must be collated and retained in the application file;
- The final set of agreed documentation and all application forms are retained by the Central Bank and are kept off-site in an archive facility;
- The flow of communication is not automated, therefore time may be lost during exchanges between the Central Bank and the law firm acting on behalf of the applicant;

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<sup>6</sup> For a UCITS this includes the following: a prospectus document, a constitutional document, a custodian agreement, administration agreement, investment management agreement, management agreement, distribution agreement and investor advisor agreement. In addition, applications forms and confirmations will attach to each of these.

- The vast volume of paper, handwritten notes and manual filing can lead to a risk of human error, misplacement of key important documents and incur filing, printing and stationery costs; and
- Incomplete and/or inaccurate submissions occur and this may impact other work which the authorisation team have in hand.

During the course of 2012, the Central Bank authorised 743 investment funds, revoked the authorisation of 485 funds and processed 7,896 post authorisation items. The average authorisation time (within the Central Bank) for these funds was 3.5 weeks. The time taken to process an application is contingent on its structure (i.e. sub-fund or standalone/umbrella fund) and the complexity of the investment strategy being employed. The quality of the information provided and the approval status of related parties, i.e. fund service providers will also have a bearing on the authorisation timeframes as will the timeliness of the response by the applicant. Applications are principally dealt with in chronological order of receipt so it is imperative to ensure that such applications are received in good time (this is of particular relevance for the approval of fund service providers, in advance of submission of the fund application). Incomplete applications will be returned to applicants. It is also very important that a pre-submission is made in relation to any unique / complex proposals.

In the case of a fund service provider application, although the process is similar to a fund application, the nature and scope of documentation required and the manner of review varies depending on the relevant legislation underpinning each authorised service. For example, fund administrators/trustees are authorised under the provisions of the Investment Intermediaries Act, 1990 while trustees established as branches of EU credit institutions and UCITS and non-UCITS management companies are subject

to the provisions of Investment Fund Legislation.<sup>7</sup> From July 2013 the Central Bank will issue authorisations to Alternative Investment Fund Managers under the provisions of the AIFM Regulations<sup>8</sup>.

A typical fund service provider application will comprise a detailed application form, detailed business plan, financial/business projections, service level agreements, as applicable and other ad-hoc documentation depending on the entity type and applicable authorisation requirements as set out in legislation. As for a fund application, the process involves a detailed review, incorporating a four-eyes principle and escalation to senior staff in the event of non-standard issues arising, resulting in multiple sets of comments issuing to the applicant or its legal adviser until the Central Bank is sufficiently satisfied with the outcome to enable authorisation to be granted.

Also included in the fund service provider category although not authorised by the Central Bank are applications by non-resident entities seeking to act as investment manager and/or promoter of Irish funds. While the promoter regime for non-UCITS (alternative) funds will be dis-applied with effect from 22 July 2013 on the transposition of the Alternative Investment Managers Directive (AIFMD) into Irish law, the regime will still be in place for UCITS funds (and existing non-UCITS funds during the transitional period of 1 year). Typically these entities are authorised in their own jurisdiction for the performance of relevant activities but the Central Bank undertakes an assessment of their suitability to act for Irish funds. This assessment focusses primarily on the track record/experience and expertise

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<sup>7</sup> UCITS Regulations 2009, Unit Trusts Act 1990, Part XIII of the Companies Act, 1990, Investment Limited Partnerships Act 1994 and Investment Funds, Companies and Miscellaneous Provisions Act 2005.

<sup>8</sup> Awaiting implementing Regulations transposing Directive 2011/61/EC (Alternative Investment Managers Directive) into Irish law.

of the relevant entity in the relevant fund type, particularly where such fund specialises in investment in a particular industry sector. While this review is not in-depth, these are high volume applications with quick turnaround.

Volumes of applications for all fund service provider types for 2012 are contained in Table 2 above.

The RTS re-engineering and automation programme will provide specific benefits for the Funds and Fund Service Providers Authorisations processes by (a) addressing inefficiencies in the existing process and reducing the overall cost of processing authorisations; (b) bringing the totality of authorisation and supervisory information together to support on-going supervision of a large population of regulated entities; and (c) building a process which can adapt to future changes in regulatory requirements<sup>9</sup>.

The RTS process reengineering initiative has identified a total of 35 process steps out of 59 that will be eliminated in the future funds authorisations process. These have been carefully assessed to ensure that rigour of scrutiny is maintained and that all applicable standards are applied.

Service standards (see below) will apply from Q2 2014, with performance data initially published one quarter in arrears, and thereafter on a half-yearly basis in arrears.

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<sup>9</sup> UCITS V and VI, AIFMD and the Regulations on European venture capital funds, European social entrepreneurship funds, Long-term investment funds and Money Market Funds.

## 6. Retail Intermediary Authorisation

Retail Intermediaries are composed of investment, insurance and mortgage intermediaries. They are authorised under the Investment Intermediaries Act 1995 (IIA), the Insurance Mediation Regulations 2005 (IMR), and the Consumer Credit Act 1995 (CCA) respectively. In line with the Central Bank's formal risk assessment framework, PRISM, retail intermediaries are ranked as low impact and the regulatory approach continues to be developed accordingly.

The RTD re-engineering initiative will provide for a more streamlined application process for Retail Intermediaries with improved efficiency relating to the initial receipt phase of applications and issuance of the authorisation letter, relevant certificates of authorisation and accompanying documentation. As stated in the Introduction, the authorisation process is regarded as one of the key gatekeeper roles, and therefore it is critical that a suitably robust and challenging application process remains in place. The assessment of information will remain a manual process.

During the course of 2012, 253<sup>10</sup> retail intermediaries were authorised. The average authorisation time for these firms was 5 months, with the range of authorisation time being from 21 days to just under 18 months. As can be seen from the above, the time taken to process an application varies greatly and is effected by the timely receipt of relevant information, the quality of that information and the on-going engagement between the applicant firm

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<sup>10</sup> 253 firms were authorised in 2012, whereas the figure of 300 in table 2 is the number of authorisation types issued – i.e. some firms would have been authorised as one or more of an IIA firm, IMR firm or CCA.

and the Central Bank. Applications are principally dealt with in chronological order of receipt so it is imperative to ensure that such applications are received in good time. Incomplete applications will be returned to applicants and applications which remain dormant with no positive engagement from applicant firms will be returned to firms.

In parallel with the RTS initiative the Consumer Protection: Insurance, Investment and Intermediaries Division also commenced a separate review of the overall authorisation process in 2012, the results of which will be published in mid-2013. As part of this review the division is planning on introducing a unified application form for all retail intermediaries to replace the existing three forms.

Service standards will apply from Q4 2014, with performance data initially published one quarter in arrears, and thereafter on a half-yearly basis in arrears.

## **7. Payment Firms<sup>11</sup> and Bureaux de Change Businesses Authorisations**

Payment institutions and Electronic Money Institutions are authorised under the European Communities (Payment Services) Regulations 2009 and the European Communities (Electronic Money) Regulations 2011 respectively, while Money Transmission Businesses and Bureaux de Change Businesses are both authorised under Part V of the Central Bank Act 1997 (as amended).

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<sup>11</sup> Payment Firms include Payment Institutions, Electronic Money Institutions and Money Transmission Businesses

Prior to the receipt of an application there is pre-engagement where the Central Bank will discuss the potential applicants' business and operating model. This will take the form of a submission of a transaction flow diagram and a preliminary meeting (due to the nature of the services of Bureaux de Change Businesses, they are not required to submit a transaction flow diagram). If there are any issues at this stage, these are relayed to the applicant for further consideration. The Bank has issued guidance on the pre-engagement phase and on completing and submitting an application for all industry sectors within this sector.

Where an application submission is made, the Bank conducts an initial review for completeness. If the quality of the application is not of the required standard it will be returned to the applicant and applications that remain dormant with no positive engagement from applicant firms will be returned to firms. Applications are principally dealt with in chronological order of receipt.

Upon receipt of a completed application, the Central Bank will review the firm's documentation with reference to the relevant legislation. Where there are issues in the submission these will be notified to the applicant. The authorisation process also involves an assessment of individuals providing pre-approval controlled functions which assesses these persons' fitness and probity to perform such functions.

The Bank currently takes 3 months to process a completed application.

## 8. Moneylenders Authorisation

Under the Consumer Credit Act, 1995, moneylenders have to apply to the Central Bank to have their licences renewed annually. The Central Bank has a robust licensing process in place with licensed moneylenders having to comply with (among others) the requirements of the:

- Consumer Protection Code for Licensed Moneylenders (the Code);
- European Communities (Consumer Credit Agreements) Regulations 2010; and
- Consumer Credit Act, 1995.

Prior to receiving a new application there will be pre-engagement where the Central Bank will discuss the potential applicants' business model and proposed costs of credit. If there are any issues at this stage, they will be relayed to the FSP for further consideration. The Central Bank issued guidance on completing and submitting an application in April 2011.

When a new/renewal application is received (assuming the fitness and probity applications for the individuals involved have been assessed), the Bank conducts an initial review for completeness. If the quality of the application is not of the required standard and/or signed, the entire application may be returned to the entity. Applications are principally dealt with in chronological order of receipt.

Assuming the application is complete, the Central Bank will review the firm's documentation with reference to the relevant legislation and the responses provided in the application form and draft query letters/emails for the entity to respond to with requested amendments to documentation/rates/business model etc.

A standard renewal application received during the annual licensing round, when approximately two thirds of all licensed moneylenders' licenses expire, will, if there are no unresolved issues, take approximately 8 weeks to process once received by the Central Bank. A standard renewal application received outside of the round will, if there are no unresolved issues, take approximately 4 weeks to process once received by the Central Bank.

The Central Bank currently takes on average 12 weeks to process a fully complete application.

## **9. Investment Firms Authorisation**

In 2012, the process for authorising Investment firms under the Markets in Financial Instruments Directive (MiFID) and Investment Intermediaries Act 1995 (IIA) was reviewed. This was prompted, inter alia, by the challenges arising from recent applications which related to FSPs with substantially different business models and regulatory risks.

The main weaknesses identified in the review are:

- The authorisation process does not discriminate between applicant business models which present different regulatory risks;
- The application form is too detailed and requires firms to provide answers on a wide range of areas, thus resulting in lengthy comments on matters of varying levels of significance;
- Applications are often subject to material revision by the firm during the process and may be of poor quality;
- In order to shorten the length of time involved, improvements could be made to the project management discipline required to process the

applications given the multiple parts of the Bank which must be engaged; and

- The process of providing comments through written correspondence can be protracted and could be sped up through the use of electronic communications.

A revised approach to authorisations will address these concerns. The aim of this new process is:

- To introduce a more efficient risk-based approach to applications where the Bank makes clear decisions to return, refuse or approve an application in a timely manner; and
- To deliver a more predictable process where the applicant firm has a clearer picture of the time-frames and likely outcomes based on the quality of the application.

It is proposed to introduce a two tier process for MiFID and IIA applications for authorisation in Q4 2013 based on the perceived regulatory risks which the applications present. The key developments in the process are as follows:

- The current application forms and guidance material will be substantially revised, providing greater clarity on what constitutes a completed application and requiring a clear assessment by the applicant firm of their specific intended legal authorisation status;
- Applicants for authorisation will be channelled into two streams: Level 1 for more straightforward applications; and Level 2 for firms which present a heightened level of regulatory risk or business model complexity;
- As an alternative to answering some of the tick box questions which had appeared in the previous application forms, there will be greater

reliance on applicant firms' descriptions of certain policies in relation to specific areas and firms' confirmation of compliance with the detailed rules and legislative requirements. The Bank will take a risk-based approach to decide which of these items to validate. Upon authorisation, supervisory teams will have regard for these confirmations when they conduct their full risk assessments and investigations;

- The application process will be run by an authorisation team which project manages the application and gathers the relevant inputs from other parts of the Central Bank related to, for example fitness and probity, conduct of business, legal, anti-money laundering, supervisory and financial stability issues, in a timely manner; and
- The Central Bank will set out clear guidelines as to (a) the level of interaction pre-application; (b) the required quality for applications to be accepted; and (c) the circumstances under which applications are deemed to have lapsed.

While more complex and innovative applications will no doubt still require intensive engagement, our objective from these and other internal changes is to improve the turn-around time for more straightforward MiFID applications. As discussed below, new service standards will be set for authorised firms which will cover this sector. The following is a summary of the proposed Level 1 and Level 2 application processes:

#### **Level 1 Application Process**

- The Level 1 process will apply to small firms with non-complex investment strategies.
- As part of the process the Central Bank will, where the firm wishes, facilitate a preliminary meeting with the applicant firm as outlined in the Level 2 process.

- On receipt of an application, the Central Bank will review the application with a view to determining whether the application is complete. If that is not the case, within two weeks of receipt of the application the Central Bank will write to the applicant and set out the areas where the application is incomplete. The firm will have three months from the receipt of the letter outlining why the application is incomplete to re-file a complete application without loss of the application fee.
- On receipt of a complete application, the Central Bank will commence its review. This review will focus on key areas such as qualifying shareholders, directors, staffing, financial projections (including regulatory capital) and client assets. With the exception of client assets, policies and procedures will not be submitted but the applicant must confirm that it is in compliance with the relevant legislation. The applicant must also submit arrangements for the orderly winding down of the business, with appropriate protection of client assets, should this become necessary.
- It is expected that the majority of issues/comments will be addressed in the applicant's second submission. With the exception of minor changes, the Central Bank will not review more than two submissions before reaching a decision.

#### **Level 2 Application Process**

- The Level 2 process will apply to larger firms with complex investment strategies e.g. own account trading.
- As part of the process the Central Bank will require the applicant to attend a preliminary meeting. The preliminary meeting is useful to inform the applicant firm of the authorisation process and timeframes and to discuss the applicant's proposed business model. The applicant will, in advance of the meeting, provide a high level key facts document to include a clear rationale for authorisation and a legal opinion stating

which activities it requires authorisation for. Following this meeting, the Central Bank will inform the applicant within two weeks of this meeting what information and documents are required in a complete application. The Central Bank will publish guidance on what constitutes a complete application.

- On receipt of an application, the Central Bank will review the application with a view to determining whether the application is complete. If that is not the case, within two weeks of receipt of the application the Central Bank will write to the applicant and set out the areas where the application is incomplete. The firm will have three months from the receipt of the letter outlining why the application is incomplete to re-file a complete application without loss of the application fee.
- On receipt of a complete application, the Central Bank will commence its review. These applications will be subject to a more detailed business model and risk analysis. In addition to the areas identified in the Level 1 process, the compliance, risk management and internal audit functions, outsourcing, conflict of interest and business continuity policies will be assessed. With the exception of client assets, policies and procedures will not be submitted but the applicant must confirm that it is in compliance with the relevant legislation. The applicant must also submit arrangements for the orderly winding down of the business, with appropriate protection of client assets, should this become necessary.
- It is expected that the majority of issues/comments will be addressed in the applicant's second and third submissions. With the exception of minor changes, the Central Bank will not review more than three submissions before reaching a decision.

Incomplete applications will be returned and not processed. Applications which have not been actioned by the applicant for an agreed period of time will be considered dormant and will be returned. Any significant change to the business plan or shareholder structure of the applicant during the process will result in the return of the application and the applicant must resubmit the application.

The Central Bank will invite stakeholders to engage in a separate consultation process in September and October 2013, where feedback and input will be sought in relation to the new application process.

## 10. Application Fees

In Section 7.1 of *CP61 Consultation on Impact Based Levies and other Related Matters* the Bank set out its thoughts and rationale for reducing dependence on periodic (annual) levies by introducing fees for demand-driven services such as the processing of applications for authorisation.

A number of respondents to CP61 commented on the potential impact of the introduction of application fees on Ireland's competitiveness in attracting new regulated entities and that they considered the illustrative application fees set out in CP61 to be high when benchmarked against other EEA jurisdictions. Reference was also made to a perceived lack of clear guidance as to what is expected of an applicant by the Bank.

In our view, existing regulated FSPs should not be required to subsidise the cost of processing applications for new FSP authorisations. In addition, application fee levels will be carefully calibrated to take account of both operational costs and comparative fees in other jurisdictions. The Central

Bank has therefore decided to follow through with its proposals to introduce application fees. Consistent with our High Level Goal of operational efficiency and organisational effectiveness, such fees will be payable at the time an application for authorisation is submitted and will not be refundable in the event that an application for authorisation is withdrawn or refused.

The introduction of application fees will, in some instances, require the introduction of enabling provisions to primary legislation. For this reason, but also to provide an opportunity for further review and consultation in relation to the appropriate quantum of application fees, the Bank intends to defer, until 2014, the introduction of application fees.

In light of the introduction of application fees and having regard to the feedback on competitiveness, the Central Bank appreciates the importance of ensuring a high level of service delivery, while ensuring effective scrutiny. As a result, and as described in further detail below, the Central Bank is proposing to introduce service standards for its handling of authorisations.

## **11. Authorisation Performance and Draft Service Standards**

The Central Bank is now commencing a consultation process relating to the introduction of new authorisation service standards as set in this paper. We may review and refine these draft standards following this consultation prior to the launch of new systems in 2014.

To ensure alignment of the publication of half-yearly service standards performance reports across all sectors, the Bank may publish an initial quarterly performance report per sector on an exceptional basis.

### 11.1. Firms (Banks, Insurance Undertakings, Fund Service Providers<sup>12</sup>, Payment Firms<sup>13</sup>, Bureaux de Change Businesses, Moneylenders, MiFID Firms, Investment Firms and Regulated Markets)

Standard	Target	Standards Commence <sup>14</sup>
<b>A1.1</b> To process complete applications	100% within 6 months of becoming complete	Q1 2014
<b>A1.2</b> To process complete applications	75% within 3 months of becoming complete	Q1 2014
<b>A.1.3</b> To process complete renewals <sup>15</sup>	90% within 2 months of becoming complete at peak period (June/July); 90% within 1 month of becoming complete at all other times	Q4 2014
<b>A1.4</b> To return incomplete applications	100% within 2 weeks of receipt	Q1 2014

The Central Bank will publish (i) guidance on what constitutes a complete application; and (ii) authorisation service standards in the quarter prior to standards commencing. We will report on performance against these targets on a half yearly basis in arrears<sup>16</sup>. For more complex applications, we encourage firms to engage with us early before submitting an application form. Failure to meet deadlines for receipt of information or significant

<sup>12</sup> Fund service providers include depositaries, fund administrators, UCITS managers, AIFMs, Non-UCITS managers, and self-managed investment companies (UCITS and AIFs)

<sup>13</sup> Payment Firms include Payment Institutions, Electronic Money Institutions and Money Transmission Businesses

<sup>14</sup> Standards for Fund Service Providers will commence in Q2 2014; standards for Payment Firms, Bureaux De Change Businesses and Moneylenders will commence in Q4 2014.

<sup>15</sup> Applies to Moneylenders only

<sup>16</sup> To ensure aligned publication of standards, the Central Bank may publish a quarterly report initially on an exceptional basis.

changes to business models or other key aspects of applications may lead to an application being returned as incomplete.

## 11.2. Funds

The Central Bank is considering two services standards for the authorisation of funds and would appreciate feedback from interested stakeholders to ascertain their views on each option. Please refer to Section 13 on how to make your submission.

### Option 1

The first standard measures the overall time the fund application is under review within the Central Bank. The time which a fund takes to address matters raised by the Central Bank during the process is not included in the service standard measure.

Standard	Target	Standards Commence
<b>A2.1</b> To process complete QIF/QIAIFs <sup>[1]</sup> applications	100% within 24 hours of becoming complete	Q2 2014
<b>A2.2</b> To process complete clone umbrella/sub-fund applications	100% within 3 weeks of becoming complete	Q2 2014
<b>A2.3</b> To process complete fund applications, other than clone umbrella/sub-fund applications	100% within 6 weeks of becoming complete	Q2 2014
<b>A2.4</b> To return incomplete applications, other than QIF/QIAIF	100% within 2 weeks of receipt	Q2 2014

<sup>[1]</sup> QIF/QIAIF are terms defined in the Central Bank's draft AIF Rulebook.

## Option 2

The second option is to measure the total time taken to issue a fund authorisation. This would take into account both the review time with the Central Bank and also the time taken by the fund applicant to address the issues raised, i.e. the end to end process.

Under Option 2, a clone umbrella/sub-fund application will be deemed to have lapsed if no response is received within two weeks of the Central Bank having issued comments or questions. For all fund applications, other than clone umbrella/sub-fund applications, the application will be deemed to have lapsed if no response is received within four weeks of the Central Bank having issued comments or questions.

Standard	Target	Standards Commence
<b>A2.1</b> To process complete QIF/QIAIFs <sup>[1]</sup> applications	100% within 24 hours of becoming complete	Q2 2014
<b>A2.2</b> To process complete clone umbrella/sub-fund applications	90% within 2 months of receipt	Q2 2014
<b>A2.3</b> To process complete fund applications, other than clone umbrella/sub-fund applications	90% within 3 months of receipt	Q2 2014
<b>A2.4</b> To return incomplete applications, other than QIF/QIAIF	100% within 2 weeks of receipt	Q2 2014

<sup>[1]</sup> QIF/QIAIF are terms defined in the Central Bank's draft AIF Rulebook.

The Central Bank will publish (i) guidance on what constitutes a complete application and (ii) Authorisation service standards by 31<sup>st</sup> March 2014. We will report on performance against these targets on a half yearly basis, with the first half-yearly report issued for the period Q3-Q4 2014. Prior to this, we will publish a quarterly report for Q2 2014 on an exceptional basis.

### 11.3. Retail Intermediaries

Standard	Target	Standards Commence
<b>A3.1</b> To process complete applications	90% within 3 months of becoming complete	Q4 2014
<b>A3.2</b> To return incomplete applications	100% within 2 weeks of receipt	Q4 2014

The Central Bank will publish (i) guidance on what constitutes a complete application and (ii) authorisation service standards by 31<sup>st</sup> October 2014. We will report on performance against these targets on a half yearly basis, with the first half-yearly report issued for the period Q1-Q2 2015. Prior to this, we will publish a quarterly report for Q4 2014 on an exceptional basis.

## **12. Feedback on Authorisation Process**

To help improve the level of engagement, we are also committing to introduce a post-authorisation feedback mechanism, in a manner appropriate to the size and scale of the applicant.

It is currently envisaged that this will be in the form of a simple online questionnaire that solicits feedback from the applicant on their experience of the authorisation process. We will use this feedback to focus on continuous service improvement initiatives that further optimise the efficiency and effectiveness of the authorisation process.

### 13. Making your Submission

The closing date for submissions on this Consultation Paper is **Monday 28 October 2013**. Any comments received after this date will not be considered. We welcome comments and views from all interested parties.

Please make your submissions by email. When addressing any issue raised in this paper, please use the headings and the service standard numbering in this paper to identify the Section you are referring to. If you are raising an issue that is not referred to in this paper, please indicate this in your submission.

The Central Bank intends to make submissions available on our website after the deadline for receiving submissions has passed. Because of this, please do not include commercially sensitive material in your submission, unless you consider it essential. If you do include such material, please highlight it clearly so that we may take reasonable steps to avoid publishing that material. This may involve publishing submissions with the sensitive material deleted and indicating the deletions. Despite the approach outlined above, the Central Bank makes no guarantee not to publish any information that you deem confidential. Therefore, please be aware that, unless you identify any commercially sensitive information, you are making a submission on the basis that you consent to it being published in full. We shall not publish any information which we deem potentially libellous or defamatory.

Please clearly mark your submission '**Response to Consultation on Authorisation Service Standards**' and email it to:

[AuthorisationStandards@centralbank.ie](mailto:AuthorisationStandards@centralbank.ie).

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