

# Notes

to the application form for authorisation to  
pursue the business of a credit institution

DeNederlandscheBank

EUROSYSTEEM

# Notes

## to the application form for authorisation to pursue the business of a credit institution

This document contains explanatory notes on the requirements for the authorisation to conduct the business of a credit institution. In addition, please note the PDF document 'Relevant law for applications for authorisation as a credit institution' on Open Book on Supervision, under Authorisation for a credit institution.

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# General information

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Before you could start to perform activities as a credit institution, it is required to obtain authorisation. Applications should be submitted to De Nederlandsche Bank (DNB), but the European Central Bank (ECB), in the context of the Single Supervisory Mechanism, is the competent authority to grant authorisations to credit institutions. DNB assesses the applications insofar as they concern credit institutions with seat in The Netherlands and provides an authorisation draft decision to the ECB if all requirements are met.

In view of timely decision making by the ECB, the use of the English language in all forms of communication is preferred. Therefore, we kindly ask whether you object to communicate in English. If you object, please indicate your reasoning.

## Type of authorisation

There are two types of authorisation for credit institutions that can be applied for with this form:

- a) an authorisation to conduct the business of a credit institution with a registered office in the Netherlands
- b) an authorisation to provide, in addition to conducting the business of a credit institution, investment services or investment activities in the Netherlands

## Conducting the business of a credit institution

To qualify as a credit institution (whether type a or b), your company intends to perform at least the following activities:

- taking deposits or other repayable funds from the public
- granting credits for its own account

We kindly ask you to provide legal substantiation in which you set out your company's qualification as a credit institution. If your company's activities do not qualify as the business of a credit institution, an authorisation for a credit institution is not needed. Please check with DNB if another authorisation is required.

Please indicate which activities your company intends to perform. It is possible to apply for a partial authorisation.

## Providing investment services or investment activities

Additional requirements apply if your company intends to provide investment services or intends to perform investment activities. You can find these additional requirements in Section 4 of the application form and the explanation notes under Section 4 of this document.

## External advisor

We would advise you to seek the assistance of a legal expert if you fill in this application form. This is to prevent you from submitting an application for authorisation, while your business is not subject to authorisation. Moreover, an external advisor or legal expert could support you by collecting the documents needed for a complete application.

# 1 Programme of operations

In order to assess your application, we need to have a correct and complete picture of the activities your company intends to perform. Therefore, we ask you to submit a programme of operations that includes the following elements:

- an overview of the business plan and where applicable, an implementation scheme of the business plan
- a financial plan
- IT structure
- outsourcing arrangements
- a business continuity plan
- a recovery plan
- an exit plan with scenario analysis

DNB will furthermore assess the business plan against a series of key questions regarding the business model and strategy. Please take these questions into account by drafting your company's business plan. You could find this PDF document on Open Book on Supervision.

The application form provides more information on the above elements. In addition thereto, please find below more information about the recovery plan and the exit plan.

## 1.1 Recovery plan

We request you to provide your company's recovery plan. This recovery plan must include:

- measures to be taken to restore your company's financial position following a significant deterioration of the financial position
- measures your company will take in order to survive a severe crisis, whereby the near-default situation of the credit institution serves as a starting point. From here the credit institution needs to emerge independently and with its core business remaining intact
- identification of the measures your company will take to strengthen its resilience
- identification of potential impediments to the implementation of these measures and, where possible, ways to mitigate or remove such impediment
- regular and, if necessary, ad hoc updates

The European Banking Authority has drafted Regulatory Technical Standards on the content of recovery plans which are leading for your company. Please use these as a blueprint in drafting the recovery plan.

## 1.2 Exit plan

We request you to submit an exit plan as part of your company's application. In this paragraph we explain the main aspects that must at least be included in this exit plan. The purpose of your exit plan is to identify how your company can cease business operations without harming others.

In general, the exit plan must include all business activities, products and processes of the company. The exit plan has a clear responsible owner within the company and must first be approved by the management board and the supervisory board of the company, and must be evaluated at least once a year.

Figure 1 below shows some building blocks that you can use when compiling an adequate exit plan. The plan is based on proportionality, and you may determine the level of detail of your exit plan yourself. Below we will briefly discuss each separate building block.

Figure 1 building blocks of a complete exit plan



### **Policy and Decision Making**

Your exit plan must at least include a description of the following four elements.

- The pursued objective of the market exit
- A description of possible exit scenarios, e.g. merger or liquidation
- The bodies, functions and individuals authorised to take the exit decision, the decision making process, and the stakeholders involved
- The manner in which decisions are recorded and documented, to enable stakeholders to verify afterwards whether the exit process was performed ethically and orderly

For each scenario, please state verifiable triggers that may prompt the management board to consider an exit. The relationship between the trigger and the final decision to cease business operations is transparent and verifiable for all stakeholders.

### **Risk analysis**

As part of compiling an exit plan, you are obliged to perform a risk analysis of the exit process. In your exit plan you need to include a list of the main operational risks that may occur during the exit process and may put the objective of the plan (orderly ceasing business operations) in danger. You must translate the outcome of your risk analysis into procedures and measures to mitigate the identified risks. Your exit plan must also include a procedure for monitoring the development of risks and mitigating measures, e.g. as part of the periodic evaluation process of the exit plan.

### **Governance**

The continuity of management must be guaranteed during the entire exit process. For DNB to assess this, we expect your company to put guarantees in place that there will be sufficient people and resources to continue services and at the same time execute the exit process in an orderly fashion. Please include these guarantees in your exit plan. Furthermore, your exit plan must contain the company's governance structure during the exit process, including a rough description of the roles and responsibilities of the project organisation. Please describe in your exit plan the professionalism and expertise necessary for orderly market exit.

### **Operational aspects**

In your exit plan you need to set out a realistic project plan, describing the necessary steps to cease the business operations, promptly, appropriately and fully, distinguishing between the following elements:

- the processes and tasks that must be performed in order to guarantee an orderly exit, and the individuals responsible for those tasks
- (realistic) time lines, milestones and dependencies

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### **Financial aspects**

Regarding the financial aspects, we request you to describe in your exit plan how the financial exit of liabilities has been arranged for all entitled parties, ensuring that all claims are transferred orderly (fully and well-balanced) and that any amounts charged are reasonable and fair.

Secondly, we ask you to provide a rough estimate of the financial resources necessary for each scenario. This is requested because your company must have sufficient certainty that the necessary financial resources for each scenario can actually be funded by the company's shareholders or founders.

And thirdly, we ask you to describe in your exit plan how financial risks and costs will be approached.

### **Communication**

Please include a communication plan in your exit plan that has a clear overview of which stakeholders will be informed when and with what message.



## 2 Controlled business operations

The structure of business operations ('Controlled business operations') and ethical operational management ('Ethical business operations') are two separate authorisation requirements. See paragraph 3 below for a further explanation of the ethical business operations requirements. However, we assess these requirements in close conjunction. We ask you to describe the structure of your company's controlled and ethical business operations into one clear and accessible document: a procedural handbook. This procedural handbook needs to be submitted as part of your application.

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As part of our assessment of the controlled business operations, we review the following subjects:

- General principles of operational management
- A clear, balanced and adequate organisational structure
- Adequate information supply and communication system
- Adequate segregation of duties
- Prompt and complete records and administration
- Information systems and security
- Risk management and risk control
- Compliance function
- Internal control function
- Audit
- Outsourcing
- Controlled remuneration policy
- Oath or affirmation
- Training programme

We will explain these points below.

We kindly ask you to provide a short description on each of these subjects and how these subjects are organised in your company. Additionally, please state in the application form for each of these subjects where we can find the relevant information in the procedural handbook.

### 2.1 General principles of operational management

Please design the general principles of operational management in your company on the following five principles:

- a clear, balanced and adequate organisational structure
- a clear, balanced and adequate distribution of duties, authorities and responsibilities (governance)
- adequate documentation of rights and obligations
- unambiguous reporting lines
- an adequate information supply and communication system

## 2.2 A clear balanced and adequate organisational structure

Please indicate how the following is ensured within your company:

- a clear, balanced and adequate distribution of duties and authorities in place at all levels and for all units of the company
- reporting lines should correspond with the organisational structure
- well-operating internal communication channels, designed to ensure that all relevant information reaches the right staff members and functions at the right time, including promptly information to the management board and line management
- provision of reliable information to the management board and line management on your company objectives and the relevant operational processes
- if applicable, that your company's organisational structure and business processes are adequately aligned with those of its subsidiaries and other companies joined together with your company in a formal or actual governance structure.

The division of tasks and the reporting lines must be documented and communicated throughout the company to ensure all levels of the company have full knowledge of their duties, authorities and responsibilities, their role in the organisation and the control process, and how they are held accountable.

Please indicate in the application form whether your company has a sole director/majority shareholder structure (or a comparable governance structure), as a structure of this kind warrants special attention to balanced corporate governance. We define as a classic director/majority shareholder structure the situation where a natural person is both a direct or indirect majority shareholder and an executive director of the company.

We judge the admissibility of a director/majority shareholder structure on a case-by-case basis. If your company has a director/majority shareholder structure, you must provide evidence in your application that you have sufficiently mitigated the vulnerabilities that such a structure entails. It is important that the company at all times has expert and balanced operational management with adequate checks and balances and appropriate incentives.

## 2.3 Adequate segregation of duties

The duties, authorities and responsibilities of both individual staff and departments in your company must be distributed to control the risk of errors and inappropriate use of assets or data. If adequate segregation of duties is difficult to achieve because you have a small number of staff, you must take alternative measures. One option may be to contract out activities to third parties to compensate for the lack of internal segregation of duties.

## 2.4 Prompt and complete records/administrations

Please provide a clear description showing that your company:

- records all rights and obligations of your company in a dedicated administrative system
- ensures completeness and accuracy of the turnover to be recorded in the accounts and of financial rights and obligations

## 2.5 Information systems and security

Please provide a description showing that your company has an information system in place that enables effective management of operational processes and risks, and that meets the company's internal and external information requirements.

The information system must be set up to ensure that transactions and entries in data file can always be retraced to authorised source files or data processing by authorised staff. Electronic data processing must be an integrated part of the company and electronic data must be available at all times. Consequently, companies using electronic data processing must take measures and implement procedures, including back-up copies and recovery measures, and a calamity plan that must be updated at regular intervals and tested for proper functioning. Your company must also have procedures and measures in place that safeguard the integrity of electronic data processing. And finally, segregation of duties in electronic data processing must be aligned with the organisational structure.

## 2.6 Risk management and risk control

Please provide a clear description of risk management and risk control at your company.

We have to assess whether your company:

- has adequate risk management policies in place. Risks include credit risk, market risk, interest risk, concentration risk, liquidity risk, operational risk, and insurance risk
- takes account of the risks associated with the macroeconomic environment in which the company operates and with the phase of the economic cycle
- has a clear perspective of the risks that your company is exposed to

The policy principles following from your risk perception must state how your company intends to manage its risk exposure. Your risk management policy must be recorded in the form of procedures and measures, which must be tuned to the nature, size, risk profile, and the complexity of the company. Please include within this policy the following subjects:

- authorisation procedures
- limit allocation
- limit monitoring
- emergency procedures and measures

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The liquidity risk management procedures and measures must focus on management of the company's current and future net financial position and requirements. They must be clearly defined and recorded, e.g. in a policy plan, and must be consistently communicated, preferably in writing to all units of the company exposed to these risks.

Your company must have an independent risk management function in place that ensures systematic, independent risk management, focussing on identifying, measuring and evaluating risks that the company is or may be exposed to. Risk management includes the company's operations as a whole as well as those of its individual business units. The risk management function must be given the required authority and access to all information necessary for the performance of its tasks.

#### Climate change risks

Banks may be vulnerable to the physical consequences of climate change (physical risks) as well as the transition to a climate-neutral economy (transition risks). Given the potential impact of climate-related risks on the balance sheet of banks, DNB expects banks to incorporate climate-related risks into their risk management, a.o. by mapping the influence of these risks on their risk profile.

In the Good Practice 'Integration of climate-related risk considerations into banks' risk management' DNB explains how substance can be given to the integration of climate-related risks in the governance, the risk management and disclosure of banks.

The ECB has also drawn up a draft "Guide on climate-related and environmental risks, Supervisory expectations relating to risk management and disclosure".

In the context of a controlled and ethical business operation DNB expects banks to consider and address climate-related risks already in the first stage of a license application.

## 2.7 Compliance function

Please provide a brief description of your company's compliance function which must show how your company ensures an independent and effective compliance function. Furthermore please enclose the compliance charter and the compliance plan with your application.

Your company must have an organisational unit that performs an independent and effective compliance function. 'Independent' at least means that the compliance function is not influenced by commercial or other interests. The actual shape of the compliance function depends on the nature and size of the credit institution. Supervision on compliance must be recorded in a compliance charter, and the necessary activities must be further detailed in an annual compliance plan.

Additional provisions apply if your company intends to provide investment services or intends to perform investment activities. We refer to the PDF document 'Relevant law for applications for authorisation as a credit institution' on Open Book on Supervision, under Authorisation for a credit institution.

## 2.8 Internal control function

Please describe briefly your company's internal control function and how independency of this function is ensured. By 'independent' we mean independent of the line management and independent of the control measures integrated in the different operational processes. The description must provide evidence of how any shortcomings found will be adequately addressed.

## 2.9 Audit

Please provide a short description of the audit process of your company. The instruction to the external auditing firm auditing the annual accounts must include a review of and at least a general assessment of the adequacy of the organisational structure and risk control. Furthermore the external audit must:

- focus on the management of risks that may be of material influence on the company's financial performance, position and continuity
- include IT risks
- be integrated in the year-end audit as much as possible

## 2.10 Outsourcing

Please provide us with an overview of the activities to be outsourced, since we must be enabled to exercise supervision of all activities and business processes of your company (also if these have been outsourced).

Your company is permitted to outsource activities in as far as this does not hamper adequate compliance with the rules and regulations to which it is bound. There are also activities that you are not permitted to outsource, i.e. the duties and activities of staff members determining the day-to-day policy, including developing policies and accountability for the policies pursued.

We expect your company to describe how you:

- pursue an adequate policy and have adequate procedures and measures in place regarding structural outsourcing of processes

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- have satisfactory procedures and measures and sufficient expertise and information available to be able to assess the performance of structurally outsourced activities
- analyse the risks associated with outsourcing as an essential element for assessing whether or not activities are suitable for outsourcing

In order to assess outsourced activities adequately, the outsourcing company must have sufficient information at its disposal about the company to which it outsources these activities. Your company must also have sufficient in-house expertise to be able to assess this information adequately.

Please enclose a copy or copies of the outsourcing contract or contracts. The outsourcing agreement(s) must at the very minimum address the following elements:

- the exchange of information between your company and the third party about unlocking information required by the supervisory authorities as part of the performance of their statutory duties.
- the option for your company to make changes at any time to how the third party performs the outsourced activities.
- the obligation incumbent on the third party to enable your company to continuously meet the requirements ensuing from primary and secondary legislation.
- the possibility for supervisors to perform, directly or by proxy, examinations on the premises of the third party.
- the manner in which the agreement is terminated and how after termination it is ensured that your company can again perform the activities concerned itself, or have such activities performed by another third party.

## 2.11 Controlled remuneration policy

Please enclose your remuneration policy as an annex to the application form. The remuneration policy of your company must be recorded in writing and must describe:

- possible unwanted incentives as part of risk management
- how your company prevents and mitigates these incentives
- how your company's remuneration policy does not encourage staff to take more risks than acceptable in view of the company's solidity

Developing a controlled remuneration policy requires in-depth analysis of possible inappropriate incentives contained in remuneration structures and components. This analysis should pay explicit attention to the incentives that may arise as a result of variable remuneration components.

The remuneration policy must include the following four elements:

- the fixed-to-variable remuneration ratio that applies within the company, including the generally important aspects to remuneration policies, e.g. the nature of the company's activities, the size of the company and the consequences for customer treatment. When formulating the appropriate ratio, the company must remain within the boundaries set by the bonus cap
- the ratio between awarded remuneration and distributed variable remuneration
- the composition of variable remuneration
- the criteria and performance on which variable remuneration are based, including performance of natural persons working under the company's responsibility, the business unit and the company as a whole.

## 2.12 Oath and affirmation

Please provide a description of your company's rules on oath or affirmation. See the 2015 Regulation on the Financial Sector Oath or Affirmation (*Regeling eed of belofte financiële sector 2015*).

## 2.13 Training programme

Please enclose your company's training programme with your application. We also ask you to submit a description of how your company has organised its training programme.

The training programme should include the Anti-Money Laundering and Anti-Terrorist Financing Act (*Wet ter voorkoming van witwassen en financieren van terrorisme -Wwft*) and the Sanctions Act 1977 (*Sanctiewet 1977 - SW*), be offered at regular intervals and at different levels and must cover:

- money laundering and terrorist financing techniques, methods and trends
- the international environment and standards
- new developments in this area

The compliance function is also advised to attend additional training courses in order to remain aware of new developments in the area of international legislation and regulations, and money laundering and terrorist financing.

## 3 Ethical business operations

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The integrity of your company is one of the pillars of trust and consequently a precondition for a properly functioning company. It is essential that you prevent your company from getting involved in unlawful or socially unacceptable acts. Management of integrity risks is the pivotal issue here. Integrity risks include money laundering and terrorist financing.

The company is required to pursue an adequate policy to ensure ethical operational management. The integrity policy must be detailed and implemented in clear and readily accessible procedures and measures, contained in [the procedural handbook](#) (see also the reference to the procedural handbook in section 2). This procedural handbook must also include (a reference to) the procedures required pursuant to the Decree on Prudential Rules for Financial Undertakings (*Besluit prudentiële regels - Bpr*).

The regulatory framework for adequate integrity policies is risk-based, meaning that your company must implement all measures that the law requires. The intensity with which you do this, however, depends on the risks that your company is exposed to.

You must assess the risks that your company is exposed to and formulate sufficient mitigating measures. Obviously, you must also define which risks are unacceptable.

As part of our assessment of the ethical business operations, we review the following subjects:

- Systematic integrity risk analysis
- Preventing conflict of interests
- Dealing with and reporting of incidents
- Reliability of staff in integrity-sensitive positions
- Customer due diligence
- Sanctions Act 1977
- Transaction monitoring and reporting of unusual transactions
- Complaints procedure

These points are addressed in the application form. Below is a more detailed explanation of these elements.

### 3.1 Systematic integrity risk analysis (SIRA)

Your company's integrity policy and its implementation starts with identifying your integrity risk exposure. Such a systematic integrity risk analysis (SIRA) is a precondition for ensuring ethical operational management. You will find more information on the SIRA in our user manual for producing an adequate SIRA: 'Integrity risk analysis: more where necessary, less where possible'.



As the risks are always in a state of flux, the SIRA is bound to a sell-by date, i.e. a date by which the analysis must have been updated. The SIRA as part of the authorisation application must at least be up to date. It must include instructions stating in which situations business units need supplementary review, or when the review must be brought forward. Please enclose the SIRA with the application form.

The analysis must be verifiable, i.e. recorded in a separate document, the integrity policy must be based on the outcome of the SIRA and you should use a comprehensible quantification method. The SIRA is based on gross (inherent) and net (residual) risks and analyses the likelihood and impact of these risks. The size of net risks must be clear and the measures and procedures must have a plausible effect. Your procedures and measures must be verifiably connected with the specific risks identified in the SIRA. The control measures set out in the SIRA must be in line with the nature, size, complexity and risk profile of your company's operations.

The SIRA must at least include:

- an analysis of the following risks: conflicts of interests, money laundering and terrorist financing, breach of sanctions legislation and (internet) fraud and scams
- an analysis of risks associated with the products and services provided to customers (merchants) which must be included in the customer profiles that you intend to use

On-line customer acceptance (if applicable) requires additional attention. You must show that this always carries high risk and your analysis must show how your company intends to offset this elevated risk.

Please provide a description of your procedures and measures. Please note that the SIRA must be recorded in a separate document, not in the procedural handbook.

### 3.2 Prevention of conflict of private interests

Your company must have procedures and measures to prevent conflicts of interests of:

- policy makers
- group directors
- supervisory directors
- other staff members or individuals who permanently work for the company

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This policy should make clear how you approach the following subjects:

- personal, professional, and financial interests in relation to contacts with customers and other stakeholders
- handling confidential information
- customer relationship management
- private financial transactions
- secondary positions

Please provide a brief description of the policy pursued to prevent conflicts and interests.

### 3.3 Incidents

Your company must have procedures and measures in place to deal with incidents. An incident is defined as behaviour or an event that poses a serious threat to ethical pursuit of business operations. It makes no difference who commits said acts; they may include behaviour of staff members, executive directors, supervisory board members, or of natural or legal persons working for your company.

The minimum requirements for your incident procedures and measures are the following:

- recording of incidents
- procedures for dealing with incidents
- supply of information to the supervisory authorities

### 3.4 Reliability of integrity-sensitive positions

Please provide a short description of the policy pursued with respect to integrity-sensitive positions. In addition to the positions of executive director or supervisory director, there are other positions that may influence ethical business operations. These are known as integrity-sensitive positions.

You must determine and describe which positions in your company qualify as integrity-sensitive, and thoroughly assess the staff members occupying these positions on reliability. This also applies to temporary staff.

### 3.5 Customer due diligence

Your procedural handbook should explain the procedures and measures contained in the customer due diligence exercise. These procedures and measures document how and by whom customer due diligence is to be performed before your company can start providing services to customers. These procedures and measures for customer acceptance must be in line with the integrity policy, the risk analysis performed, and the legal demands, including the Anti-Money Laundering and Anti-Terrorist Financing Act and the Sanctions Act 1977.

See our 'Guidance on the Anti-Money Laundering and Anti-Terrorist Financing Act and Counter-Terrorist Financing Act and the Sanctions Act' for more guidance on this point.

The following points have to be taken into account in the procedural handbook you are asked to send with the application form:

- The company must verify the identity of all customers based on independent and reliable documents.
- The company is sufficiently familiar with the customer's or legal entity's ownership and governance structure.
- The company is well aware of, and has adequately documented, why and with what intention the customer wants to use its services, and sees that this is incorporated in the customer's risk profile.
- The company is required to keep all such information in readily accessible form for at least five years after it has ceased providing services, or terminated the business relationship.
- In principle, the company does not provide numbered accounts and hold mail accounts.
- All customer data and files relating to the customer and the ultimate beneficial owner are kept in a central place and can be accessed by compliance and other relevant staff.
- In case the company engages in back-to-back loans, particular procedures must have been established to verify compliance with relevant requirements with a view of taking into account the interests of all stakeholders.
- The company is required to record when enhanced customer due diligence is required, which measures your company intends to take in such cases, and document whether customers, prospective customers or ultimate beneficial owners are politically exposed persons.
- Customers must be divided into risk categories (based on the nature and size of the risk exposure) in line with the SIRA mentioned above and you should state your reasons for allocating customers, products or services to specific risk categories. The risk categories vary between high and low and allocation must be based on objective and recognisable indicators.
- Acceptance is subject to screening against sanctions lists, internal lists, PEP lists and any other relevant lists. Possible hits must be recorded in the customer files and where needed, action must be taken. These hits must also be mentioned in the customer's risk profile and must be reported to DNB.

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- An exit policy must be put in place for customers who cannot or do not want to be identified, or whose identity cannot be verified in the prescribed manner.
- The relevant staff must be made aware of the internal and legal requirements made in the customer due diligence exercise.
- Customer acceptance must be approved by authorised staff or management, based on the four-eyes principle. Some categories of customer relationships require the explicit consent of senior management.

### 3.6 Sanctions Act 1977

Please provide a description of your policy and procedures on sanctions legislation. This policy and procedures should be part of your procedural handbook. These procedures must guarantee the existence of a complete and up to date survey of services offered broken down into countries, natural and legal persons, groups and entities governed by sanctions legislation. There must also be a procedure in place for the receipt and internal distribution of sanctions lists (at least with respect to the Netherlands sanctions lists and the EU regulations).

See our 'Guidance on the Anti-Money Laundering and Anti-Terrorist Financing Act and Counter-Terrorist Financing Act and the Sanctions Act' for more guidance on this point.

Your sanctions legislation procedures and measures must meet the following requirements:

- Ensure that the customer base is regularly screened on matches with the entities targeted by sanctions legislation.
- Include risk-based verification on domestic and international services.
- Take account of the standards and objectives of the different sanctions regulations (sanctions measures against persons or entities and against countries).
- Ensure that if a hit is detected financial assets may be frozen, or financial resources or services can be prevented from being made available to persons or entities mentioned on the sanctions list. The company must have adequate measures in place to guarantee that any hits are reported without delay to the responsible central person or department and, if acknowledged as a hit, reported to DNB.

Please note: your procedures with respect to the Sanctions Act 1977 must also include other customer relationships, e.g. sub-licence holders, authorised representatives, and payments to related companies.

### 3.7 Transaction monitoring and reporting of unusual transactions

Please provide a description of your policy and procedures on transaction monitoring and reporting of unusual transactions. This policy and procedures should be part of your procedural handbook. Your company must have procedures and processes in place to monitor customers' accounts, activities and/or transactions so as to gain and retain insight into the nature and background of customers and their financial behaviour, and to detect non-standard transaction patterns, including unusual transactions and transactions that by their nature entail increased risk of money laundering or terrorist financing.

See our 'Guidance on the Anti-Money Laundering and Anti-Terrorist Financing Act and Counter-Terrorist Financing Act and the Sanctions Act' for more guidance on this point.

You must have procedures and processes in place to account for these three demands:

- Stipulate how transactions are monitored and how to act if transactions are made that may qualify as unusual, and you must make motivated and understandable choices between electronic monitoring and manual monitoring. If you have large numbers of transactions, electronic monitoring will be the obvious choice, but this stops at detecting possible unusual transactions. Suspected unusual transactions are not performed before they have been manually verified and you have possibly been in contact with the merchant.
- State which members of staff are authorised to perform manual checks, and which cases require the involvement of the compliance officer.
- Report detected unusual transactions to the FIU without fail.

Your company must notify all relevant business units of the policies, procedures and measures relating to the subjects mentioned above. Your company must also ensure the following:

- Policies, procedures and measures are implemented and tested systematically.
- The implementation of policies, procedures and measures relating to ethical business operations is supervised.

And finally, your company must have the following procedures in place:

- Ensure that detected deficiencies or shortcomings are reported to the officers entrusted with that duty (independent compliance function).
- Ensure that the detected deficiencies or shortcomings relating to ethical business operations are appropriately remedied under the supervision of an independent compliance function.

## 4 Additional provisions for investment services or activities

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If your company also intends to provide investment services or perform investment activities in the Netherlands, it has to comply with additional provisions regarding the operational structure, the protection of clients' rights and the rules for operating a multilateral trading facility (if applicable).

### 4.1 The operational structure

Please provide a description of the way the company shall organize its operations as to guard controlled and sound business operations, laid down in rules. These rules must concern orderly and transparent financial market processes, integrity in relations between market parties and due care in the provision of services to clients and unit holders. Within these rules, DNB expects you to address at least the following:

- safeguarding the provision of information to clients or unit holders
- safeguarding the recording of the relationship with clients or unit holders
- safeguarding due care in the provision of services to clients or unit holders
- preventing conflicts of interest between the financial enterprise and clients or unit holders and between the clients and unit holders themselves
- safeguarding the rights of clients or unit holders

### 4.2 The protection of clients' rights

Please provide a clear description that your company takes adequate measures to the following:

- protect the client's right to use financial instruments;
- prevent the use by the company of the financial instrument for its own account, except with the client's express permission.

### 4.3 Operating a multilateral trading facility

If your company intends to operate a multilateral trading facility, it must adopt transparent, non-discretionary rules and procedures that guarantee fair and orderly trading. Furthermore, you have to lay down objective criteria for the efficient execution of orders. Please indicate whether your company intends to operate a multilateral trading factory.

# 5 Integrity and suitability of policymakers and co-policymakers

The members of the management board and the supervisory board will be screened for suitability. Furthermore, every individual management board member, every individual supervisory board member and co-policymaker will be screened for integrity.

You must submit a Prospective Appointment Notification Form for every individual management board member, supervisory board member and co-policymaker, for both screenings (see under 5.1).

Please note that it is required for a credit institution that the supervisory board consists of at least three persons.

## 5.1 Suitable policymakers

The policymakers<sup>1</sup> in your company must be suitable to occupy this position. You must therefore take care to nominate individuals whom you expect to pass DNB's suitability screening. When assessing suitability, we determine whether a nominee displays the relevant and appropriate knowledge, skills and professional behaviour to perform the job. This will be established on the basis of their education, work experience and competences.

As suitability screening is linked to position, we include the following subjects in our screening:

- the nominee's intended job
- the nature, scope, complexity and risk profile of the company
- the composition and performance of the management board or the supervisory board as a whole

DNB uses the 2012 Policy Rule on Suitability 2012. For more information, please go to our Open Book page on suitability.

To notify a nominee to us, you can use the Prospective Appointment Notification Form on our Open Book pages. We frequently see that notification forms are not fully filled in, which causes unnecessary delay. Our website has information to help you prepare for the screening procedure.

Please note that for management board and supervisory board members a maximum number of supervisory positions applies under the Management and Supervision Act (*Wet bestuur en toezicht*).

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<sup>1</sup> Co-policymakers are not subject to suitability screening. See under 5.2 which staff members are classified as co-policymaker.

## 5.2 Integrity of policymakers and co-policymakers

The integrity of the policymakers in your company (from every individual board member, supervisory board member and co-policymaker) must be guaranteed beyond any doubt. Individuals holding direct or indirect qualifying share holdings are classified as co-policymakers. Owners of a qualifying holding are natural persons and/or legal entities that have a direct or indirect shareholding interest or control in the company of 10% or more. Co-policymakers also include individuals who are able to exercise significant actual influence on the day-day management of the company.

DNB verifies whether the integrity of the nominee is beyond doubt. Nominees' intentions, actions and antecedents must not stand in the way of performing their jobs. In particular, we review criminal, financial, tax compliance, supervisory, tax administrative law antecedents and other relevant information.

Integrity screening only includes the integrity of the relevant person. This means that – unlike in initial suitability screenings – our decision does not depend on circumstances such as the composition of the management board, the type of company that the proposed appointment pertains to or the specific post the nominee will take up. Integrity screening is performed based on information provided by the company and an assessment by DNB.

In principle, integrity screening is a one-time procedure. Nominees who have passed the integrity screening will not require rescreening. Our decision will stand unless facts or circumstances arise that provide reasonable grounds for reconsidering a previous integrity screening.

For more information, go to our website.



## 6 Two day-to-day policymakers working from the Netherlands

Please provide evidence that the day-to-day management of your company is in the hands of at least two natural persons. These two individuals must work from the Netherlands, in order to ensure compliance with the four-eyes principle, or the principle of two-headed day-to-day management.

## 7 Transparent governance structure

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Please provide a description of the company's governance structure and a recent organization chart of the company and the group of companies that it is part of. Your company must have a transparent governance structure. In short, this means that your company's formal governance structure (legal structure) must be the same as its actual governance structure.

# 8 Own funds, solvency and liquidity

## 8.1 Own funds and solvency

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Your company must maintain a sufficient amount of own funds (capital) to absorb foreseen losses and risks. Sufficient capital must be available to your company from the outset. Under the applicable prudential regulation the requirements to maintain sufficient capital distinguish four main concepts:

- Minimal initial own funds, a nominal amount of own funds which should always be maintained, irrespective of the foreseen losses and risks.
- Pillar I capital requirements, the amount of own funds to be maintained as determined in accordance with the applicable requirements (CRR: Capital Requirements Regulation). This amount is nearly always larger than the minimal initial own funds requirements.
- Pillar II capital requirements, the amount of own funds to be maintained as imposed by the competent authority (the supervisor) in accordance with the Supervisory Review and Evaluation Process (SREP), taking into account the Internal Capital Adequacy Assessment Process (ICAAP) of your company. This amount is set in addition to the pillar I capital requirements.
- Combined capital buffer requirement, the amount of own funds to be maintained on top-of the pillar I and pillar II capital requirements. This amount is set in addition to the pillar I and pillar II capital requirements.

### 8.1.1 Required available own funds

Please provide documents evidencing your company's available own funds, as well as the amount, sources and composition of the own funds, taking into account at forecasts of at least 12 quarters. These documents must follow the relevant prudential definitions and specifications of own funds.

The own funds that are eligible to qualify as own funds for these four capital requirements, are specifically determined in the CRR. The various quality forms of own funds differ in relevancy to meet these four own funds requirements. Below we explain these four requirements. In addition various filters and deductions to the available own funds must be taken into account.

#### **Minimal initial own funds**

Please fill in the minimal initial own funds following from applicable requirements in the Financial Supervision Act (FSA).

- The minimum amount of own funds for a credit institution is EUR 5 million.
- The minimum amount of own funds for a credit institution that additionally provides investment services or performs investment activities is EUR 2,5 million.

Depending on the projections and risks identified in your company's business plan, we may require your company to hold more actual own funds.

#### **Pillar I capital requirements**

Please provide documents specifying the applicable pillar I capital requirements, as well as breakdowns of these capital requirements, taking into account at forecasts of at least 12 quarters. These documents must follow the relevant prudential definitions and specifications of pillar I capital requirements.

The pillar I capital requirements are determined exactly in accordance with the CRR. These calculations are also the main basis for the prudential reporting requirements that are applicable once the authorisation has been obtained.

#### **Pillar II capital requirements**

The pillar II capital requirements are determined by DNB following the SREP. The SREP is nearly always conducted on the basis of ICAAP document set submitted by the credit institution.

Please provide the ICAAP document set as part of your application. Considerable attention will be paid to the ICAAP document set during the assessment of the application.

The essence of the ICAAP document set is your company's own views on the types and distribution of internal capital that it considers adequate to cover the nature and level of risk to which it is or might be exposed.

The ICAAP document set must include:

- a description of the interrelation of pillar I capital requirements
- your company's own internal capital requirements
- your company's available own funds

The ICAAP should be aligned with the foreseen business and financial circumstances of your company. Several European guidelines and binding technical standards are relevant in relation to the SREP and the ICAAP.

#### **Combined capital buffer requirement**

Please provide documents specifying the applicable combined buffer requirement, as well as breakdowns of these capital requirements, taking into account at forecasts of at least 12 quarters. These documents must follow the relevant prudential definitions and specifications.

## 8.2 Liquidity

Your company must maintain a buffer of sufficiently liquid assets to absorb the outflow of liquidity resulting from foreseen outflows and unexpected outflows. Sufficient liquidity must be available to your company from the outset.

Please provide the Internal Liquidity Adequacy Assessment Process (ILAAP) document set. Next to an assessment of a necessary liquidity buffer, the ILAAP should include an evaluation of the funding position, intra-group funding and funds transfer pricing.

## 8.3 Other financial prudential requirements

The legislation applicable to your company includes a substantial number of requirements that relate to the solvency and liquidity requirements. For example: requirements concerning large exposure, net stable funding and leverage, may affect the necessity to hold specific own funds. Your company should therefore analyze the relevancy of prudential requirements, given its business model and take this into account for the purpose of the capital, funding and liquidity planning.

Please provide an overview of forecasted financial prudential metrics. Where relevant, please include an analysis of financial prudential metrics as part of the ICAAP and ILAAP document sets.

## 9 Application form for a declaration of no-objection

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Prior to approval from the ECB, a so called declaration of no-objection (DNO), is required in case a natural or legal person holds a qualifying holding in your company.

A holding is a qualifying holding if one or more of these three conditions are met:

- a direct or indirect holding which represents 10% or more of your company's issued share capital
- the right to exercise, directly or indirectly, 10% or more of the voting rights in your company
- the right to exercise, directly or indirectly, a significant influence over the management of your company. This influence can be reflected in special rights, for example regarding the power to appoint and dismiss or to suspend the board members and/or the supervisory board members of the credit institution

The shareholders can apply for a so called DNO via the application form for a DNO. This form has to be submitted to DNB. It is possible to submit all DNOs in one application form.

DeNederlandscheBank

EUROSYSTEEM

De Nederlandsche Bank N.V.

PO Box 98, 1000 AB Amsterdam, the Netherlands

+31 (0)20 524 91 11

[dnb.nl](http://dnb.nl)