Guide to assessments of licence applications

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Licensing of credit institutions is essential for the public regulation and supervision of the European financial system. Confidence in the financial system requires public awareness that banks can only be operated by entities that are licensed to do so. Licensing also contributes to the enforcement of good practice by ensuring that only robust banks can enter the market.

At the same time, licensing should not hinder competition, financial innovation or technological progress. Once licensed, credit institutions in the EU can, in principle, perform a wide range of activities. Licensing therefore promotes a level playing field throughout the EU and reduces the risk that entities circumvent banking regulation and supervision.

Since 4 November 2014, the European Central Bank (ECB) has been exclusively competent to authorise all credit institutions established in the Member States participating in the Single Supervisory Mechanism (SSM). This competence is exercised in close cooperation with the national competent authorities (NCAs).

This Guide applies to all licence applications to become a credit institution within the meaning of the Capital Requirements Regulation\(^1\) (CRR), including, but not limited to, initial authorisations for credit institutions, applications from fintech companies, authorisations in the context of mergers or acquisitions, bridge bank applications and licence extensions. One of the Guide's primary objectives is to promote awareness and enhance the transparency of the assessment criteria and processes for the establishment of a credit institution within the SSM, without being exhaustive.

The policies, practices and processes set out here may have to be adapted over time. Rather than being legally binding, the Guide is intended as a practical tool that will be updated regularly to reflect new developments and experience gained in practice.\(^2\)

This Guide uses, to the extent possible, terminology used in the Capital Requirements Directive (CRD IV)\(^3\) and the European Banking Authority (EBA) technical standards related to licensing.

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2. In particular two topics, namely assessment of capital (5.1) and assessment of programme of operations (5.2), are still under development; they will be consulted on separately at a later stage.

2 Legal framework

2.1 SSM Regulation and SSM Framework Regulation

Under Article 4(1)(a) of the SSM Regulation\(^4\), the ECB is exclusively competent for granting authorisations to take up the business of a credit institution. Article 6(4) and Article 14 provide that this competence is common for both significant institutions (SIs) directly supervised by the ECB and less significant institutions (LSIs) directly supervised by the NCAs.

The SSM Framework Regulation\(^5\) (Articles 73 to 79) elaborates on the authorisation competence, focusing on the respective roles of the relevant NCA and the ECB in the assessment process.\(^6\)

In performing its gatekeeper role, the ECB can use all of the powers conferred on it by the SSM Regulation. Such powers include collecting information and attaching conditions, obligations and recommendations to authorisation decisions.

Under Articles 4(1)(a) and 14(5) of the SSM Regulation, the ECB also has the competence to withdraw authorisations in the cases set out in the relevant EU or national law.

2.2 CRD IV and national law

Article 4(3) of the SSM Regulation provides that, for the purposes of carrying out its supervisory tasks, the ECB should apply all relevant EU law and, where this law is composed of directives, the national law transposing those directives. Authorisation requirements are covered mainly in Articles 8 and 10 to 14 of the CRD IV; these articles are minimum harmonisation provisions, meaning that national law can set additional authorisation requirements. Consequently, when taking authorisation decisions within the SSM, the ECB applies the authorisation requirements laid down in national legislation transposing the relevant CRD IV provisions, as well as any national legal specificity. This can give rise to differences in the treatment of licence applications across Member States.


\(^6\) See for more details Section 6 – Procedural considerations
2.3 EBA technical standards

The ECB applies all relevant EU acts adopted by the European Commission on the basis of the drafts developed by the EBA, in particular the regulatory technical standards (RTS) on the information applicants need to provide to competent authorities when applying for authorisation as credit institutions, and the implementing technical standards (ITS) related to the templates for providing such information. Besides a comprehensive list of information to be provided in applications for authorisation, these technical standards contain a form to be used for licence applications, as well as the relevant submission procedures and requirements.

2.4 SSM policies, practices and processes

The supervisors need to apply the regulatory requirements when assessing licence applications. To ensure that they do so consistently, we need to clarify the interpretation of those requirements and develop common supervisory practices and processes.

To that end, the ECB, together with the NCAs, has developed policies regarding authorisation applications and supervisory practices and processes, which explain in further detail how the ECB applies, on a case-by-case basis, CRD IV and EBA standards and national law transposing the CRD IV.

These policies are adopted without prejudice to national law and the EBA technical standards, which prevail over them. The NCAs have agreed, to the extent possible, to interpret and develop national law in line with these policies.

The Guide reflects the policies that had been agreed on by the Supervisory Board by mid-September 2017. They will be complemented with policies on the assessment of capital and the programme of operation towards the end of 2017, and thereafter reviewed in the light of the ongoing development of the SSM practice for authorisations and international and European regulatory developments, or new interpretations of the CRD IV set forth, for example, by the Court of Justice of the European Union.

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3 General licensing principles

3.1 Gatekeeper

From a prudential supervision perspective, licensing should prevent institutions that would not be safe and sound, or that could pose a threat to the stability of the financial system, from entering the banking market in the first place. When granting authorisations to banks, the ECB acts as a gatekeeper. Its task is to ascertain that entrants to the banking market are robust and comply with national and EU legal requirements. To this end, it focuses on applicant banks’ capital levels, their programme of operations, structural organisation and the suitability of their managers and relevant shareholders.

No particular business model for banks is advocated in this Guide.

3.2 Open and complete communication

A licence application marks the start of (or a significant change in) the lifecycle of a credit institution and thus in the communication between the institution and the supervisor. The supervisors expect each applicant to accurately and completely prepare their application and openly and swiftly share information to help the supervisors reach an informed decision. The information requirements are based on the EBA’s RTS and ITS on the information required for the authorisation of credit institutions.

Delays in receiving the requested authorisation most often result from the provision of incomplete information or a failure on the part of the applicant to sufficiently address additional information requests. The supervisors will communicate regularly with the applicant throughout the process.

3.3 Harmonisation

The first three years of European banking supervision have shown divergences across Member States in the interpretation of the licensing framework and how it is applied in the assessment of licence applications.

To promote harmonisation, this Guide explains in greater detail the policies, practices and processes applied by the ECB when assessing licence applications.

The Guide specifically addresses applications for a new or extended authorisation. Thus, it will not lead to re-assessment of the existing authorisations granted before. The compliance of authorised credit institutions with the requirements concerned is monitored under their ongoing supervision.
3.4 Case-by-case assessment and proportionality

For any licence application, all relevant circumstances will be taken into account. This includes considerations of proportionality in line with the nature, scale and complexity of the applicant entity’s activities and the resulting risk.

Information requirements will be calibrated to the nature of the application in line with the applicable law. Applications involving novel, precedential or highly complex activities will require more information than applications solely involving straightforward or already-known activities. For example, a licence application following an internal restructuring to streamline a group structure should be treated differently to a licence application resulting from a merger between two previously independent credit institutions with different business models, or to a start-up application.
4 Scope of the licensing requirement

The scope of the ECB’s intervention in the licensing process has three main dimensions:

- verifying that a business is sufficiently engaging in the essential activities that it must undertake in order to be considered a credit institution as defined by the CRR;
- granting a credit institution authorisation at an entity’s inception as well as amending the content of an existing licence e.g. in terms of the scope of the permissible banking activities.
- authorising all regulated activities that are subject to a credit institution authorisation pursuant to the applicable law, irrespective of whether they derive from EU law or from national law, as long as they underpin a prudential supervisory function.

The supervisor needs to individually assess each situation and transaction that may impact an entity’s need for a credit institution authorisation to ascertain whether authorisation, rather than another form of supervisory approval, is required.

The next paragraphs explain these dimensions in greater detail.

4.1 Essential activities

Definition of “credit institution” in the CRR

A “credit institution” is defined in the CRR as “an undertaking the business of which is to take deposits or other repayable funds from the public and to grant credits for its own account” (Article 4(1)(1)).

The ECB applies a broad interpretation of the CRR definition, meaning that it does not limit the granting of licences to credit institutions with a more traditional business model, but also to those that reflect the evolving role of banks in society, especially if they explore the use of modern financial technologies. However, an institution can only be granted a credit institution authorisation if it fulfils both components of the definition: (i) taking deposits or other repayable funds and (ii) granting credits.

In particular, if the fulfilment of these two essential banking activities is not clear-cut, the ECB will examine the underlying reasons and perform a focused analysis. Specific consideration will be given to entities that do not fulfil both activities but are nonetheless subject to a mandatory licensing requirement in their Member State, for example depositaries of undertakings for collective investment in transferable funds (UCITS) and alternative investment funds.
• Formal compliance with the individual components of the credit institution definition is generally not considered sufficient for an entity to receive a credit institution authorisation. The applicant entity must **sufficiently develop both** of the defining activities (taking deposits or other repayable funds and granting credits) to be eligible for a credit institution authorisation. Possible **additional motives** for the application will be examined in more depth in cases where only formal compliance exists or is supposed to exist.\(^8\)

• The ECB reviews whether the overall prudential framework for credit institutions is the **most correct and appropriate framework** for the intended activities. For certain specialised financial activities such as e-money issuance and payment services, a dedicated, more appropriate regulatory regime exists.

• The applicant entity needs to develop both activities – the taking of deposits or other repayable funds and the granting of credits – in order to be considered a “credit institution”. Nevertheless, a certain degree of flexibility can be accepted during the phase-in of activities (e.g. the first 12 months after commencing business).

  If the applicant does not intend to immediately start offering one of the defining activities when it commences its business, the competent authority should assess whether this may have an impact on the viability of the business plan.

  For example, a lack of interest rate revenue from the credit-granting side will affect interest payments on the deposit-taking side. The supervisors will then assess whether such a business model is sustainable, taking into account the projected phase-in period of the missing activity.

  If the business plan of the entity does not foresee granting credits for its own account on a regular basis after the ramp-up period, the competent authority will assess whether another regulatory regime is more suitable.

**Guidance on terms used in the definition**

Neither the CRR nor the CRD IV define the individual terms which jointly constitute the definition of credit institution. Although in practice, the definition of some of these components (e.g. “undertaking”) hardly gives rise to discussion, for others, the absence of definitions has caused differing interpretations across EU Member States as to which institutions are classified as CRR credit institutions. To encourage harmonisation, guidance on these key terms is provided below, without prejudice to national law.

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\(^8\) The examination will take into account any applicable national law specificities.
Deposits and other repayable funds

One of the main objectives for harmonised prudential supervision is the adequate protection of depositors, investors and consumers. In that respect, supervision covers all institutions whose business is to receive repayable funds from the public, whether in the form of deposits or in other forms such as the continuing issuance of bonds and other comparable securities. Thus, repayable funds, including deposits, may consist of long-term savings accounts, current accounts, immediately repayable savings accounts, funds in investment accounts, or in other forms that are to be repaid. Under the broad interpretation given by the Court of Justice, “other repayable funds” refers not only to financial instruments with the intrinsic characteristic of repayability, but also to those which, although not having that characteristic, are the subject of a contractual agreement to repay the funds paid.9

The same broad interpretation also applies to the term “deposits”, which is defined in the EU directive on deposit guarantee schemes as “a credit balance which results from funds left in an account or from temporary situations deriving from normal banking transactions and which a credit institution is required to repay [at par] under the legal and contractual conditions applicable, including a fixed-term deposit and a savings deposit”.10

Funds received in relation to the provision of specific services, such as payment services or electronic money issuance among others, are explicitly exempted from the scope of the CRD IV and/or the CRR.11

Public

Without prejudice to the existing definitions of “public” in national law, when used in a prudential context “public” implies an element of protection for natural or legal persons entrusting funds to unsupervised entities whose financial soundness is not established. Specific groups that are deemed not to need such protection may hence be exempted from the “public”. For example, people who have a (personal) relationship with the company to whom they entrust their money and are thus able to assess its financial soundness, or professional market parties with sufficient expertise and funds to conduct their own counterparty research.

9  Court of Justice of the European Union, 11 February 1999, Case C-366/97.
Grant credit for own account

Lending, in the form of granting credits or loans, must be carried out by the credit institution “for its own account”. The credit institution is therefore the creditor, while the credit/loans that it grants become its assets. The different types of credit include, but are not limited to, those covered by the second activity listed in Annex 1 to the CRD IV, i.e. consumer credits, mortgage loans, factoring and financing of commercial transactions. Overdraft facilities can also qualify as credits under the CRR definition.

4.2 Circumstances triggering a licence requirement

Initial licensing

Entities may need to file an initial licence application with the NCA for various reasons. Whether the licence is required on a temporary or permanent basis has, in principle, no bearing on the application. Licences are, however, generally granted for an indefinite period of time.

- Any entity wishing to become a credit institution, i.e. to begin taking deposits or other repayable funds and granting credits, requires a new licence. It may be a newly created entity or an existing one that has already been performing one of the two required activities and now wishes to offer the other activity as well. It may also be a regulated financial institution that plans to expand its business to full banking services.

- A new licence may also be necessary if two or more credit institutions merge and create a new entity to accommodate the merged credit institution activities. Any new entity housing regulated activities requires a licence.

Such a new entity may sometimes only need to exist for a short period of time, for example in the course of a merger, when a credit institution’s activities may need to be carved out and placed into a new, temporary entity before being merged into the final entity. Regardless of its temporary nature, this new entity would still require a licence.

Nevertheless, an exception can be made for temporary credit institutions that will hold the activities only for a “legal second”, i.e. only for as long as it takes to complete the legal transactions involved with the merger. In order to decide whether to make an exception, the supervisors will take into account the specific circumstances and risks involved in the execution of the transaction. To qualify for such an exception, the parties concerned would need to have a safeguard in place in case the transfer cannot be completed within the “legal second”. All other necessary supervisory approvals pertaining to the merger will still need to be obtained.
• A “bridge bank” is a temporary credit institution created specifically for holding the assets and liabilities of another, typically insolvent, credit institution in order to maintain critical functions while the sale or write-down of assets is being arranged. Although temporary, bridge banks are credit institutions and are therefore subject to an ECB licence decision.

Bridge banks often need to be established quickly, to support a bank in crisis. Due to the urgent situation and short timelines, in duly justified circumstances bridge banks can be authorised with a waiver allowing them to begin operations without complying with CRD IV requirements. This type of waiver should, however, be limited in time.

Depending on the particular situation, the licensing of bridge banks is undertaken in cooperation with other authorities, notably the Single Resolution Board or the national resolution authority. Other authorities can also become involved as necessary.

Changes in licences

Entities need to file applications to change initial licenses for various reasons, including, but not limited to, those described below.

• Certain Member States do not grant “universal” banking licences, i.e. licences authorising the applicant to perform all of the activities listed in Annex I of the CRD IV or beyond, if so defined by national law. In the case of a non-universal licence, the scope of the initial authorisation may therefore need to be extended if an authorised entity wishes to take up another regulated activity, such as investment services, portfolio management safekeeping and custodian services, etc.

Annex I of the CRD IV

LIST OF ACTIVITIES SUBJECT TO MUTUAL RECOGNITION

1. Taking deposits and other repayable funds.
2. Lending including, inter alia: consumer credit, credit agreements relating to immovable property, factoring, with or without recourse, financing of commercial transactions (including forfeiting).
3. Financial leasing.
4. Payment services as defined in Article 4(3) of Directive 2007/64/EC.
5. Issuing and administering other means of payment (e.g. travellers’ cheques and bankers’ drafts) insofar as such activity is not covered by point 4.
7. Trading for own account or for account of customers in any of the following:
(a) money market instruments (cheques, bills, certificates of deposit, etc.);
(b) foreign exchange;
(c) financial futures and options;
(d) exchange and interest-rate instruments;
(e) transferable securities.

8. Participation in securities issues and the provision of services relating to such issues.

9. Advice to undertakings on capital structure, industrial strategy and related questions and advice as well as services relating to mergers and the purchase of undertakings.

10. Money broking.

11. Portfolio management and advice.

12. Safekeeping and administration of securities.

13. Credit reference services.

14. Safe custody services.

15. Issuing electronic money.

The services and activities provided for in Sections A and B of Annex I to Directive 2004/39/EC, when referring to the financial instruments provided for in Section C of Annex I of that Directive, are subject to mutual recognition in accordance with this Directive.

- An institution may choose to carry out different activities over the course of its lifetime. If national law requires a licence decision due to a change in activity, then the ECB must be involved and will take the licence decision. If, however, the initial licence already covers the new activity, there should be no need to apply for a change in licence.

- The legal form of an entity may also change. If the change in legal form requires a licence decision according to national law, or if it modifies the prudential regime that is applied to the institution, then the ECB must be involved and will take the licence decision. If the change of legal form does not require a licence decision according to national law, other types of supervisory approvals may still be necessary, for example for changing the credit institution’s constituent documents (articles of association).

- **Mergers** may trigger the need for an ECB decision on a license extension, particularly if the entities’ licences do not cover the same activities. The entity
that will take on the regulated activities previously carried out by the other parties to the merger needs to have authorisation for the entire range of activities. If the entity already has a banking licence, that licence may need to be extended. All other necessary supervisory approvals pertaining to the merger must also be obtained.

Given the exclusive competence of the ECB to grant authorisations within the SSM, licences should not be transferred to new entities, even if this is provided for in national law.

In general, applications for changes in licences can be assessed in a more proportionate way than initial licence applications. Examples of this are included in Section 5.

4.3 Additional activities regulated by national law

The activities regulated by national law may go beyond those listed in Annex I of CRD IV. Therefore, whenever national law requires a credit institution to obtain an authorisation before beginning a financial activity, the ECB is required to take an authorisation decision even if the activity is not part of the listed activities in Annex I of CRD IV. This is confirmed by Article 78(5) of the SSM Framework Regulation, according to which “the decision granting authorisation shall cover the applicant’s activities as a credit institution as provided for in the relevant national law (…)”.

The ECB grants authorisations for activities that are only regulated by national law insofar as they underpin a supervisory function under EU law.
5 Assessment of licence applications

The supervisors assess the information submitted by the applicant for an initial banking licence or a change to an existing licence against a set of criteria stemming from EU and national law and in a manner appropriate to the licence requested. Below are examples of some of the areas covered by the assessment.

- General presentation of the applicant and its history, including background and justification for requesting the licence;
- Programme of operations, including intended activities, business model and the associated risk profile;
- Structural organisation of the applicant, including IT organisation and outsourcing requirements;
- Financial information, including forecast balance sheet and profit and loss account projections and adequacy of internal capital and liquidity;
- Suitability of shareholders;
- Suitability of the management board and key function holders and of the supervisory board.

The next paragraphs explain the assessment criteria in greater detail.

5.1 Capital

[The guidance as regards the determination and the assessment of the capital required for a newly licensed bank will be added to this Guide in a next stage, but only after a separate public consultation has been conducted.]

5.2 Programme of operations

[The guidance as regards the assessment of the programme of operations required for a newly licensed bank will be added to this Guide in a next stage, but only after a separate public consultation has been conducted.]

5.3 Fit and proper assessments of the management body

Members of the management body of the applicant entity must be assessed for compliance with the requirements for fitness and propriety (“suitability”). This applies to all members of the management body, either in its executive function or in its...
supervisory function. In principle, the authorisation decision itself will include the assessment of the fitness and propriety of all the members of the management body.

Unlike fit and proper assessments as part of ongoing supervision, fit and proper assessments of prospective members of the management body as part of the licensing process will be conducted by the ECB, both for significant and less significant institutions.

However, once the initial licence decision has been taken, subsequent appointments or changes to the management body will neither affect the initial licence decision nor require a new one.

The criteria used in assessing appointments to the management body as part of a licensing procedure are the same as those used in regular fit and proper procedures.

As the assessment process is subject to the principle of proportionality, it can be tailored to the envisaged systemic importance and forecast risk profile of the applicant entity. The following points illustrate how the proportionality principle is applied:

- The assessment of the reputation of the appointees/candidates will be conducted in the same manner for all applicants, regardless of the applicant entity’s future status as significant or less significant; proportionality does not apply.

- By definition, credit institutions applying for licence extensions are already licensed and supervised by either the ECB or the NCA, depending on their significance. Therefore, only new management body members that will be appointed as a result of the extension will be assessed.

  If the extension represents a significant change in the entity’s business model or in the complexity or range of its services and products, the board as a whole can be assessed as part of the licence extension to ensure that the collective suitability of the board’s knowledge is preserved.

  Existing members of the management body members are generally not reassessed within the licence extension procedure. However, if at some point during the assessment, new facts are discovered that can adversely affect the fitness and propriety of the board members, the NCA together with the ECB can consider performing a separate, complete fit and proper assessment.

- Appointments in bridge banks should follow the regular fit and proper process. A waiver regarding the fitness and propriety requirements may only be granted if the establishment of a bridge bank is exceptionally urgent, in which case the NCA together with the ECB can conduct an informal pre-assessment of the management body members appointed by the resolution authority.
5.4 Assessment of direct and indirect shareholders

If the shareholders of the applicant entity hold more than 10% of the capital or voting rights or exercise a significant influence over the management of the entity, the qualifying holding criteria will be applied as part of the licensing procedure. However, if there are multiple smaller shareholders, without any qualifying holdings, the 20 largest shareholders will be assessed.12

Existing shareholders are generally not reassessed within a licence extension procedure. However, if at some point during the assessment, new facts are discovered that can adversely affect the suitability of qualified shareholders, the NCA together with the ECB can consider performing a separate shareholder assessment.

Qualifying holdings

Within the context of a licensing procedure, the criteria used for assessing shareholders are the same as those used for assessing an acquirer of a qualifying holding in an existing credit institution. These criteria are:

- the reputation of the shareholder;
- the financial soundness of the shareholder;
- the lack of suspicion of money laundering or terrorist financing.

Additionally, two other criteria, also used in the assessment of acquisitions of qualifying holdings, are covered elsewhere in the overall licensing assessment, notably:

- the reputation, knowledge, skills and experience of senior management who will direct the business of the credit institution (see paragraph 5.3);
- the projected compliance of the institution to be licensed with the prudential requirements (see paragraph 5.1).

While the assessment closely mirrors that conducted during a qualifying holding procedure, no separate qualifying holding decision will be issued, unless national law transposing the CRD IV provides otherwise. The result of the assessment of the shareholders is, therefore, in principle, incorporated into the licence decision.

Bridge banks are wholly or partially owned by one or more public authorities responsible for resolution. When a resolution authority, including the resolution fund or an entity belonging to it, becomes a shareholder of a bridge bank, it is considered as an acquirer and should therefore be subject to a qualifying holding assessment.

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However, in line with the proportionality principle, a lighter assessment can be performed, following a case-by-case analysis by the supervisor.

**Focused assessment of 20 largest shareholders**

In the absence of persons with qualifying holdings, the assessment will instead focus on the 20 largest shareholders or, if the entity has less than 20 shareholders, all of the shareholders.

The information requirement for the 20 shareholders taking part in the focused assessment will take into account the EBA standards, but also the proportionality principle, the size of the holdings and the role of the shareholders.

Several shareholders may hold exactly the same amount, making it difficult to know who to include in the focused assessment of the 20 largest shareholders. In that case, all of the shareholders with a holding of exactly the same amount as the smallest holding before the cut-off will, in principle, be included in the assessment.

For more information, see the EBA regulatory technical standards, currently awaiting implementation.
6 Procedural considerations

In the euro area, the procedure for granting or extending a banking licence is one of what are known as “common procedures”. The ECB and the national supervisors are involved in different stages of these common procedures in which the entry point for all applications is the national supervisor of the country where the bank is/will be located, irrespective of whether the significance criteria are met or not. The national supervisors and the ECB cooperate closely throughout the whole procedure, which is completed for all supervised credit institutions, with the ECB taking the decision.

Figure 1
The Authorisation process

6.1 Applicable timelines

Article 15 of the CRD IV provides guidance as to the maximum time a licence application can take (12 months). However, as not all Member States have transposed the directive in their national laws in the same way, the existing national laws continue to provide for differing timelines. The start of the countdown period, or timeline, for a licence application can therefore differ across Member States. In some Member States, the timeline starts when the NCA receives the application, even if it is incomplete.13 In others, the timeline is not initiated until the application is considered complete.14 Likewise, the use of suspension periods in the timeline can differ across Member States.

Within these constraints, and taking into account the need for flexibility, the following harmonised three-phase-approach is applied.

Pre-application phase

The supervisors generally engage in discussions with the applicant prior to the formal submission of a licence application, in order to (i) explain the process and the information requirements, (ii) identify if a credit institution licence is the appropriate

13 “start 1” in Figure 2 and Figure 3
14 “start 2” in Figure 2 and Figure 3
authorisation for the entity, (iii) review the effective presentation of the licensing plans and (iv) raise potential early concerns from a prudential perspective. This practice is highly encouraged, to ensure a smoother process.

**Figure 2**
Timeline, pre-application phase

From the supervisors’ side, specialists familiar with the licensing process and the assessment criteria will be involved. It is important that the right persons from the entity’s side take part in the pre-notification discussions, i.e. senior staff with the capacity to take decisions as well as persons with sufficient operational knowledge to respond to detailed questions.

Any feedback provided by the supervisors in this phase is without prejudice to the outcome of the application phase and the following decision by the ECB.

The pre-application phase enables the applicant to evaluate the scope and timeline of the project. The applicant can then decide whether to delay or interrupt the process or to move on to the next phase and submit a formal application to the NCA.

**Application phase**

The entry point is always the NCA as national laws must be taken into account. Once the formal timeline for decision-taking has been initiated on the basis of applicable national law, the NCA acknowledges the receipt of the application and informs the applicant of the relevant deadlines, by virtue of good administrative practice, if applicable in national law.

The supervisors generally hold regular meetings with the applicant to guide the applicant through the assessment process and discuss the submitted information in depth.
At any time during the assessment, the NCA and the ECB can request further information from the applicant as necessary. It often emerges during the application procedure that further details are needed to understand and analyse the application.

Depending on applicable national law, these requests for further information can suspend the proceedings and postpone the legal deadline accordingly. However, the entire process, starting from the NCA’s acknowledgement of receipt of the application should not exceed 12 months, including any suspension periods.

The applicant can withdraw the application at any time, informing the NCA accordingly, for instance, if the applicant considers that the requirements for licensing cannot be fulfilled. Otherwise, the application ends with a decision either by the NCA to reject the application or, if the NCA has submitted a draft proposal to the ECB to grant the authorisation (in which case it will have notified the applicant accordingly), by the ECB to grant or reject the application.

Example of timeline for a typical licence application

- Group A decides to create a new subsidiary, “Bank X”.
- Group A approaches the NCA of the Member State in which Bank X will be established and has several preparatory meetings with the NCA, and possibly the ECB, which explain the process and specify the information to be submitted with the application.
- Group A formally submits to the NCA its application for a credit institution authorisation for Bank X.
• The countdown period begins on the initial submission of the application (as provided for by the national law of the Member State in which Bank X will be established).

• The NCA sends a confirmation to Group A, acknowledging the receipt of its application and the official start of the assessment period and giving the applicable legal deadline.

• During the assessment phase, the NCA together with the ECB discovers that some vital pieces of information are missing from the application file. The NCA then makes a formal request to the applicant to submit the missing information.

• The request for further information suspends the process, and the timeline is paused.

• Once Group A submits the missing information the process is resumed, and the legal deadline is extended by the number of days of the suspension period.

• The supervisors request further information (and therefore suspend the process) several times over the course of the assessment.

• After the assessment performed by the NCA and the ECB, the NCA proposes to the ECB to grant the authorisation for Bank X and the ECB renders its decision within the applicable legal deadline, taking into account any suspension periods.

Hand-over to ongoing supervision

Depending on the circumstances that triggered the licensing requirement and the information that was submitted during the pre-application or application phases, there will be a greater or lesser need for enhanced follow-up monitoring in order to ensure that the credit institution complies with the ECB licence decision, including any ancillary provisions (see next section).

The supervisors will begin planning and carrying out supervisory activities, including an assessment of significance and the set-up of a new Supervisory Examination Programme (e.g. setting up a Joint Supervisory Team (in the case of a significant bank) and conducting the Supervisory Review and Evaluation Process (SREP), stress tests, on-site inspections and thematic reviews etc.)

More generally, the supervisors will monitor the authorised entity's adherence to the submitted programme of operations. If it emerges that the new entity does not comply with the requirements set out in the authorisation decision or with the ongoing prudential requirements, the supervisors can take action, ranging from closer interaction through specific meetings and the use of supervisory powers to enforcement measures or even sanctions, depending on the extent of non-compliance.
6.2 Ancillary provisions in the decision

The European Court of Justice has ruled that, in principle, a competent authority can impose conditions and/or obligations in cases where the licence application would otherwise be rejected.\(^\text{15}\) This section clarifies the circumstances under which these supervisory tools may be used.

Several types of ancillary provisions can be attached to a licence decision:

- a “condition” refers to a prerequisite, which must be fulfilled before the licence decision becomes effective;
- an “obligation” refers to a requirement or restriction which applies on an ongoing basis or for a set period after the licence decision is taken;
- a “recommendation” refers to a non-binding suggestion;
- an “ex ante commitment” refers to commitments made by the applicant prior to the adoption of the authorisation decision. The ex-ante commitments can encompass both conditions and obligations.

Conditions

Conditions require the applicant to undertake an action or to refrain from an action. The authorisation will only become effective once the condition has been fulfilled.

Conditions are proportionate and should not go beyond what is necessary to ensure that the criteria in the licensing assessment are met.

Conditions should be clear and well-defined, to ensure legal certainty. A condition must be implementable and enforceable.

Obligations

Similar to conditions, obligations require the applicant to undertake an action or to refrain from an action. Obligations are issued to deal with matters occurring after the authorisation has become effective, on an ongoing basis. The non-fulfilment of an obligation will not put in question the initial licence decision. However, non-compliance with an obligation may result in the application of enforcement measures and/or sanctions.

Obligations are proportionate and should not go beyond what is necessary to ensure that the criteria in the licensing assessment are met.

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\(^{15}\) Court of Justice of the European Union, 25 June 2015, Case C-18/14.
Recommendations

Recommendations can be attached to a licence decision, even though all authorisation criteria have technically been met. Recommendations can cover a broad range of issues that need to be addressed.

While recommendations are not legally binding, the reasons for issuing them and the objectives they hope to achieve should be clearly stated.

Ex ante commitments

Commitments are not imposed by the NCA or the ECB but proposed by the applicant prior to the licence decision; however, the competent authorities are allowed to make suggestions.

The objective of ex ante commitments is to provide assurances to the competent authority that the assessment criteria will be met.

Ex ante commitments take the form of a written statement signed by the applicant.

The ex-ante commitments are taken into account in the NCA and the ECB’s respective assessments and are presented in the licence decision as agreed conditions or obligations.

6.3 Due process

The NCA can reject a licence application following its assessment, or it can propose a positive decision in its proposal to the ECB. Following its own assessment, the ECB can then either confirm the decision proposed by the NCA, or reject it.

Right to be heard

When a licence application is to be rejected by the ECB, or when conditions or obligations are to be imposed, the applicant is given the opportunity to comment. This opportunity is called the “right to be heard”, and is a principle enshrined in the Charter of Fundamental Rights of the European Union.

The right to be heard is granted to all applicants whose authorisation is to be rejected by the ECB, or whose authorisation is to carry conditions or obligations.

The hearing period for licence applications is three working days.

There are, however, instances when the right to be heard does not apply:

- when conditions or obligations concern statutory provisions with which the application must comply;
• when the conditions or obligations have been pre-agreed with the applicant;
• when the conditions or obligations concern reporting requirements.

Access to application file

Following a decision, the applicant has the right to ask the NCA or the ECB for access to the application file.

The access to file could arise both at a national level (in cases where the licensing application will be rejected by the NCA) and at the ECB level (in cases where the licensing application will be rejected or where conditions/obligations on the authorisation are being proposed). This right of access is an essential component of the right to defence, right to good administration and the right to be heard.
Withdrawal and lapsing of licence

An authorisation for a credit institution may be withdrawn by the ECB either on its own initiative or on the basis of a proposal from the NCA of the Member State where the institution is established. The applicable process for the withdrawal of the licences is defined in national law, while cooperation between the NCA and the ECB is largely the same as that for granting authorisations, albeit with certain deviations depending on whether the withdrawal has been requested by the supervised entity itself or initiated by the supervisor, whether the NCA or the ECB.

If the supervised entity has asked the NCA to withdraw its authorisation, for example because it no longer conducts any banking business, the NCA and the ECB jointly assess whether the applicable preconditions have been met. The ECB decides whether the conditions for the withdrawal of authorisation according to national and EU law have been fulfilled. In particular, clear and indisputable confirmation is required that the entity no longer holds any deposits or other repayable funds.

If the withdrawal of a credit institution’s licence is initiated by the supervisor, for example because the institution no longer meets the prudential requirements or can no longer be relied on to fulfil its obligations towards its creditors, a full and detailed joint assessment is conducted to substantiate the justification for the withdrawal of the licence, taking into consideration the supervisory history of the institution concerned, as well as the relevant interests involved, for example, the risk for the depositors. In such cases, the resolution authorities may also become involved.

Lapsing of authorisation occurs when the credit institution’s authorisation ceases to exist. This may be caused by specific national and legally defined triggers, which do not generally involve supervisory discretion or a decision by the competent authority. There are three typical situations in which, according to national law, an authorisation may lapse:

- the credit institution does not make use of the authorisation for 12 months;
- the credit institution expressly renounces the authorisation;
- the credit institution has ceased to engage in business for more than six months.

Subject to national law, an effect similar to a lapsing of the authorisation may occur if the credit institution itself ceases to exist, for instance due to a merger with another company. In such cases, the authorisation ceases to exist at the same time as the institution does. In these cases, the same procedure applies as for the lapsing of authorisation.
<table>
<thead>
<tr>
<th>Abbreviations</th>
<th>Description</th>
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<tbody>
<tr>
<td>CRD</td>
<td>Capital Requirements Directive</td>
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<tr>
<td>CRR</td>
<td>Capital requirements Regulation</td>
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<tr>
<td>EBA</td>
<td>European Banking Authority</td>
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<td>ECB</td>
<td>European Central Bank</td>
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<tr>
<td>EU</td>
<td>European Union</td>
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<tr>
<td>LSI</td>
<td>Less Significant institution</td>
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<tr>
<td>SI</td>
<td>Significant Institution</td>
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<tr>
<td>SSM</td>
<td>Single Supervisory Mechanism</td>
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