



# Public consultation

## on the guide to assessments of licence applications and the guide to assessments of fintech licence applications

### FAQ

#### 1 What is a bank? And why do banks need a licence?

A bank (or a “credit institution” in the terminology of the Capital Requirements Regulation – CRR) is a business which takes deposits or other repayable funds from the public and grants credits for its own account. These activities are regulated in order to protect the public and promote public confidence in the financial system. Licensing of banks prevents institutions that could threaten the stability of the financial system from entering the market and ensures that those that do enter the market comply with minimum safety standards and are thus considered sufficiently robust. Licensing also ensures that institutions comply with all applicable national and European legal requirements.

The European Central Bank (ECB) is the sole authority able to grant a banking licence in the euro area. All entities that wish to become banks must be licensed by the ECB, whether they are significant institutions (directly supervised by the ECB), or less significant institutions (directly supervised by the national competent authorities – NCAs), and the ECB and NCAs cooperate closely in the licensing process. The entry point for applications is always the NCA of the country where the entity is to be located and all applications are subsequently assessed by the ECB.

#### 2 How many banking licences have you granted since the start of ECB Banking Supervision?

By 31 December 2016, the ECB received 68 licence applications. The ECB authorised 37 credit institutions over the same period.

No licence applications were declined, but some were withdrawn before the NCA proposed to the ECB that a negative decision be taken. Others were withdrawn due to change of plans by the applicants, while several notified procedures are still under assessment.

The share of fintech credit institutions in the number of authorisation applications has been increasing, with six institutions having completed licensing procedures since July 2016. In addition, other fintech-related applications have been considered at the

NCA level, but no licences were granted in these cases as the applicants were assessed not to be credit institutions.

### 3 Why are you publishing these guides?

The publication of these guides is in accordance with the ECB's commitment to transparency regarding internal processes and assessment criteria.

In recent months the ECB and NCAs have been working closely together on joint practices and policies, building on the experience of the first three years of banking supervision at the European level. This cooperation will ensure that all licence applications are treated in the same manner across the entire euro area right from the very beginning of the process of interaction with each applicant.

The first guide covers licence applications in general and provides an overview of the assessment criteria, the procedure followed and the types of outcome for an application. The second guide provides operational guidance for the supervisory assessment of licence applications from credit institutions with a fintech business model. The guides are not legally binding.

### 4 What do banks have to prove in order to be licensed?

Entities that wish to become a bank must demonstrate that they are able to comply with EU and national law requirements (Articles 8 to 14 of the Capital Requirement Directive – CRD IV). The licensing requirements span a wide range of areas, including the amount of capital to be held, the suitability of shareholders and board members, and the adequacy of the entity's business operations, as reflected in its business plan, governance framework, internal controls and risk management, etc.

Applications for a licence will be assessed on the basis of the applicable requirements, as well as the overall prudential framework for the supervision of credit institutions. This framework covers, for example, an assessment regarding whether the intended activities and business model of the applicant include the core banking activities of taking deposits and granting credit and whether the overall prudential framework for credit institutions is the most correct and appropriate framework for the intended activities.

The European Banking Authority (EBA) has published draft Regulatory Technical Standards with a comprehensive list of information to be provided by applicants. Each licence application is assessed on a case-by-case basis and the assessment is proportional to the envisaged systemic importance of the entity and its forecast risk profile.

**5 Does the publication of these guides mean that existing banks need to re-apply?**

No. The guidance provided in the guide to assessments of licence applications and the guide to assessments of fintech licence applications specifically addresses applications for new or extended authorisations. Thus, it will not lead to the reassessment of authorisations already granted. The compliance of authorised banks with the requirements detailed in the guides is monitored on an ongoing basis by supervisors.

**6 Do requirements differ from Member State to Member State?**

When authorising bank licences, the ECB has to apply all relevant EU law, including the national laws implementing the CRD that contain the licensing requirements.

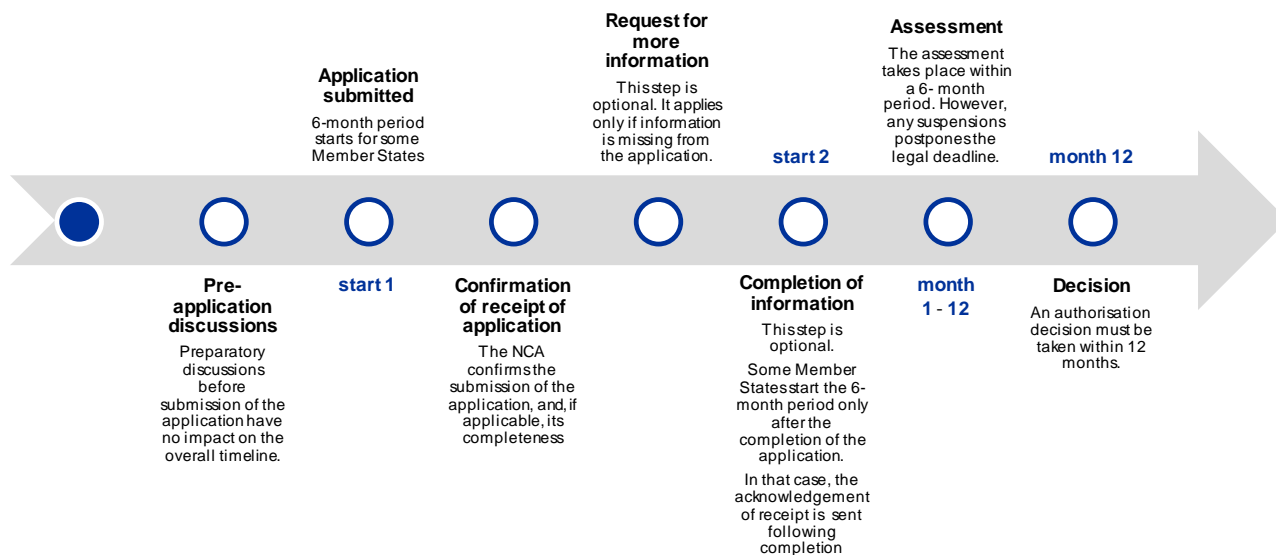
Differences exist between the euro area countries, for example in terms of the timelines for decision-making or how the scope of a bank's permissible activities is set. The ECB endeavours to smooth out these differences as much as possible, but will apply the relevant national law.

**7 What is the assessment process like? How long does it take?**

The length of time it takes to assess a licence application depends on several factors, such as how complete the application is, the quality of the information provided by the applicant, and the complexity and the risk profile of the envisaged activities. In their assessment, supervisors are guided by the principle of proportionality.

In addition, national laws have transposed the CRD IV differently, which has created some differences across the euro area countries – most notably regarding when the processing period begins. Some Member States have also defined in their national laws a shorter period for reaching a decision.

The entry point for all licence applications is the NCA of the country where the entity is to be located. The final decision is taken by the ECB, which is the sole authority able to grant a banking licence in the euro area.



## 8 Is there is a special procedure for banks moving to the euro area as a result of Brexit?

Banks relocating to the euro area will be required to show that they comply with relevant EU and national laws, as well as all supervisory standards. In many cases, the relocation will require a licence to be granted and/or another type of supervisory decision. Banks that relocate are expected, among other things, to conduct real operational activity, have sufficient staff, be operationally independent and implement adequate local risk management.

Each application will be processed in accordance with the existing authorisation procedure. No specific procedure has been established for banks relocating as a result of Brexit.

For Brexit-related questions, please also consult the dedicated pages on the [ECB's Banking Supervision website](#).

## Why do fintech banks have their own guide?

We are seeing an increase in the number of applications and related questions from fintech banks. In response, we have teamed up with NCA supervisors to agree on a common approach to the licensing of these banks. The fintech guide includes considerations for the supervisory assessment that are particularly relevant to the specific nature of banks with fintech business models, but they could equally apply to banks with traditional business models. Examples of these specific aspects include whether their management bodies have relevant skills and knowledge relating to technology, which could take the form of the appointment of a Chief Technology Officer as a member of the Executive Board.

The purpose of the fintech guide is to introduce a consistent approach to the assessment of licence applications, not only for new fintech banks, but also for specialised subsidiaries of existing credit institutions (both significant institutions and less significant institutions) with a fintech business model. This will help the ECB and NCAs to ensure that applications are assessed consistently and that risks specific to fintech banks are considered appropriately and proportionately. The ECB's general policies that apply to the authorisation of any bank in the euro area still also apply to licence applications from fintech banks.