



Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem

ADDITIONS TO THE LIST OF PRE- APPROVAL CONTROLLED FUNCTIONS (PCFs)

October 2020

ADDITIONS TO THE LIST OF PRE-APPROVAL CONTROLLED FUNCTIONS (PCFs)

Further to the Notice of Intention issued in February 2020, the Central Bank of Ireland is:

1. Introducing three new Pre-Approval Controlled Functions (PCFs):
 - Chief Information Officer (under the ‘General’ category);
 - Head of Material Business Line (under the ‘Banking’ category);
 - Head of Market Risk (under the ‘Banking’ category).
2. Splitting PCF-39 Designated Person into six PCF roles aligned to the specific managerial functions.

1. New PCF roles

In accordance with Part 3 of the Central Bank Reform Act 2010, the Central Bank of Ireland (the Central Bank) is prescribing certain functions¹ as PCFs. The new PCF roles² are being introduced on the basis of (i) the increasing importance of and reliance on information technology within regulated financial service providers (RFSPs), and (ii) the changing landscape of the banking sector in Ireland due to Brexit, including the entry/expansion of investment banks/broker-dealer firms with significant capital markets activity.

PCF-49 Chief Information Officer is applicable to all RFSPs other than credit unions. PCF-50 Head of Material Business Line and PCF-51 Head of Market Risk are applicable to Credit Institutions within the meaning of the European Union (Capital Requirements) Regulations 2014.

General	
PCF-49	Chief Information Officer
	The Chief Information Officer role will typically apply to the most senior individual at the RFSP with responsibility for information technology matters. The onus will be placed on the RFSP to review its function to determine whether the role meets the substance of a Chief Information Officer role.
Banking	
PCF-50	Head of Material Business Line
	A material business line will be one which satisfies either of the following quantitative criteria: a) has gross total assets equal to or in excess of €10 billion; - or b) accounts for 10 per cent or more of the credit institution’s gross revenue.

¹ Such functions already fall within the meaning of “controlled function” as prescribed by S.I. 437 of 2011.

² Section 22 of the Central Bank Reform Act 2010 enables the Central Bank to prescribe by regulation pre-approval controlled functions.

PCF-51	Head of Market Risk
	The role will become applicable in credit institutions whereby the market risk of the credit institution satisfies either of the following quantitative criteria (as reported in quarterly regulatory returns): a) €500m of market risk (including Credit Valuation Adjustment) risk weighted assets; - or b) €100bn of notional derivatives traded.

2. Split of PCF-39 role

The Central Bank's UCITS Regulations, the Central Bank's AIF Rulebook requirements (the Rules) and the Central Bank's Fund Management Companies – Guidance 2016 (the Guidance) include a requirement that the Board of the Management Company shall be responsible for six key managerial functions. The monitoring and control of each of the managerial functions on a day-to-day basis may be delegated to Designated Persons. As such, the Central Bank is splitting PCF-39 into six new PCF roles aligned to the specific managerial functions set out in the Rules and the Guidance as follows:

UCITS Self-Managed Investment Company / Management Company	
PCF-39	Designated Person
PCF-39A	Designated Person with responsibility for Capital and Financial Management
PCF-39B	Designated Person with responsibility for Operational Risk Management
PCF-39C	Designated Person with responsibility for Fund Risk Management
PCF-39D	Designated Person with responsibility for Investment Management
PCF-39E	Designated Person with responsibility for Distribution
PCF-39F	Designated Person with responsibility for Regulatory Compliance

3. Frequently Asked Questions

Further to the publication of the Notice of Intention in February 2020 and in response to comments received on the proposal, updated Frequently Asked Questions (FAQs) on the new roles are included at Annex 1.

Annex 1 - FAQs

1. If a Regulated Financial Service Provider (RFSP) does not currently have an individual performing one of the new Pre Approval Controlled Function (PCF) roles, is it required to create one in order to comply with its obligations under the Fitness & Probity Regime?

No. As set out in the Guidance on the Fitness and Probity Standards, the Central Bank does not require a PCF to be in existence in an RFSP where one did not previously exist or where the size or complexity of an RFSP's business does not warrant it. This is for the RFSP to determine itself. An RFSP should review its functions and determine whether any would meet the PCF roles as listed in the Amending Regulations 2020 (S.I. No 410 of 2020) (Amending Regulations 2020). RFSPs should apply substance over form when reviewing such functions and be mindful that it is the function rather than the job title of the individual performing that function that determines which PCF category, if any, it falls under.

In addition, it should be noted that an individual can occupy two PCF roles e.g. an individual could be listed as Chief Operating Officer (COO) and Chief Information Officer (CIO). It is the responsibility of the RFSP to determine if a position represents two PCF roles. In such circumstances, the individual must be approved by the Central Bank in respect of the performance of each PCF role.

Individuals who are already pre-approved as PCF 17 - Head of Retail Sales or PCF 21 - Head of Treasury will not be required to also seek pre-approval as a Head of Material Business Line.

2. Why introduce the role of Chief Information Officer as a new PCF role?

The advancement of information technology ("IT") is changing the way business is conducted in the financial services industry. Given this increased role of technology in financial services, as well as the risks posed by IT, the Central Bank deems it appropriate to introduce the CIO as a PCF role.

3. Will the Chief Information Officer role apply at all RFSPs?

The onus will be placed on the RFSP to review its function to determine whether it meets the substance of a CIO role. It is possible that an RFSP may not require a specific CIO and that the role may instead be shared amongst other Controlled Functions. As set out in the Guidance on the Fitness and Probity Standards, and in question 1 above, the Central Bank does not require a PCF to be in existence in an RFSP where one did not previously exist or where the size or complexity of an RFSP's business does not warrant it. This is for the RFSP to determine itself. An RFSP should review its functions and determine whether any would meet the CIO role. RFSPs should apply substance over form when reviewing such functions and be mindful that it is the function rather than the job title of the individual performing that function that determines which PCF category, if any, it falls under.

The CIO role will be a function, which is likely to enable the individual responsible for its performance to exercise a significant influence on the conduct of the affairs of an RFSP and will typically apply to the most senior individual at the RFSP with responsibility for IT matters. This may be referred to as 'Chief Technology Officer' or other similar role titles in some instances.

While not limited to the following circumstances, the Central Bank expects that the CIO role would likely apply where:

1. The RFSP has a PRISM impact rating of High or Medium High; or
2. Information Technology is a key enabler or core element of the RFSP's business model.

In considering the applicability of the CIO role, RFSPs should do so in light of the principle of proportionality which takes into account the size and complexity of the RFSP's operations, the nature of the RFSP's activity, the types of services provided and the corresponding Information and Communication Technology (ICT) and security risks related to its processes and services.

The criterion '*Information Technology is a key enabler or core element of the RFSP's business model*' is not intended to refer to all RFSPs solely based on the use of technology within the RFSP. In the context of this criterion, the CIO role is applicable where the size, nature and complexity of the RFSP warrants such a role and where failure of the RFSP's ICT would have an adverse effect on one or more of the following:

- the provision of critical services to their customer base, taking into consideration potential customer detriment it may cause;
- the ability of the firm to meet its regulatory obligations; or
- the overall stability of the financial system in Ireland.

4. Why introduce the role of Head of Material Business Line as a new PCF role?

The role of Head of Material Business Line would typically include responsibility for management of a material business line at a credit institution (including Balance Sheet and Profit & Loss management) which would be considered capable of having an impact on the safety and soundness of the credit institution due to the commercial or strategic importance of that business line. It is anticipated that this role would usually be held by a senior individual with a direct reporting line to the CEO. Given the changing landscape of the banking sector in Ireland, the Central Bank deems it appropriate to introduce the Head of Material Business Line role.

5. How does the Central Bank define a 'Material Business Line'?

The role will only apply in credit institutions whereby a Material Business Line is one which satisfies either of the following quantitative criteria:

- a) has gross total assets equal to or in excess of €10 billion;
- or
- b) accounts for 10 per cent or more of the credit institution's gross revenue.

Due to the absence of information contained within quarterly regulatory returns (COREP & FINREP) regarding financials by business line, determination about whether the qualifying criteria have been met will be made on the basis of a credit institution's annual financial statements or other relevant Board approved documents that are formally submitted to the Central Bank such as Strategic Plans and Internal Capital Adequacy Assessment Processes.

6. Why introduce the role of Head of Market Risk as a new PCF role?

The materiality of market risk at some credit institutions authorised by the Central Bank has increased in recent years. Given the importance of the role, the Central Bank deems it appropriate to introduce it as a PCF role.

7. Will the Head of Market Risk apply to all credit institutions?

No. A risk based approach will be adopted whereby the Head of Market Risk role will only apply where the level of market risk is deemed to be material by the Central Bank. The role will only apply in credit institutions whereby the market risk of the credit institution satisfies either of the following quantitative criteria³:

- a) €500m of market risk (including Credit Valuation Adjustment) risk weighted assets;
- or
- b) €100bn of notional derivatives traded.

8. Could the use of quantitative criteria for the Head of Material Business Line and Head of Market Risk roles lead to timing issues regarding when an RFSP should submit a PCF application? How should subsequent movements above and below the thresholds be addressed?

³ As reported in quarterly COREP and FINREP regulatory reporting.

At the time that an individual is being considered for appointment to this role, a firm should do an assessment to see if the quantitative criteria are met for that role. If the quantitative criteria are met at that time, then the role is a PCF role and any new appointment should be put forward for pre-approval, without delay, in accordance with section 23 of the Central Bank Act 2010. After an individual has been approved and is performing the role that individual remains in place until such time as they leave their role, even if there are fluctuations in the quantitative criteria post approval.

9. Why split the role of a designated person PCF-39 into six different roles?

PCF 39 is being split into six roles to correspond to the specific managerial functions set out in the Central Bank's UCITS Regulations, AIF Rulebook and the Fund Management Companies Guidance.

10. Many RFSPs are authorised in more than one EEA Member State and may wish to appoint an individual who is based in a non-EEA location. Is this approach in relation to the location of the role acceptable?

The existing "Guidance on Fitness and Probity Standards" applies to these new roles. Section 5 on Outsourcing may be applicable in these circumstances. In addition, Section 6 on 'Provision of services on a branch basis' should be noted. Section 6.4 states "*where a regulated financial service provider proposes to appoint a person to a PCF role at a location outside of the State, it must obtain the Central Bank's prior approval in writing*".

11. Does the Central Bank intend to issue additional guidance on its expectations of the principal responsibilities for these new PCF roles?

The Central Bank does not intend to publish additional guidance with regard to the new roles, other than the additional information that has been made available within this document.

12. Will individuals already in situ for the roles of PCF-49, PCF-50 and PCF-51 be required to seek approval from the Central Bank to continue to perform their PCF role?

No. Individuals in situ on 5 October when the Amending Regulations 2020 come into effect will not be required to seek the approval of the Central Bank to continue to perform one of the new PCF roles. RFSPs will be required to review their assessment under Section 21 of the Central Bank Reform Act 2010 in respect of individuals in situ and submit confirmation of such an assessment to the Central Bank. This process will commence after the Amending Regulations 2020 come into effect and a period of six weeks will be provided to submit the In Situ confirmation. Should the individual in the role change

after the new PCF roles have been introduced, he/she will be required to seek the Central Bank's prior approval in writing to that appointment by means of a new Individual Questionnaire.

13. Will individuals already in situ for the roles of PCF-39A, PCF-39B, PCF-39C, PCF-39D, PCF-39E and PCF-39F be required to seek approval from the Central Bank to continue to perform their PCF role?

No. Individuals in situ on 5 October when the Amending Regulations 2020 come into effect will not be required to seek the approval of the Central Bank to continue to perform one of the new PCF roles. RFSPs will be required to submit a list of the individuals performing each of the PCF-39A, PCF-39B, PCF-39C, PCF-39D, PCF-39E and PCF-39F roles via an In Situ return to the Central Bank. This process will commence after the Amending Regulations 2020 come into effect and a period of six weeks will be provided to submit the In Situ return. Should the individual in the role change after the new PCF roles have been introduced, he/she will be required to seek the Central Bank's prior approval in writing to that appointment by means of a new Individual Questionnaire.

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