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Central Bank of Ireland

Eurosystem

# The Revised Client Asset Requirements: Industry engagement session

Presented by: The Client Asset Specialist Team

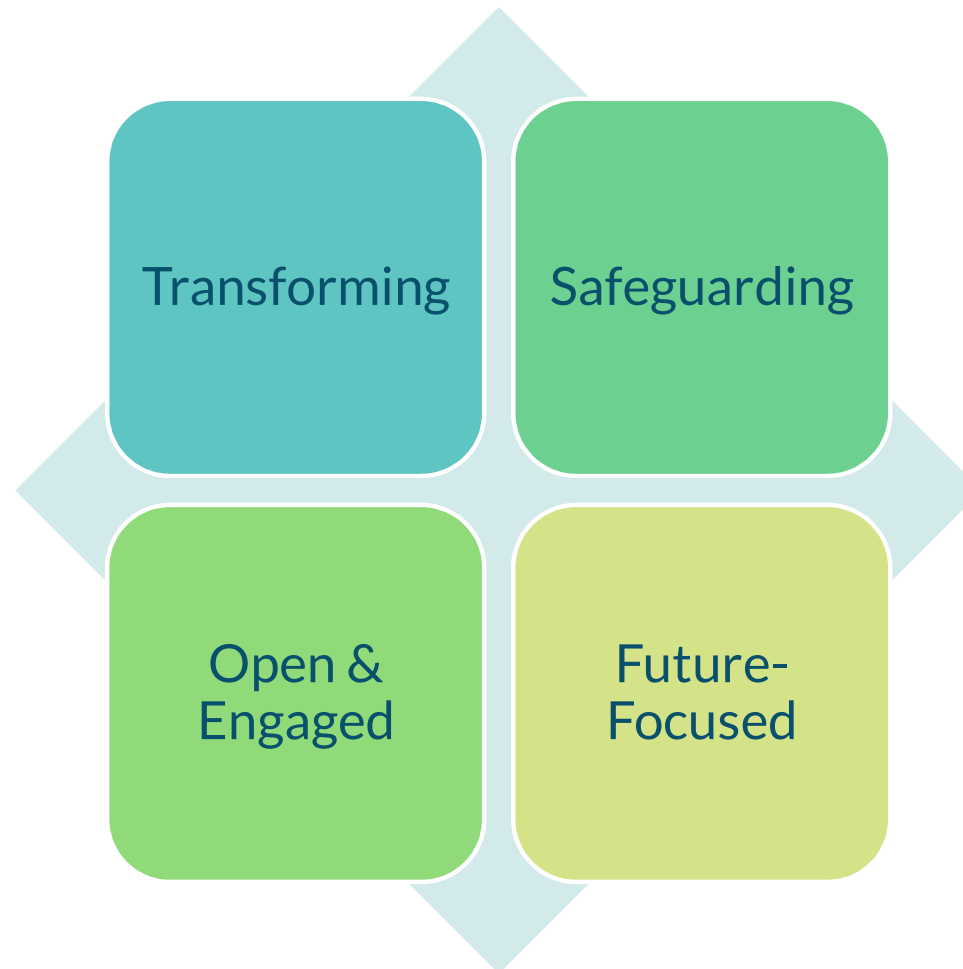
2 March 2023

# Speakers



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# Central Bank of Ireland – Our Strategy



## Revised Client Asset Requirements: Effective Dates

Investment firms  
1 July 2023

Credit institutions  
1 January 2024



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# Agenda

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The core objectives of the Irish client asset regime

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Overview of the Client Asset Specialist Team ('CAST')

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The principles of client asset protection

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The revision of the Client Asset Requirements ('CAR')

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The principle of risk management

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The revised Monthly Client Asset Report ('MCAR')

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Concluding remarks and wrap up

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Q&A



## Q&amp;A

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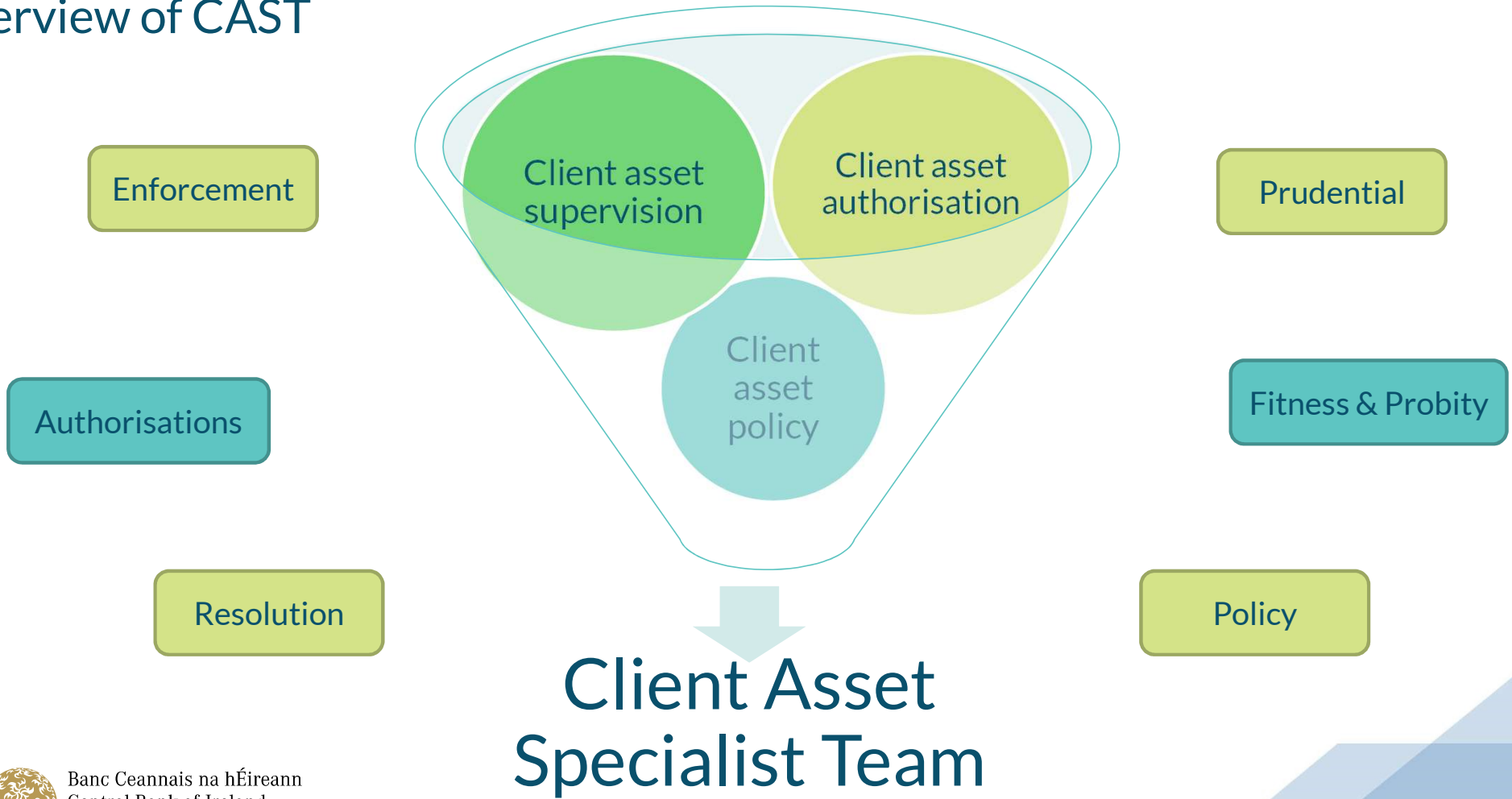
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# The core objectives of the Central Bank's client asset regime

- 1. Maintain public confidence in the client asset regime
- 2. Minimise the risk of loss or misuse of client assets
- 3. Enable the efficient and cost effective return of client assets to clients in the event of the insolvency



# Overview of CAST





## How CAST supervise client asset risk

# Risk based supervision

HCAO  
Engagement  
Meetings

Client Asset  
Examination  
(CAE)  
Auditor  
Assurance  
reports

Internal  
Audit reports

Breach &  
Incident  
reports

Client Asset  
Management  
Plan (CAMP)

Monthly  
Client Asset  
Report  
(MCAR)



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## Who We Supervise

Stockbrokers

Wealth  
Managers

Pension/Share  
Scheme  
Managers

Online  
Brokers

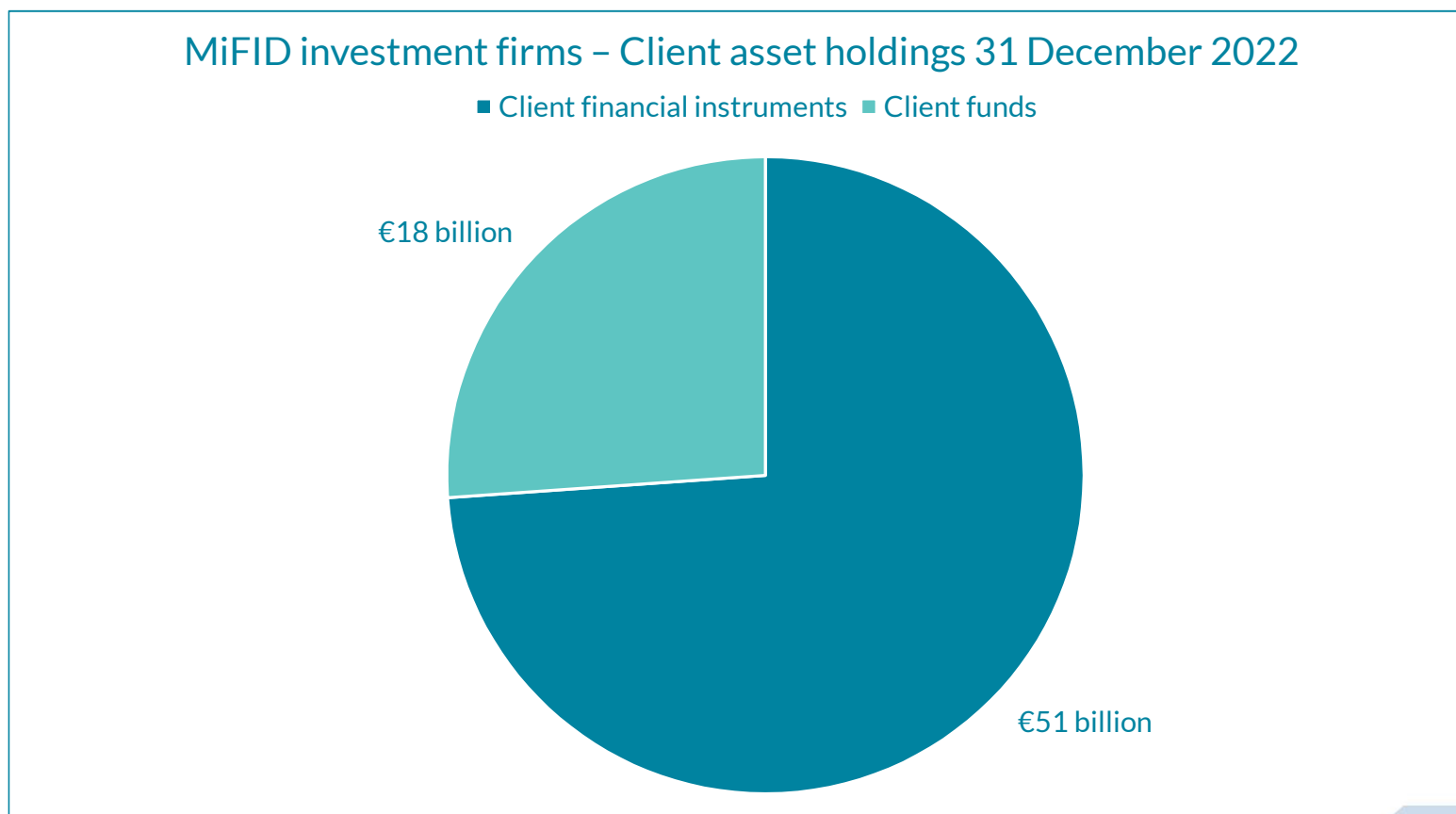
Qualifying  
Fund  
Managers

Trading  
Venues

Market  
infrastructure  
firms



# The MiFID client asset landscape



# The Seven Principles of Client Asset Protection

**1. Segregation**

**2. Registration and designation**

**3. Reconciliation**

**4. Calculation**

**5. Client disclosure and client consent**

**6. Risk management**

**7. Client asset examination**



## Revision of the Client Asset Requirements - Triggers

MiFID I and  
MiFID II

Brexit Pipeline

Increase in client  
asset holdings

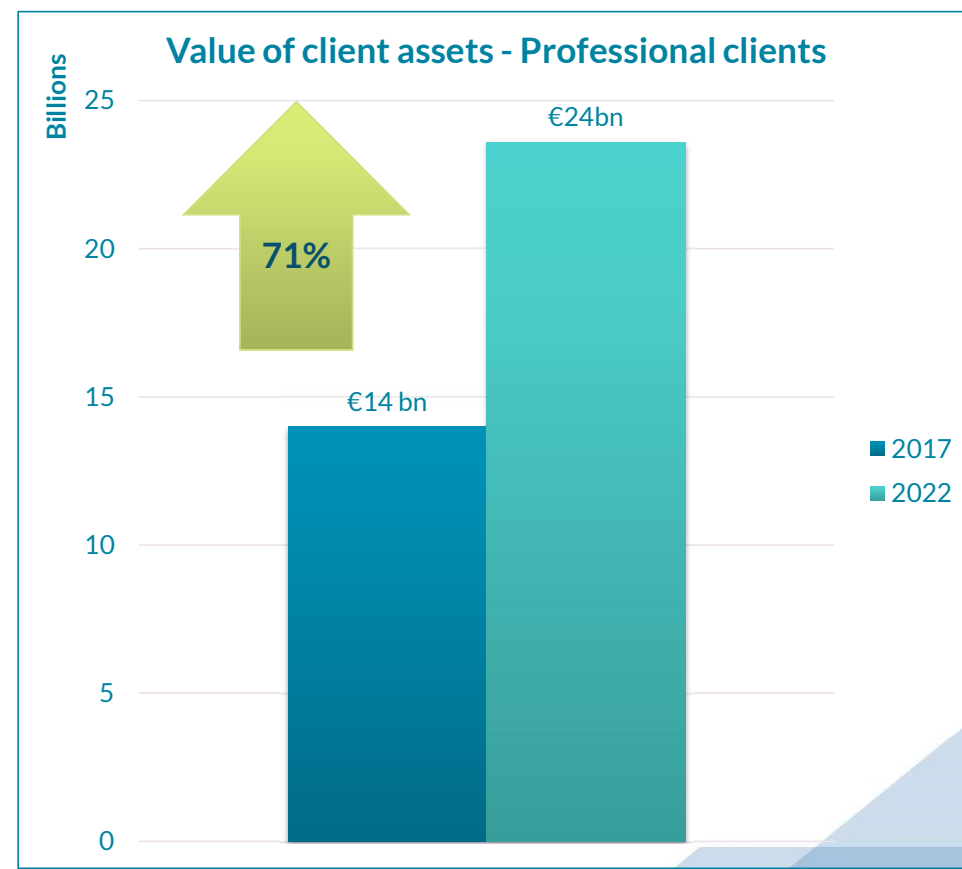
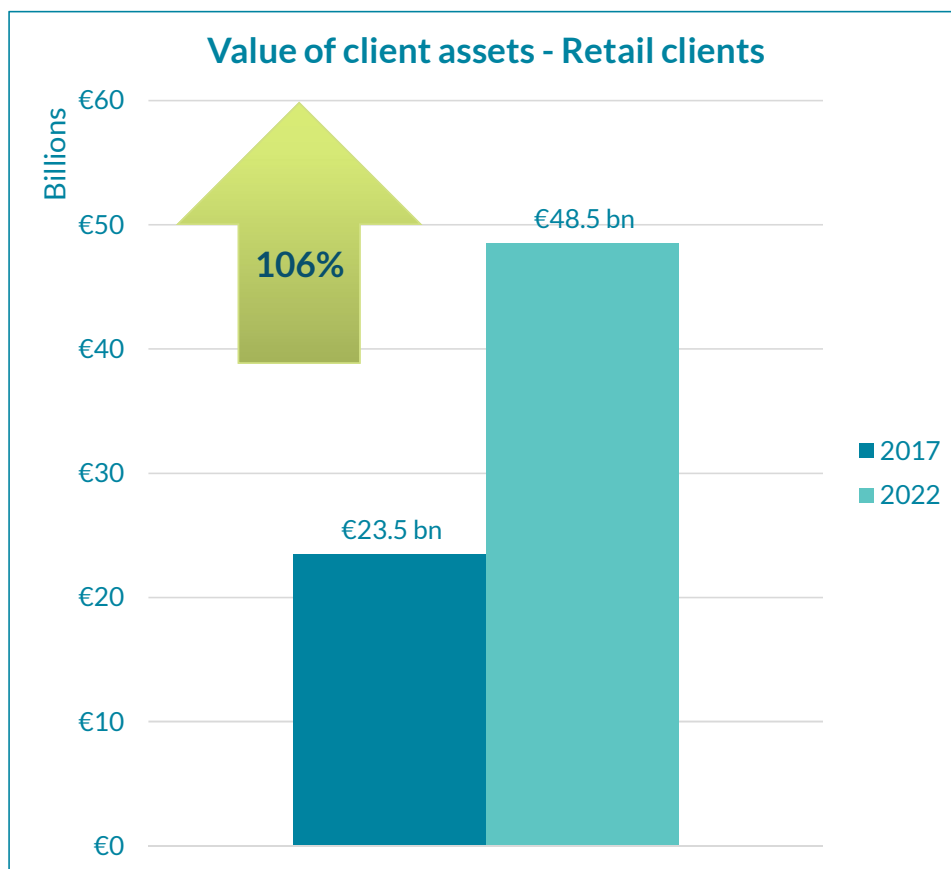
Increased MiFID  
activity in Irish  
credit institutions

Experience from  
direct supervision  
of client asset  
holding entities

Increase in  
population of  
firms holding  
client assets



## Trends – MiFID Investment Firms



## Key changes to the CAR

**Extending the  
scope to credit  
institutions**

**Futureproofing  
for  
new/complex  
activities**

**Enhancing  
existing rules**



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# Key changes to the CAR

## Segregation

- Expectation that client funds be deposited directly into a client asset account

## Reconciliation

- Uplifting guidance to rules (E.g. physical client financial instruments)

## Calculation

- Enhanced requirements in respect of client financial instruments

## Client disclosure and client consent

- New requirements in relation to more complex activities

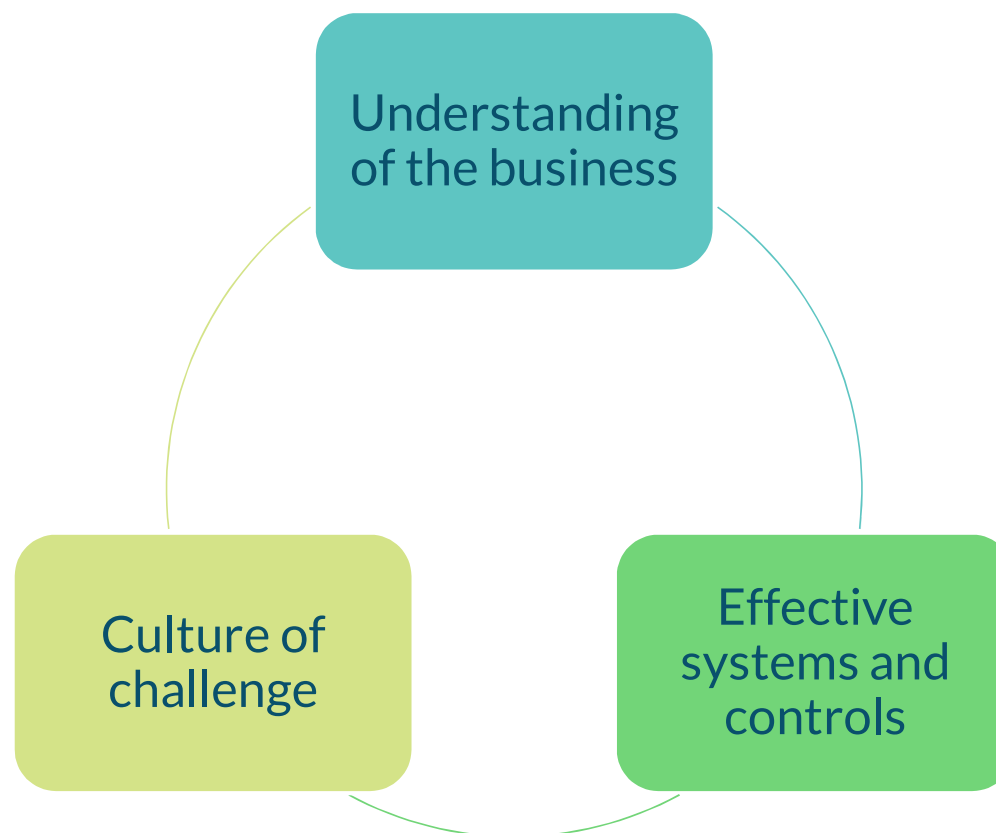
## Risk management

- New requirements in relation to the content of the CAMP (e.g. CAAM)

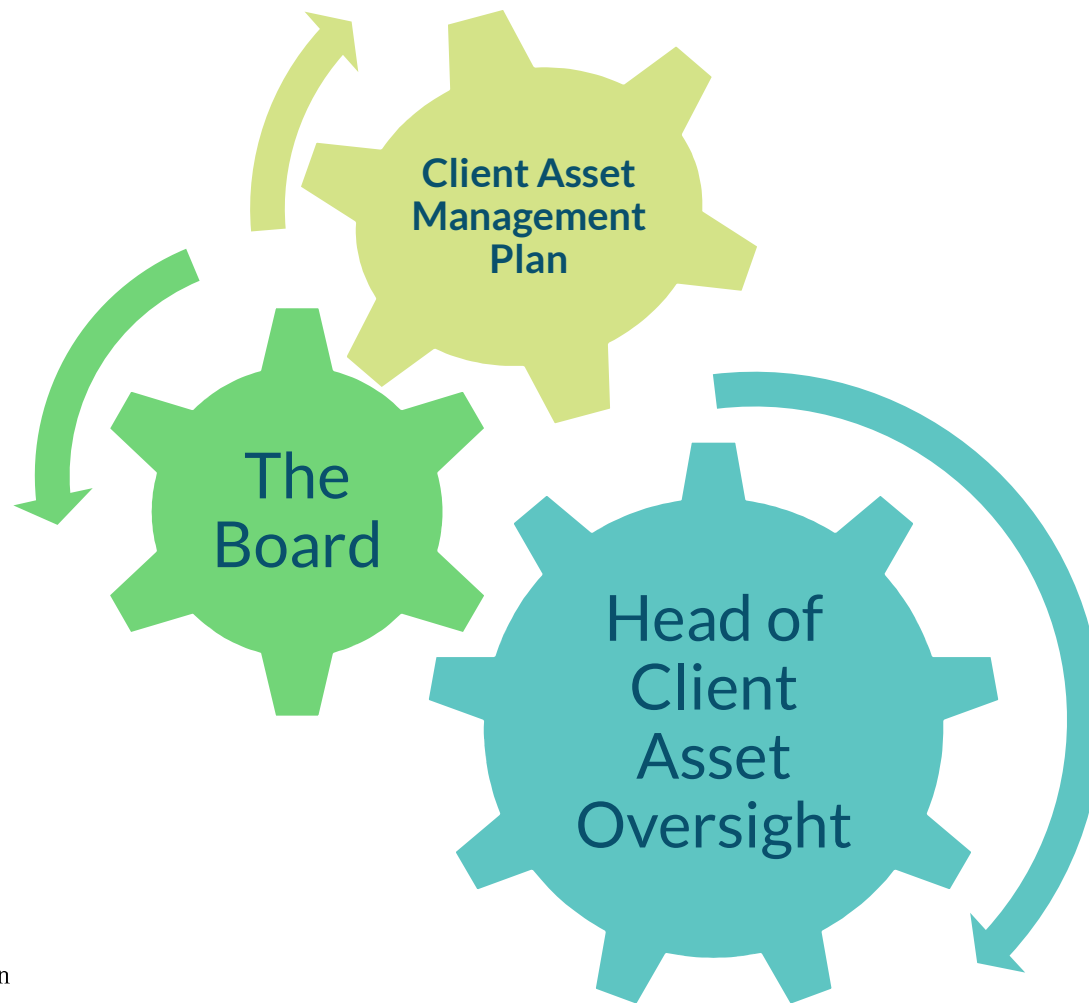




## What influences good risk management?



## Today's focus



# Client Asset Risk Management Framework

Distinct client asset risk  
management framework

Consideration of each of the seven core  
principles of client asset protection



## Revised Client Asset Requirements: Effective Dates

Investment firms  
1 July 2023

Credit institutions  
1 January 2024



## The role of the Board in the protection of client assets

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Tone from the top

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Interplay between the Board and the HCAO

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Client assets brings additional scrutiny



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## The Board: Specific requirements under the CAR

### Client asset management plan

**Approve the CAMP** when material changes are made/at least on an annual basis

### Client asset examination

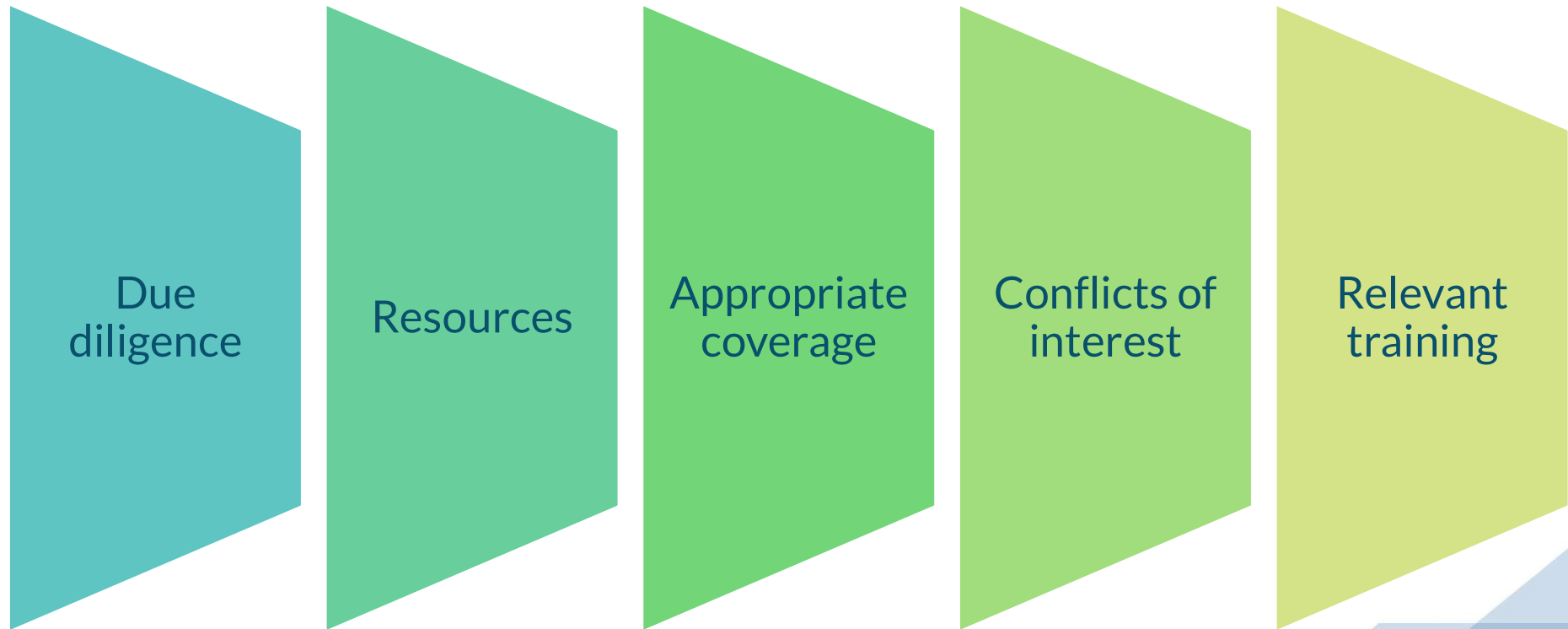
**Assess the findings** of the assurance report

### Client asset breaches/issues

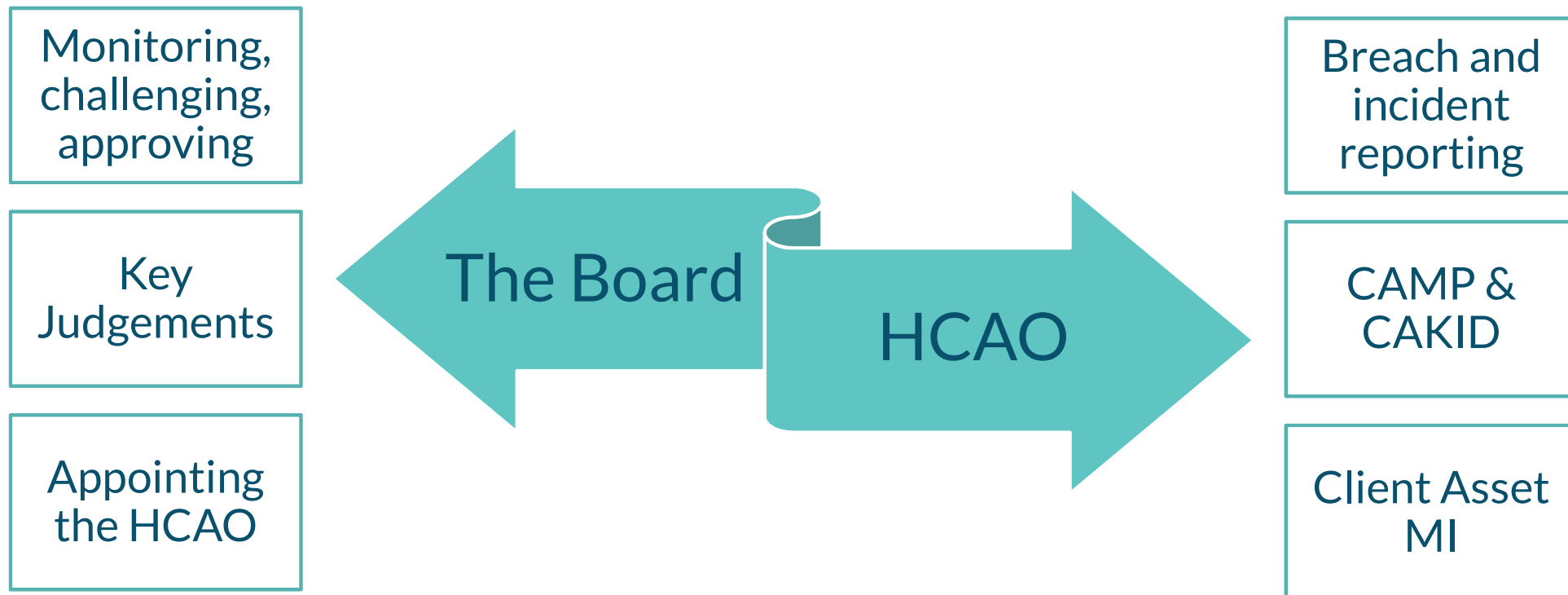
**Review** potential or actual breaches of the CAR/issues raised by auditors



## Responsibilities of the Board when nominating HCAO



## Interaction between the Board and the HCAO





# The Board: key decisions and judgements in respect of client assets

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Materiality  
thresholds

Product / service is  
regulated or  
unregulated

Product / service is in  
scope of the CAR and  
MiFID II safeguarding  
of client asset rules

Approving new  
products

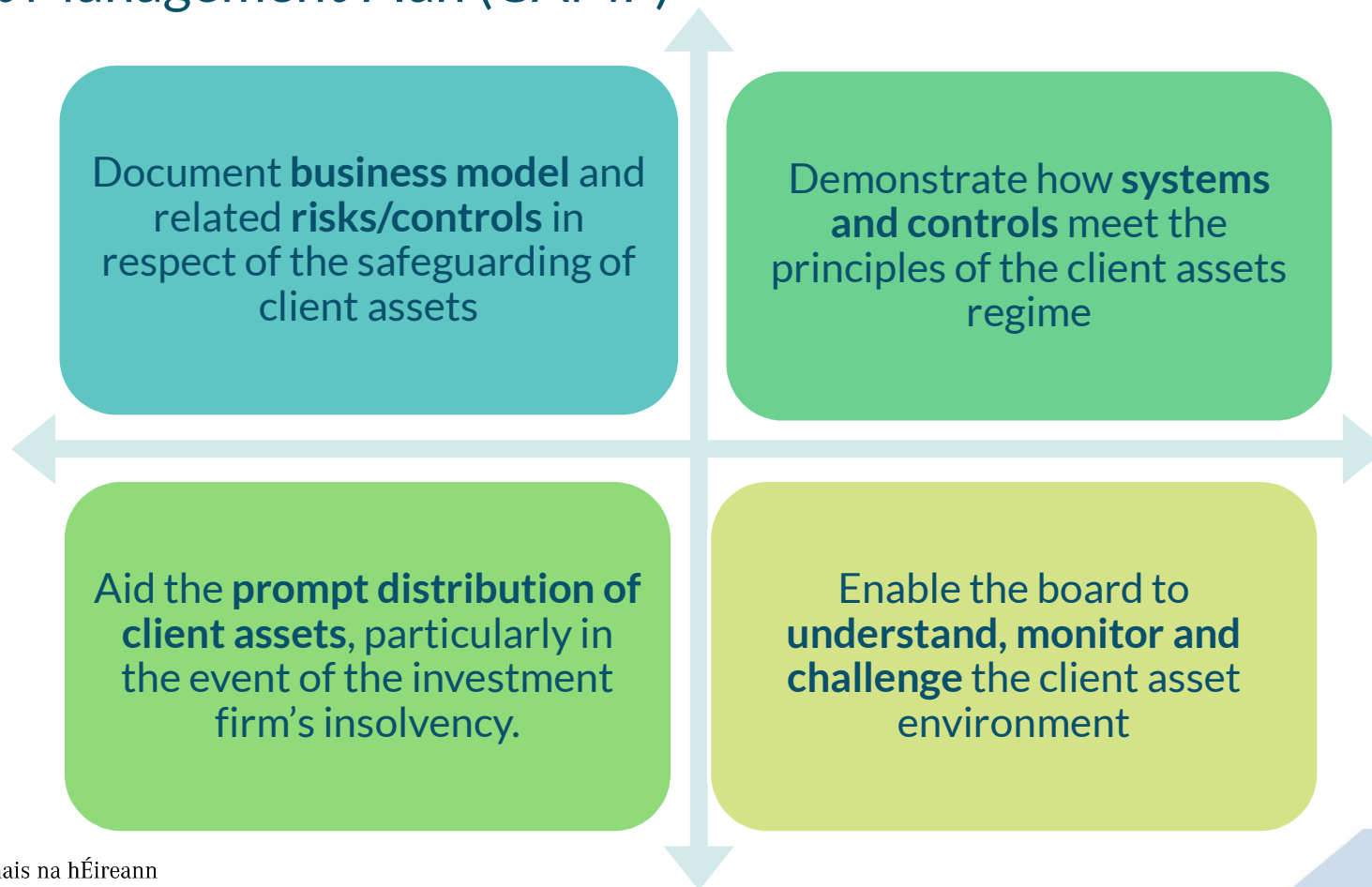
Appointing new third  
parties

Managing  
concentration risk



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# Client Asset Management Plan (CAMP)



## Enhancements to the CAMP

Client Asset  
Applicability  
Matrix (CAAM)

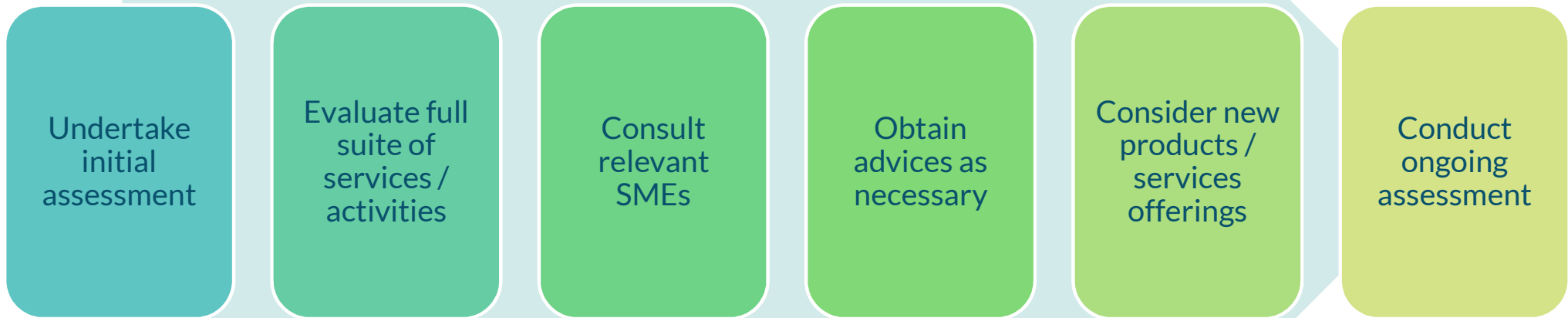
Client Asset Risk  
Matrix

Insolvency  
section

Breach and  
incident log



# Client Asset Applicability Matrix (CAAM)



## Client Asset Risk Matrix

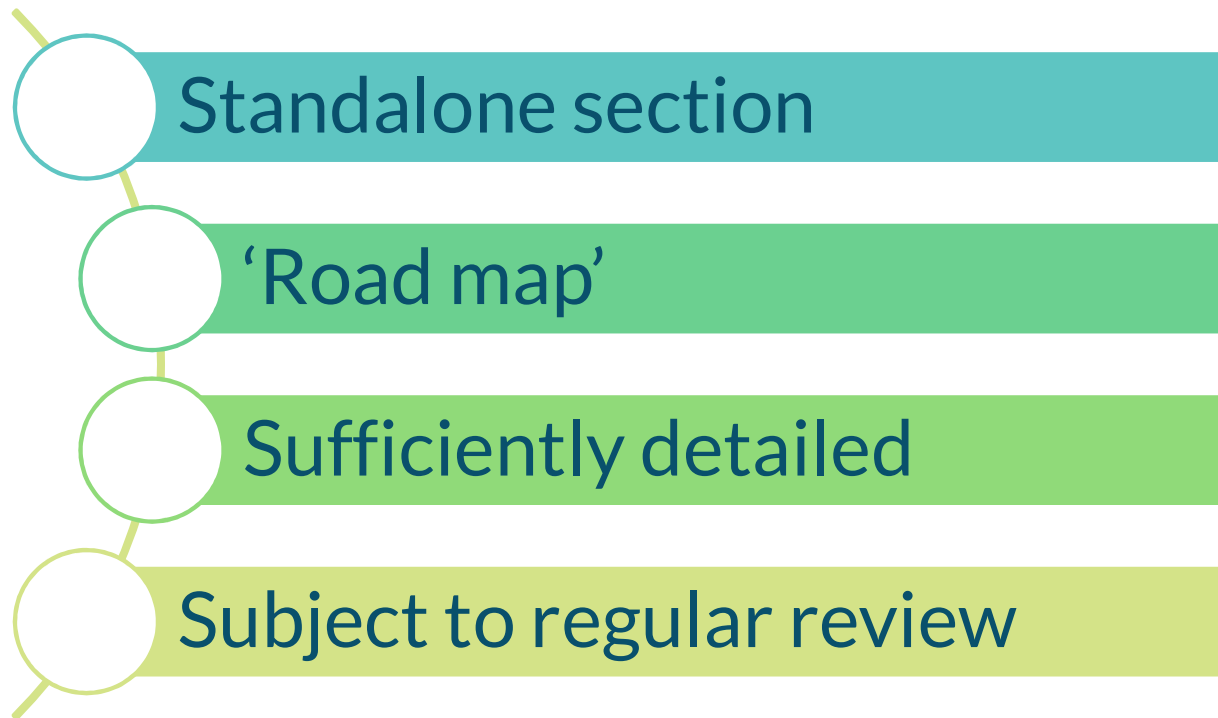
Identify the risks to safeguarding client assets

Establish processes and controls to mitigate the risks

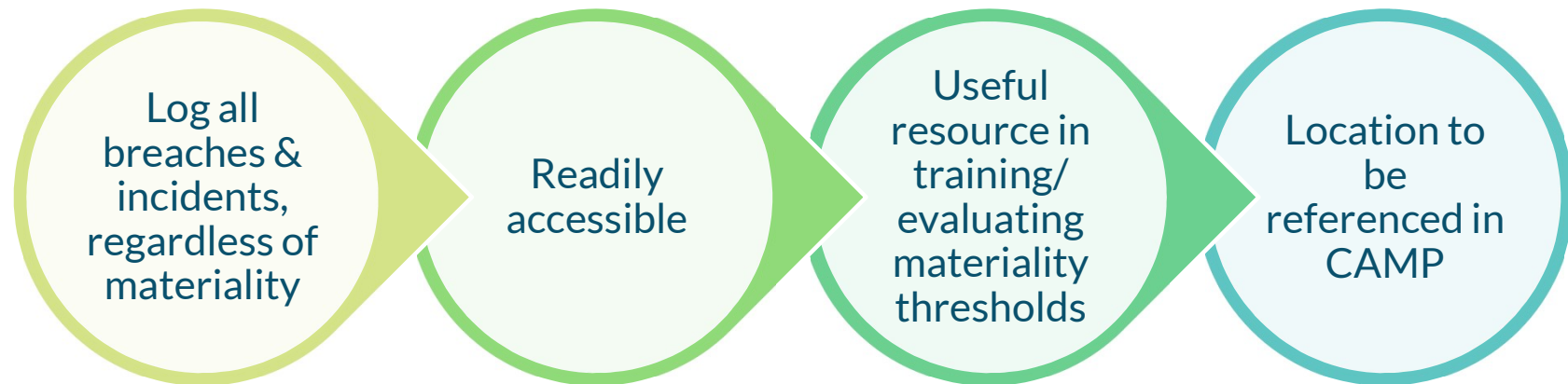
Evaluate how effective the processes and controls are in mitigating the risks



## Insolvency Section of the CAMP



# Breach & Incident Log



# The revised Monthly Client Asset Report (MCAR)

Key supervisory tool

Primary source of client asset data

Opportunity to enhance and futureproof

Data driven supervision of client asset risk

Understanding, anticipating, adapting





# New MCAR Template

| Monthly Client Asset Report  |                |   |
|--|----------------|---|
| <b>Over All MCAR Return Status</b>   | <b>Invalid</b> |   |
| Individual Sheet Name  | Sheet Status   |   |
| <a href="#">Q1-11</a>  | Invalid        | ✘ |
| <a href="#">Q12. Business Line</a>   | Valid          | ✔ |
| <a href="#">Q13. Client Funds</a>  | Valid          | ✔ |
| <a href="#">Q14. Client Financial Instruments</a>  | Valid          | ✔ |
| <a href="#">Q15. Outsourcing</a>   | Invalid        | ✘ |
| <a href="#">Q16. Jurisdictional analysis</a>   | Valid          | ✔ |
| <a href="#">Q17. Branches</a>  | Invalid        | ✘ |
| <b>Guidelines For Using This Workbook</b>  |                |   |
| <b>Navigation</b>  |                |   |
| - You can follow hyperlinks directly to specific Worksheets or Target Cells by clicking on the <a href="#">blue underlined text</a> in the Worksheet and Target Cell columns |                |   |
| <b>Interpreting Rule Information</b>   |                |   |
| - If all rules in the return have passed, the 'Over All MCAR Return Status' will display "Valid"   |                |   |
| - Individual Sheets that have failed validation will show a Sheet Status of "Invalid"  |                |   |
| - Questions that have failed validation will display an error message beside the specific question   |                |   |
| Note : All areas of this workbook have been password protected / locked by the Central Bank of Ireland. Only cells required for data input are unlocked.                     |                |   |

|   |
|---|
| <a href="#">Q1-11</a>                             |
| <a href="#">Q12. Business Line</a>                |
| <a href="#">Q13. Client Funds</a>                 |
| <a href="#">Q14. Client Financial Instruments</a> |
| <a href="#">Q15. Outsourcing</a>                  |
| <a href="#">Q16. Jurisdictional analysis</a>      |
| <a href="#">Q17. Branches</a>                     |



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## New reporting fields

Business line  
breakdown

Arrangements for  
depositing client  
assets

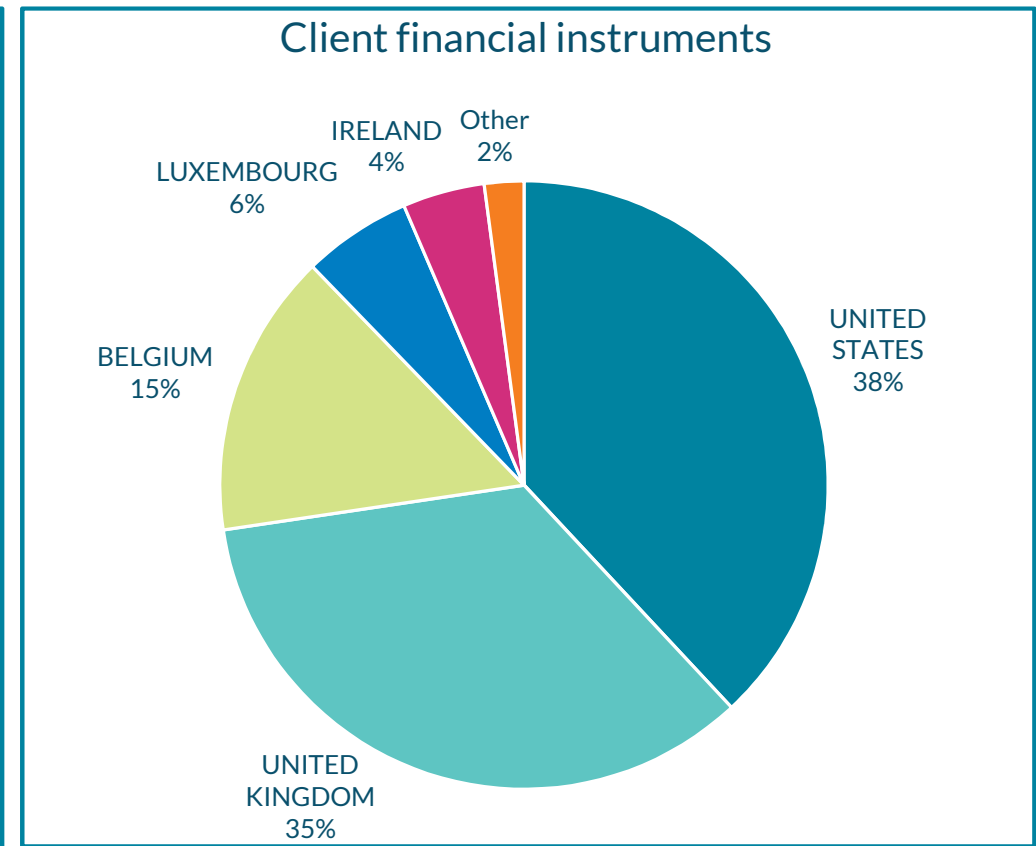
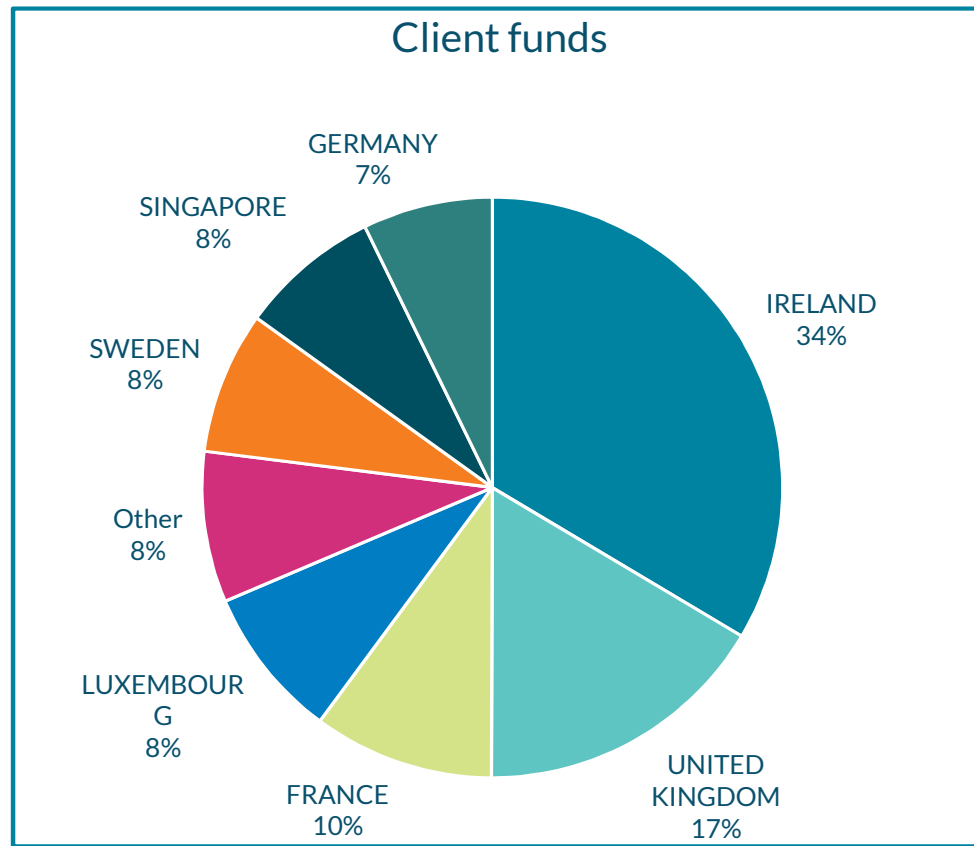
Outsourcing client  
asset  
functions/activities

Jurisdictional  
analysis

Branches



# Arrangements for depositing client assets

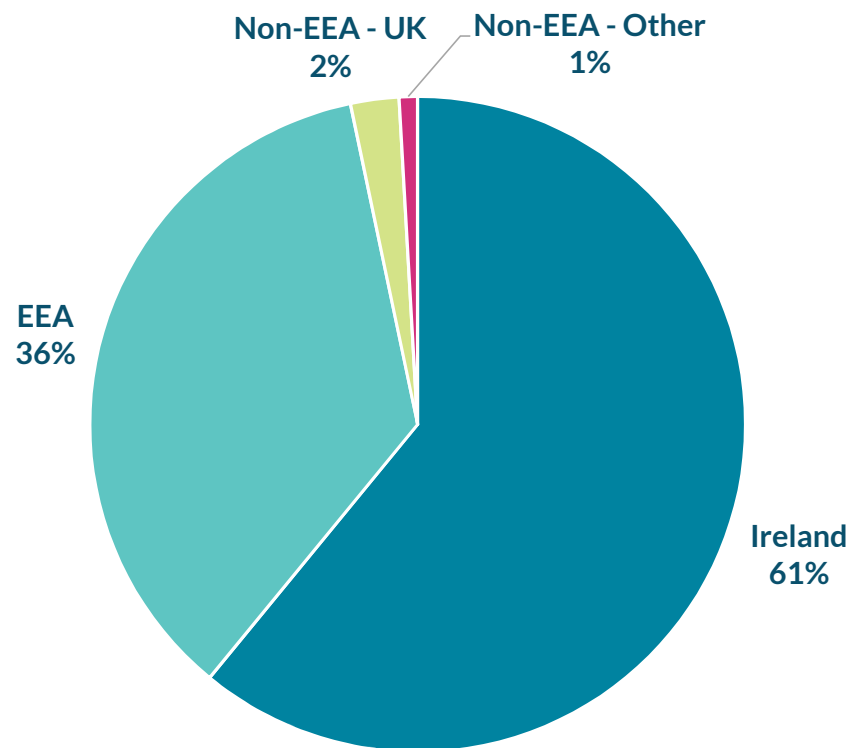


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# Jurisdictional analysis of retail clients

Jurisdictional breakdown of client assets held on behalf of retail clients



>1/3 of retail client assets held on behalf of EEA clients



## Revised MCAR - Reporting commencement date

Reporting  
date: 31 July  
2023



Submission  
date: August  
2023



## Conclusion



## Q&amp;A

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# Q&A

