Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

Safeguarding Notice **25 May 2023**

1. The purpose of this communication is to further clarify the nature of the specific audit of compliance with the safeguarding requirements under the Payment Services Regulations (PSR)/ Electronic Money Regulations (EMR), as communicated in the Central Bank's letter dated 20 January 2023, addressed to all payment and electronic money institutions authorised in Ireland.

   Following discussions with Chartered Accountants Ireland (CAI), an acceptable format for these engagements has been agreed, as detailed below. CAI will issue guidance to their members on performing these engagements in due course.

2. Firms are required to prepare a detailed document setting out a description of aspects of their organisational arrangements (as set out in Appendix 1) in place at 31 December 2022[1] (the reference date) to secure their compliance with the relevant safeguarding requirements under the PSR/EMR. Firms should also prepare an assertion, approved by the Board of Directors, stating that in all material respects:

   (i) the description is fairly presented using the following criteria:

   The description is fairly presented if it:

   a. Presents the relevant aspects of the firm's organisational arrangements (as set out in Appendix 1) as designed and implemented at the reference date; and

   b. Does not omit or distort information relevant to the specified arrangements being described.

   (ii) the controls and processes included in the description were operating as described at the reference date.

3. The statutory auditor (or other audit firm) will perform a reasonable assurance attestation engagement, in relation to the firm's assertion.

4. The assurance engagement will be conducted in accordance with ISAE 3000, which defines an assurance engagement as:

   *"an engagement in which **a practitioner** aims to obtain sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the **intended users** other than*

[1] Or, to the extent the firm's financial year end is a date other than 31 December 2022, as at the date of most recent their financial year end within the period 1 July 2022 to 30 June 2023.

*the **responsible party** about the **subject matter information** (that is, the outcome of the measurement or evaluation of an **underlying subject matter** against **criteria**)"*

5. The auditor's conclusion will be expressed in a positive form as to whether in their opinion the description prepared by the firm is fairly presented based on the same criteria used by directors to make the assertion set out above and whether the processes and controls as set out in the description at the reference date are fairly presented. It is acknowledged that this engagement will not provide assurance on whether the arrangements described are appropriately designed to comply with the safeguarding requirements of PSR/EMR.

6. Following the preparation of the description referred to above, the firm should consider and formally document any gaps identified in their processes and controls relating to the specified aspects of their organisational arrangements in place at the reference date that could impact their compliance with the safeguarding requirements of PSR/EMR.

7. The auditor that has been engaged to complete the assurance engagement as set out above will also be required to conduct a review engagement. This work involves the auditor's consideration of the firm's description of relevant arrangements, analysis of information provided by the firm, meetings with management and consideration of any gaps or deficiencies identified by the firm or the auditor based on their professional experience and judgment. The auditor will then prepare a narrative or long form report setting out the work performed and their professional view of the relevant arrangements. The review engagement will not involve the provision of an assurance opinion.

8. As previously communicated, the reports should be submitted by each firm to the Central Bank by 31 October 2023[2].

[2] https://www.centralbank.ie/regulation/industry-market-sectors/payment-institutions

Appendix 1

Safeguarding - Description of Organisational Arrangements

The description should include the following:

1. The processes and controls in place around the governance and oversight of compliance with the safeguarding rules. This should include:
    a. A description of the oversight of safeguarding undertaken by the Board of Directors (those charged with governance).
    b. Details of the person assigned by those charged with governance to have overall responsibility for compliance with safeguarding regulations, including:
        i. details of the relevant duties performed by this person
        ii. their relevant experience and/or qualifications for this role
        iii. how the Board ensures this person is free from any conflicts of interest
        iv. whether the role is full time and if not details of their other responsibilities, including the % of time spent on the safeguarding role.
        v. arrangements in place to ensure that duties are addressed when the person assigned is on leave or there is a transition in the role to another person.
    c. Reporting lines and frequency of reporting to the Board of Directors (those charged with governance) on safeguarding matters and details of the nature of such reporting.
    d. The role of the Compliance, Risk Management and Internal Audit functions as regards safeguarding and their reporting to those charged with governance on such matters.
    e. How those charged with governance ensure that sufficient, suitably qualified resources are allocated to safeguarding duties commensurate with the complexity of the processes and controls implemented within the regulated firm.
    f. How those charged with governance ensure that safeguarding policy and processes are regularly updated and approved including for any operational changes, and material changes in the overall strategy of the regulated firm.
2. The process undertaken by the regulated firm to identify which of the services it provides could potentially give rise to the regulated firm holding 'users' funds' i.e. establish the safeguarding universe for the regulated firm. The process (and the description) should be entity-wide and include details of how the regulated firm ensures that any safeguarding requirements arising from existing services (or potential changes in services) provided are identified and assessed on a timely basis including how the firm ensures there is effective communication of safeguarding requirements throughout the relevant departments and governance structures of the regulated firm.
3. The processes and controls for consistently identifying which funds are 'users' funds' as defined in the regulations and which must be safeguarded. Similarly, the processes and controls that the regulated firm has in place to identify when these funds cease to be 'users' funds'. This should include the process for ensuring that 'users' funds' are safeguarded in accordance with the timeframes specified in the underlying regulations.

4. Details of the various systems that the regulated firm uses in the processes to meet its safeguarding obligations and the role of each of those systems in the process, details of whether those systems are hosted locally or by another party, and a list of the IT dependencies that exist between those systems to include interfaces and key reports. Where the regulated firm has outsourced IT to 3rd party service organisations, this part of the description should include details of the outsourcing arrangements and how these are effectively monitored and supervised and details of any user complementary controls identified by the relevant service organisation control reports.
5. Details of the Information Technology general controls that are in place over the systems identified in point 4 above.
6. The processes and controls the regulated firm has in place for designating safeguarding accounts (if the segregation method of safeguarding is used) and the opening of any new safeguarding accounts. These processes and controls also apply in respect of accounts held with custodians in instances where safeguarded funds are invested in secure, liquid and low risk assets.

   This should include, inter alia,

   a. A description of the initial due diligence procedures that the regulated firm undertook over the third-party institution, including the assessment of the suitability of the third-party institution where the safeguarding account(s) is/are held (e.g. confirmation that is an authorised credit institution (not e.g. a payment or electronic money institution), assessment of its credit rating and the regulatory regime in which it operates);
   b. Ongoing due diligence (including an explanation of the frequency by which ongoing due diligence is to be conducted;
   c. Checks over the designation of the safeguarding accounts in the internal and external records;
   d. The terms and conditions of the safeguarding accounts to ensure that they are segregated from the assets of the regulated firm and the third-party institution; and
   e. How the nature of the account is appropriate for safeguarding purposes, including details of any verifications obtained from the third-party institution to confirm that the safeguarding accounts are being operated in accordance with the agreement in place between the regulated firm and the third-party institution.
7. The processes and controls that the regulated firm has in place to ensure the safeguarding accounts can only be accessed by authorised individuals appropriate to their role in the overall safeguarding processes undertaken by the regulated firm.
8. The processes and controls that the regulated firm has in place to prevent the co-mingling of 'users' funds' with non-users' funds in the safeguarding accounts including the processes that the regulated firm has in place to identify any such non-users' funds and remove them from the safeguarding accounts in a timely manner. This should also include the process the regulated firm has in place in respect of any charges or fees that impact 'users' funds'.
9. The processes and controls that the regulated firm has in place to ensure that the appropriate daily reconciliations of the safeguarding accounts are performed and reviewed, including details of the segregation of duties over performance and review elements of the controls. This should include details of the systems and key reports involved in the reconciliation process as well as details of the staff responsible for these processes and their roles within the regulated firm. This process will be relevant regardless of whether the regulated firm uses the segregation method or the insurance method.
10. The processes and controls the regulated firm has in place for the insurance policy/comparable guarantee. In addition, to the reconciliation requirement noted above, this should include:

a. The initial and ongoing due diligence/assessment undertaken on the chosen underwriter and whether they have adequate resources to fulfil the policy,
b. An assessment of the appropriateness of the insurance policy evidencing how those charged with governance are satisfied that it meets the firm's legislative obligation under the EMR/PSR as applicable.
c. An assessment of the adequacy of the cover obtained on an ongoing basis, the process for updating the level of cover in a timely manner as required,
d. The process for ensuring that the policy is renewed in a timely manner and
e. The process that the regulated firm has in place for safeguarding the insurance proceeds in the situation where the policy is called upon.
f. Details of the process in place for the administration of the policies including appropriate timelines for the renewal process and ongoing due diligence/assessment of the underwriters.

11. The processes and controls that the regulated firm has in place for the identification of any potential or actual breaches of the safeguarding requirements including escalation to the Board/relevant committee and communication to the Central Bank of Ireland as necessary. Where the regulated firm has in place thresholds (such as monetary thresholds) governing the timing and nature of escalation within the organisation, these should be included and explained in the documentation of the process.
12. The processes and controls that the regulated firm has in place to maintain an inventory of all outsourced services in connection with their safeguarding requirements including details of the ongoing monitoring and due diligence undertaken.
13. The processes and controls the regulated firm has in place to ensure the liquidity of the safeguarding arrangements facilitates the redemption of e-money at any time and at par value or the timely execution of payment transaction requests.
14. The process and controls that the regulated firm has in place to ensure that users' funds are not invested in liquid assets (other than cash) without having previously obtained authorisation (approval) from the Central Bank of Ireland to do so.
15. In instances where user funds are invested in invested in assets designated or approved by the Central Bank as secure, liquid and low risk assets, details of the processes in place to:
    a. Obtain the value the investments held on an ongoing basis
    b. Manage the market risk associated with the investments
    c. Liquidate the investments held