



Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem

Settlement Agreement between the Central Bank of Ireland and Squared Financial Services Limited

The Central Bank of Ireland (the “**Central Bank**”) has entered into a Settlement Agreement with effect from 16 May 2014 with Squared Financial Services Limited (the “**Firm**”), a regulated financial services provider, in relation to contraventions of the European Communities (Capital Adequacy of Credit Institutions) Regulations 2006 (S.I. 661 of 2006) (the “**Capital Adequacy Regulations**”) and the European Communities (Markets in Financial Instruments) Regulations 2007 (S.I. 60 of 2007) (the “**MiFID Regulations**”).

Reprimand and fine

The Central Bank reprimanded the Firm and required it to pay a monetary penalty of €100,000.

Contraventions

The contraventions identified were as follows:

1. On certain dates between 30 April 2009 and 31 May 2012, for periods of 25 and 37 months respectively, the Firm had large exposures to two entities in excess of the permitted limits;

2. On certain dates between 31 December 2009 and 30 March 2012, the Firm failed to report those exposures to the Central Bank in breach of the requirements of the Capital Adequacy Regulations; and
3. The Firm failed, in breach of the MiFID Regulations, to ensure that it had in place and used sound administrative and accounting procedures and internal control mechanisms to ensure compliance with the permitted limits and the reporting obligations set out in the Capital Adequacy Regulations.

Background

The Firm is authorised under the MiFID Regulations as an investment firm, and is obliged to comply with the large exposure requirements under the Capital Adequacy Regulations. These requirements set certain limits on the permitted exposures and require firms to report details of their exposures to the Central Bank. The Firm reported breaches of these requirements to the Central Bank in October 2012.

The large exposure requirements are imposed on investment firms to limit the level of exposure which a firm may have to one person or entity, or group of connected persons/entities, in order to contain the loss a firm may experience in the event of the failure of an entity to which the firm is exposed. Investment firms are required to submit large exposure returns to the Central Bank setting out details of the levels of their large exposures against the limits set out in the Capital Adequacy Regulations.

Penalty decision factors

The penalties imposed in this case reflect the importance the Central Bank places on compliance with the large exposure requirements set out in the Capital Adequacy Regulations and having adequate internal controls in place to ensure that at all times a firm is in compliance with the limits.

In deciding the appropriate penalty to impose, the Central Bank has taken the following into account:

- the seriousness with which the Central Bank views any contraventions of the requirements of the Capital Adequacy Regulations and the failure to have in place proper internal control mechanisms to ensure compliance with the limits and reporting obligations set out in the Capital Adequacy Regulations;
- the length of time for which the contraventions persisted;
- the importance of on-going monitoring and limiting the size of large exposures.

and

- the fact that the Firm notified the Central Bank of the contraventions;
- the fact that the Firm has now enhanced its procedures and controls around monitoring and reporting;
- the cooperation of the Firm during the Central Bank's investigation and in settling at an early stage in the administrative sanctions procedure.

The Central Bank confirms that the matter is now closed.

- End -

The Central Bank of Ireland (the "**Central Bank**") has entered into a Settlement Agreement on 16 May 2014 with Squared Financial Services Limited, a regulated financial services provider, in relation to breaches of European Communities (Capital Adequacy of Credit Institutions) Regulations 2006 (S.I. 661 of 2006) and European Communities (Markets in Financial Instruments) Regulations 2007 (S.I. 60 of 2007).

The Central Bank also issued a general comment from Director of Enforcement, Derville Rowland:

"This is the second settlement with a firm for a breach of the large exposure requirements set out in the European Communities (Capital Adequacy of Credit Institutions) Regulations

2006 (S.I. 661 of 2006)(the “**Capital Adequacy Regulations**”) and the first settlement with an investment firm for such breaches.

The large exposure requirements limit the level of exposure which a firm has to an individual or entity or to a group of connected individuals or entities so that if that individual or entity was in difficulty this would not have a significant impact on the firm. The Central Bank must monitor the level of large exposures which a firm has and their compliance with large exposure limits to ensure that firms are not exposed to significant levels of risk as a result of such exposures.

The failure by regulated financial services providers to ensure that they comply with large exposure limits and the reporting obligations at all times is viewed as a serious matter by the Central Bank given the potential risks to a firm's stability in the event of an individual or an entity falling into financial difficulty.

Investment firms must have effective processes in place to identify, manage and monitor the level of risk they are exposed to, and proper and effective systems and controls in place to ensure compliance with large exposure limits. Where the Central Bank finds evidence of failures in these areas the Central Bank will continue to use its range of regulatory tools including enforcement."