

MEMO# 32852

October 21, 2020

Central Bank of Ireland Publishes Outcome of Thematic Review of Fund Management Companies (CP86)

[32852]

October 21, 2020 TO: ICI Global Members SUBJECTS: International/Global RE: Central Bank of Ireland Publishes Outcome of Thematic Review of Fund Management Companies (CP86)

On October 20, the Central Bank of Ireland (CBI) published the outcome of a thematic review of the implementation of its framework for governance, management, and oversight in fund management companies (FMCs), commonly referred to as CP86.[\[1\]](#) The framework, which includes detailed requirements on organizational effectiveness, the performance of managerial functions, delegate oversight, and resourcing, was introduced in 2017 for new FMCs and in 2018 for existing FMCs.[\[2\]](#)

In the review, the CBI states that, when applied correctly by firms, the rules and guidance provide a framework of robust governance and oversight arrangements, and that recent applications for authorization support this position. The CBI further provides that, in contrast, its review found that a significant number of previously authorized FMCs have not yet fully implemented the framework.

Key Issues Identified in the Review

The key issues identified in the review related to:

- **Resourcing:** A large number of FMCs authorized before the adoption of the new framework have not appropriately increased resources to ensure effective implementation of the framework. The CBI expects that the number of full-time employees should reflect the nature, scale, and complexity of the firm and must ensure that sufficient resources are in place.
- **Designated Persons:** Significant shortcomings were identified in relation to how some Designated Persons discharged their roles.
- **Delegate Oversight:** Some firms were unable to evidence that they had carried out the appropriate level of due diligence on their delegates. Not all could demonstrate that they had reviewed and approved delegate/group policies and procedures as being fit for purpose when applied to the firm.
- **Risk Management Framework:** Deficiencies were identified for a significant

number of FMCs, with many firms not having an entity-specific risk management framework, no entity-specific risk register, and/or no defined risk appetite in place.

- **Board Approval of New Funds:** Not all FMCs could evidence approval by the FMC's board of the launch of sub-funds. The CBI expects evidence of robust discussion and challenge by the board in relation to proposed new fund strategies/structures and their attendant risks.
- **Organisational Effectiveness Director:** In many cases, the Organisational Effectiveness Director could not evidence that meetings were conducted and no formal records were kept of meetings with Designated Persons. An absence of formal reporting to the board was also identified, particularly in the area of resource evaluation.
- **Gender Balance:** The review found a significant gender imbalance on the boards of FMCs, with only 16% of director roles held by women.

Action Required by All FMCs

The CBI is requiring action by all FMCs in response to this thematic review. Whether or not an FMC has received specific risk mitigation requirements from the CBI, all FMCs are required to critically assess their day-to-day operational, resourcing, and governance arrangements against all relevant rules and guidance, taking into account the findings of the review, and develop and have approved by the FMC's board an action plan by the end of Q1 2021.[\[3\]](#)

The assessment and implementation plan should at a minimum consider:

- the time commitment, skills, and expertise of available resources;
- the FMC's retained and delegated tasks, including how ongoing independent challenge of all delegates can be ensured;
- the tasks required by the framework, including those that must be completed on a fund-by-fund basis;
- how resources and operational capacity will need to increase to take account of any increase in the nature, scale, and complexity of the funds under management since authorization or the last time the FMC critically assessed its operations;
- how resources and operational capacity will need to increase to deal with a market and/or operational crisis.

The CBI states that it plans to conduct further industry-wide review of these matters in 2022 to assess firms' responses to these findings.

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endnotes

[\[1\]](#) The Central Bank of Ireland's press release is *available at*

<https://www.centralbank.ie/news/article/central-bank-publishes-outcome-of-thematic-review-of-fund-management-companies-20-october-2020> and the Dear Chair Letter is *available at* <https://www.centralbank.ie/docs/default-source/regulation/industry-market-sectors/funds/industry-communications/dear-chair-letter---thematic-review-of-fund-management-companies-governance-management-and-effectiveness---20-october-2020.pdf>.

[2] “Fund Management Company” refers to a UCITS management company, an authorized Alternative Investment Fund Manager (AIFM), a self-managed UCITS investment company, and an internally managed Alternative Investment Fund which is an authorized AIFM.

[3] The CBI has separately commenced supervisory engagement with FMCs where specific concerns have been identified.

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