

# Central Bank of Ireland Investment Funds Bulletin – Considerations for Compliance Officers

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In December 2024 the Central Bank of Ireland (the “CBI”) released its first edition of the Investment Funds Supervision Bulletin (the “Bulletin”) providing an overview of its supervisory and authorisation focus points for the funds sector and highlighting recent thematic and sectoral work. The Bulletin should be read in conjunction with the CBI’s Regulatory and Supervisory Outlook Report and all relevant CBI publications and correspondence.

## Recent CBI Thematic Reviews:

1. **Fixed Operating Expense (“FOE”) Models:** The CBI assessed the prevalence of FOE models and their use in the best interests of investors in 2023 following the Common Supervisory Action (“CSA”) on Costs & Fees. A FOE is a practice whereby a fixed rate is proposed by a Fund Management Company (“FMC”) to cover all of the running costs of a fund.<sup>1</sup> Varying levels of fee retention by FMCs were observed and shortcomings identified in fee disclosures within fund documentation. FMCs are expected to ensure that costs and fees are calculated fairly and equitably, serving the best interests of investors. Compliance Officers in FMCs should ensure models are operating in line with CBI expectations, including adequate disclosures in fund documentation and regular review processes.
2. **Investment Advisors:** The CBI examined instances where both an Investment Advisor (“IA”) and a discretionary Investment Manager were appointed to a fund. Instances were identified where the IA’s fees were higher than those of the Investment Manager without a clear basis, leading to supervisory concerns on the role potentially played by the IA. The CBI also identified shortcomings relating to fee disclosures and periodic fee reviews. Compliance Officers at FMCs should ensure fee arrangements are appropriate for the services provided, properly disclosed and reviewed throughout the fund’s lifecycle.

## Other Significant Updates:

1. **Exchange Traded Funds (“ETFs”):** In November 2024 the CBI published a Dear Chair letter setting out the key findings from a review regarding the expectations of FMCs managing Irish authorised ETFs. FMCs who manage Irish authorised ETFs are required to consider the findings of the review and incorporate any necessary changes based on the findings by Q2 2025. Impacted Compliance Officers should ensure CBI expectations are reviewed and implemented into relevant policy, procedure and governance frameworks ahead of the Q2 deadline. Compliance Officers should also consider whether their compliance monitoring and assurance activities require enhancement given the CBI’s ETF oversight expectations.
2. **Data Led Supervision:** Enhanced data utilisation and building out data and analytic capabilities is a CBI priority. Changes to the new Daily Investment Fund Return being a recent example of this. The CBI is also exploring ways in which data can be aggregated for sharing with industry. Compliance Officers should ensure their RFPs are aware and alert to this priority and the role RFPs play in supporting this objective through the ongoing provision of accurate and reliable regulatory reporting to the CBI.
3. **Irish Property Funds:** A CBI qualitative questionnaire was issued to a sample of FMCs managing Irish property funds which revealed shortcomings in fund-level Liquidity Stress Testing (“LST”) practices. Compliance Officers at FMCs should ensure LST policies are tailored to each fund, are subject to continual review and amended accordingly in respect of changes in the operating environment, noting CBI recommendations in line with ESMA Guidelines<sup>2</sup>.



**Other Reviews with more to follow:**

1. **Liquidity Management Tools (“LMTs”):** The CBI is conducting a deep dive review of LMTs to develop an increased understanding of how FMCs use LMTs during “normal” and more volatile market conditions. The review is also considering the governance around how, and when, LMTs are used. Phase one of the review consisted of an initial quantitative survey issued in 2024.

Initial analysis of information yielded from the 2024 quantitative survey indicated there is a lack of alignment between the current availability of LMTs and the level of availability being considered as part of international discussions on LMT guidelines for investment funds. In addition, usage levels of price-based LMTs during the survey period were lower than expected. Initial analysis also indicated the existence of more mature governance arrangements resulted in higher levels of price-based LMT usage. The next phase of this review continues in 2025, with communication on findings to follow. FMC Compliance Officers should look out for release of those findings and associated recommendations for implementation.

2. **Risk Register:** Information gathered from a recent CBI review of Depositaries and Fund Administrators use and management of Risk Registers will inform how supervisors assess and benchmark risk management frameworks across the sector.

3. **Securities Lending Review:** This CBI review examined compliance of UCITS and AIF securities lending arrangements with ESMA Guidelines. The Central Bank plans to communicate its findings and actions to the industry in 2025.

4. **CSA on Sustainability Risks and Disclosure:** This CSA assessed FMCs’ compliance with the Sustainable Finance Disclosures Regulation. ESMA is expected to issue its CSA report in Q2 2025, followed by a CBI industry communication.

The CBI has indicated it will continue to adapt its regulatory approach in 2025, guided by the risks and trends presented in its Risk Outlook Report. Areas of focus will include a new ESMA CSA topic, continuation of the LMT review, a review focusing on Hedge Funds, and the ESMA Costs and Fees Survey. Another focus will be the Sustainable Finance Disclosure Regulation, in particular the ESMA Guidelines on Funds names using ESG or sustainability-related terms, which applied from November 2024 for new funds and applies from 21 May 2025 for existing funds. Compliance Officers should continue to monitor correspondence and further developments relating to CBI activity in these areas and ensure their firms are kept up to date on associated changes.

**REFERENCES**

1. Central Bank Dear Chair Letter Re: 2021 Common Supervisory Action on the supervision of Costs and Fees of UCITS
2. ESMA Guidelines on liquidity stress testing in UCITS and AIFs