



ADVISORY
Industry Information

Central Bank Publishes Follow-up Industry Survey December 2022 Findings on the Thematic Review of Fund Management Companies' Governance, Management and Effectiveness

On 7 December 2022, the Central Bank of Ireland (the "Central Bank") issued a ['Dear CEO' letter](#) (the "Letter") setting out the findings of its recently completed thematic review assessing how Fund Management Companies¹ have implemented the Central Bank's organisational requirements and guidance. In June 2022, the Central Bank conducted the follow-up industry survey to assess how the governance, structure and resources available to Fund Management Companies had evolved as firms took action to address the findings communicated in the Central Bank's [2020 industry letter](#).

In advance of its publication, the Central Bank's Director of Securities and Markets Supervision, Patricia Dunne delivered a [speech](#) where she signposted to industry the key findings of the latest survey results and what they indicate about the structure of the funds sector. The survey results communicated in the Letter acknowledge that firms have made progress in implementing the actions expected of Fund Management Companies to ensure that they meet the required standards. The Central Bank notes that it has seen encouraging signs that the step change it has sought is starting to take place, but notes that more work is to be done to ensure firms achieve the expected standards.

The key findings detailed in the Letter focus on two distinct areas:

A. Changing Landscape

The survey results show that the sector has changed materially in terms of scale, structure and complexity over the past three years and accordingly there is a visible shift in the risk profile of the sector.

- **Decline in Fund Management Companies (and in particular, self-managed funds)** - 148 Fund Management Companies completed the survey, signalling a significant decrease in the number of firms operating in Ireland, despite sizeable growth in assets under management. The most significant change has been the 90% decrease in the total number of self-managed investment companies currently operating in Ireland. The Central Bank notes in its Letter that significant reduction has been due to large-scale restructuring, predominantly due to the appointment of external third party Fund Management Companies and, to a lesser extent, redomiciliations, liquidations and consolidations.

- **Increase in growth of third party Fund Management Companies** – the survey shows significant growth in the assets under management among the group of Fund Management Companies providing services to third party funds. Accordingly, a continued area of focus for the Central Bank going forward will be to ensure that there is a corresponding increase in resources and expertise as the nature, scale and complexity of these third party Fund Management Companies grows.

- **Growth in individual portfolio management services** - the survey also shows significant growth in the level and extent to which Fund Management Companies are providing MiFID services such as individual portfolio management. The Central Bank intends to examine in more detail in the coming period the extent to which Fund Management Companies are fully aware of, and understand, their obligations under the MiFID framework in the provision of these services.

¹ "Fund Management Company" refers to a UCITS management company, an authorised Alternative Investment Fund Manager (AIFM), a self-managed UCITS investment company and an internally managed Alternative Investment Fund which is an authorised AIFM.



B. Corporate Governance and Resourcing

- **CEOs** – over two-thirds of Fund Management Companies now have a dedicated CEO, which represents a 50% increase since the first survey in 2019. As outlined in the 2020 industry letter, the Central Bank expects that all but the smallest Fund Management Companies have a CEO appointed.
- **Director time commitments** - From a sectoral perspective, on average, time committed by directors has almost doubled since 2019, reflecting another positive move. The Central Bank will continue to monitor overall time commitments.
- **Designated persons & support staff** - The results have also shown positive changes in the level of resources within the managerial functions. Since 2019, the average FTE increase per firm is three-fold, rising from 3.2 in 2019 to 10 in 2022. The survey shows there has been an increase of approximately 200% in resourcing of managerial functions (taking into account the top ten Fund Management Companies measured by assets under management). The average headcount per firm is approximately 23 FTE for Fund Management Companies in the Medium-High/Medium-Low Impact category,
- **INED tenure** - The number of INEDs with a tenure of greater than ten years has decreased from 25% in 2019 to 18% in 2022. While this signals a move in the right direction, the Central Bank noted that this still reflects a sizeable number of directors who continue to be classified as independent despite being in situ for 10 years or more. As tenure is a factor that can impact on the ability of board directors to act independently the Central Bank expects that tenure and independence continue to be considered as part of the Organisational Effectiveness Director’s review of board composition and forms part of related reporting to the board.
- **Board diversity** - there has been a marginal increase in the number of directorships held by women from 16% in 2019 to approximately 20% in 2022. The Central Bank notes that a significant gender imbalance still exists at board level. The Central Bank expects Fund Management Companies to consider diversity as part of ongoing internal governance reviews, including due consideration of factors such as skills, age, gender, culture and ethnicity.

Next steps

The Central Bank has re-iterated in the Letter that that there is more work to be done and as such it intends to continue to challenge Fund Management Companies on all aspects of their compliance with the framework as part of ongoing firm engagement, in particular, as and when their operations grow. Work will continue within the Central Bank on identification of necessary changes to enhance and clarify certain aspects of the existing Fund Management Company requirements and guidance. The Central Bank expects that the contents of the Letter will be discussed by the boards of Fund Management Companies and that any areas requiring improvement that directly relate to a firm will be given due consideration to ensure robust and appropriate governance arrangements are in place.

Key Contacts

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