

Central Bank Regulatory & Supervisory Outlook 2025 – Action for Irish Fund Management Companies

March 2025

Background

On 28 February 2025, the Central Bank of Ireland (**Central Bank**) published its second [Regulatory & Supervisory Outlook \(Report\)](#) in which it sets out its perspective on key trends and risks, as well as outlining its supervisory priorities across the whole of the financial sector for the next two years.

The Report has been brought to the specific attention of all senior management teams of Irish regulated firms via a [“Dear CEO” letter](#) issued by the Central Bank on the same day¹.

Key Risks and Areas of Focus for 2025/2026

While the Report identifies key trends and risks applicable to the Irish financial sector more generally, it also provides a sector-by-sector view of trends and the key risks it considers to be most material from a supervisory perspective for each sector that it regulates, including the Capital Markets & Funds sector. The Report also outlines the Central Bank’s key supervisory activities for the next two years for each individual sector as well as identifying its key regulatory initiatives.

For the purposes of this briefing, we focus on the key risks relevant to the Capital Markets & Funds sector, and more specifically in relation to Irish fund management companies (**FMCs**) and the funds that they manage. We also outline certain suggested actions that should be taken by FMCs to manage such risks.

¹ This letter also provides a high-level overview of recent changes to the Central Bank’s supervisory model.



Leverage and Liquidity	Suggested action to be taken
<p>The Central Bank notes that continuing financial market volatility owing to the geopolitical and macroeconomic environment has given rise to an increased risk outlook for both leverage risk and liquidity risk within investment funds.</p> <p>Noting that these risks require on-going monitoring and mitigation by FMCs, the Central Bank highlights that such risks can impact at individual investor level but also adversely affect the stability and integrity of the wider financial system.</p>	<p>FMCs should ensure that they have an appropriate and robust liquidity risk management framework in place to identify, manage and mitigate the potential risks which could impact on a fund's ability to (i) meet redemption requests upon demand or (ii) meet collateral and margin calls from counterparties.</p> <p>This framework should involve the regular review and stress-testing of portfolios and ensuring that appropriate liquidity management tools are available for use if needed.</p> <p>FMCs with highly leveraged funds with large holdings of illiquid assets under management should also regularly assess concentration risks that could materialise in times of stress.</p>
Asset Valuation and Market Risks	Suggested action to be taken
<p>The Central Bank has identified that valuation risks in the funds sector may materialise due to (i) the current geopolitical risk and high macroeconomic uncertainty, (ii) certain asset classes such as technology stocks and crypto showing signs of stretched valuations and (iii) a move towards private assets which are typically harder to value.</p>	<p>FMCs should ensure that their valuation frameworks address the specific findings outlined in the Central Bank's 2023 Dear Chair letter on valuations and related ESMA report on its 2022 CSA on asset valuation.</p>
ESG Disclosures to Investors	Suggested action to be taken
<p>Referencing the role that the funds sector can play in financing the EU transition to a sustainable economy, the Central Bank notes that the risk of greenwashing by FMCs and funds under management may arise due to (i) diverging interpretations of regulatory requirements by FMCs and (ii) limitations linked to the consistency, availability and transparency of ESG-related data. It notes that it will continue to investigate suspected instances of greenwashing.</p> <p>The Central Bank also identifies the emergence of "greenhushing" which it describes as the "phenomenon whereby funds seek to downplay, or draw less attention to, their ESG credentials, which can be attributed to the political and geopolitical environment".</p>	<p>In order to mitigate the risks of both greenwashing and greenhushing and to ensure that investors are not misled by the information provided to them, FMCs should ensure that ESG disclosures provided to investors (whether in regulatory documentation such as the prospectus and annual report or in marketing communications such as fact sheets etc) are accurate, complete and capable of being substantiated.</p> <p>Where relevant, FMCs should ensure full compliance with ESMA guidelines on funds using ESG or sustainability-related terms in their names by applicable deadlines.</p> <p>A robust ESG data governance framework should be implemented by FMCs to ensure that data relied upon to assess the sustainability of investments is adequate and of high quality.</p>
Climate Change and Net Zero Transition	Suggested action to be taken
<p>The Central Bank notes that the funds sector can influence and, where appropriate, prioritise and finance sustainability initiatives on behalf of fund investors and notes that increasing the "range and quantum of funds that focus on sustainability will increase the options available to institutional and retail investors to manage their own exposure to climate transition risk".</p> <p>It also notes that one of its priority outcomes for the next two years is that climate change and net zero transition is addressed by regulated firms, including FMCs.</p>	<p>FMCs should note the Central Bank's call to the funds industry to increase the range and number of sustainability-focused funds available in the market.</p> <p>FMCs should continue to assess and manage the implications of climate change for their businesses and their clients. This should include ensuring that their risk management practices for physical, transition and litigation risk are fit for purpose².</p>

² FMCs may want to have regard to the Central Bank's [Dear Chair letter](#) to industry in November 2021 in which it set out its supervisory expectations of regulated firms regarding climate and other sustainability matters.

Operational Resilience	Suggested action to be taken
<p>In its Report, the Central Bank identifies heightened risks of cyberattacks and operational disruption due to an increase in the digitalisation of fund operations, the interconnectedness of the funds industry internationally and the current geopolitical context.</p> <p>It notes that the implementation of the Digital Operational Resilience Act (DORA) by FMCs and other fund service providers is a priority supervisory activity.</p>	<p>FMCs should be satisfied that their digital operational resilience framework:</p> <ul style="list-style-type: none"> • fully implements DORA in a proportionate manner taking into account the nature, scale and complexity of their activities and products; • is sufficiently robust to effectively monitor threats and provide barriers against cyberattacks and other operational disruptions; • incorporates adequate stress testing and regular refresh of contingency and recovery plans as required.
Data Quality	Suggested action to be taken
<p>According to the Report, incomplete data sets and errors in data provided by FMCs stemming generally from inadequate data governance frameworks can misdirect (i) decisions taken by FMCs and funds and (ii) the supervisory activities of the Central Bank. The Central Bank notes that data quality deficiencies have in particular been identified in AIFMD data sets and Fund Profile Returns submitted to it.</p> <p>It emphasises that incorrect data submitted will lead to increased supervisory attention and the escalating use of its supervisory toolkit as appropriate³.</p>	<p>FMCs should implement an appropriate data governance framework to ensure accurate and complete data is submitted to the Central Bank on a timely basis.</p> <p>FMCs should have appropriate oversight of data reporting from board level down (including where data reporting is outsourced).</p>
Artificial Intelligence and Fintech	Suggested action to be taken
<p>While acknowledging that AI can significantly enhance the efficiency of fund portfolio managers, the Central Bank highlights that the use of AI in fund management decision-making processes, if not governed correctly, may result in unwanted bias and poor investment decisions which could harm both investors and firms.</p> <p>More broadly, the Central Bank notes that AI can also be seen in a range of other functions, such as anti-money laundering and fraud prevention, cyber security and customer service delivery.</p> <p>In its "Spotlight 2", it identifies that different risks can occur in various parts of an AI system, including (i) input risks, (ii) algorithm or model risks, (iii) output risks and (iv) overarching risks including cyber resilience, operational resilience and governance.</p>	<p>To the extent using or contemplating the use of AI within their business models, FMCs should implement an appropriate AI governance framework which should:</p> <ul style="list-style-type: none"> • identify the business challenge(s) being addressed through the use of AI; • identify, mitigate and manage risks arising from the use of AI; • ensure adequate and appropriate human oversight of AI systems is in place; • clearly assign accountability for AI systems use and decisions taken based on AI within the organisation; • ensure compliance with obligations imposed under the EU AI Act by applicable deadlines.

³ The Central Bank notes elsewhere in the Report that deficiencies in data sets relating to reporting under EMIR have also been identified, citing a recent [enforcement action](#) brought against an Irish-domiciled fund which was settled in November 2023 for failure to comply with applicable EMIR reporting requirements.

Money laundering and terrorist financing risks	Suggested action to be taken
<p>Money laundering and terrorist financing risks of the Irish funds sector have been identified by the AML National Risk Assessment as being "medium high" risk.</p> <p>This is in part due to the complex legal structures of certain funds which can make the identification of the ownership and control of such structures difficult to identify, in particular where the bank and custodian accounts of a fund are held in offshore jurisdictions which have implemented bank secrecy laws.</p> <p>Noting that it has identified control deficiencies in the areas of (i) AML/CTF risk assessments, (ii) governance and oversight, (iii) customer due diligence processes and (iv) suspicious transaction reporting processes and procedures, the Central Bank has confirmed that it will continue to subject funds and FMCs to ongoing scrutiny in these areas.</p>	<p>FMCs should fully understand the AML/CTF risks to which their individual FMC is exposed and should have in place the appropriate controls, procedures and processes to manage these risks.</p> <p>Particular attention should be paid to those areas identified in the opposite column.</p> <p>Where relevant, FMCs must ensure that any group or third party developed controls and procedures they rely on to manage AML/CTF risks are appropriate for the FMC's specific AML/CTF risks.</p>
Delegation and Outsourcing	Suggested action to be taken
<p>Acknowledging the high levels of delegation and outsourcing in the funds sector, FMC governance continues to be a key area of focus for the Central Bank.</p> <p>The Central Bank reminds FMCs that responsibility for any activities delegated and outsourced ultimately rests with the entity outsourcing the activity and that outsourcing frameworks must adequately manage and mitigate third party risk.</p> <p>Outsourcing risks associated with "white label fund management companies" (White Label FMCs) or "third party management companies" remain a supervisory focus, given the growth of this business model in recent year.</p>	<p>Review and ensure compliance with the Central Bank's Outsourcing Guidance.</p> <p>Given the specific supervisory focus on such entities, White Label FMCs should ensure that they exercise sufficient oversight and scrutiny over their delegate investment managers/advisors and any other outsourcing activities.</p>
Investment in Alternative Asset Classes	Suggested action to be taken
<p>The Central Bank has noted an increase in proposals involving Irish domiciled funds investing in alternative assets such as crypto assets, private debt and collateralised loan obligations which the Central Bank considers present comparatively higher risk.</p>	<p>Where it is proposed to invest in alternative assets such as crypto-assets, private debt or collateralised loan obligations, FMCs and funds should consider:</p> <ul style="list-style-type: none"> • potential risks arising from such investments; • unique features; • transparency; • suitability for the target market of the relevant fund.
Geopolitical Risk Assessment Framework	Suggested action to be taken
<p>The Central Bank highlights that due to heightened geopolitical uncertainty, there is a risk of sudden, unexpected and consequential changes to the operating environment for regulated firms.</p> <p>It recommends that regulated firms establish a geopolitical risk assessment framework which allows them to consider geopolitical risks in a proportionate manner. This framework should allow a firm to identify and understand how geopolitical risks can transmit through its organisation.</p>	<p>FMCs to consider establishing a geopolitical risk assessment framework which the Central Bank notes could for example encompass:</p> <ul style="list-style-type: none"> • understanding the characteristics of the relevant risks; • identifying transmission channels of such risks; • conducting scenario analysis, including reverse stress-testing methods and crisis simulation exercises; • testing and calibrating financial and operational resilience.

Supervisory Priorities and Key Regulatory Initiatives for 2025/2026

In the Report, the Central Bank also outlines its key supervisory activities for the Capital Markets & Funds sector which include:

- risk-based review of applications regarding funds and FSPs;
- sectoral and thematic assessments, including the completion of the ESMA CSA on compliance and internal audit functions;
- continuing the focus on delegation and outsourcing arrangements in FMCs;
- focusing on implementation of the requirements of DORA by FMCs and other fund service providers;
- continuing to enhance and use fund data and risk models to deliver a data-led, agile and risk-based approach to the effective and efficient oversight of the sector.

The Central Bank has identified the following key regulatory initiatives it will be working on over the next two years which are of particular relevance to FMCs and Irish domiciled funds:

- UCITS Eligible Assets Review;
- Transposition of AIFMD II (which introduces changes to both the UCITS and AIFMD frameworks) into Irish law;
- Tokenisation within investment funds;
- SFDR and the [proposed omnibus sustainability package](#) published by the European Commission on 26 February 2025;
- The proposed EU Retail Investment Strategy;
- Implementation of (i) DORA and (ii) the Central Bank's Individual Accountability Framework;
- Implementation of the [Department of Finance's Funds Review Recommendations](#).

Next Steps

As a next step, we would encourage all FMC to scrutinise the risks and supervisory expectations outlined by the Central Bank in the Report and review same against their current business activities, practice, procedures and systems.

Where required, FMCs should consider putting an action plan in place to address any identified gaps in their existing arrangements when assessed against the Central Bank's supervisory expectations outlined in the Report.

Should you require any assistance in carrying out a review of your existing framework and governance arrangements or have any queries in respect of the issues raised in this briefing, please get in touch with your usual contact in our Asset Management and Investment Funds Department.

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