

CBI Findings of Fund Management Companies Governance, Management and Effectiveness Survey



Introduction

On 7 December 2022, the Central Bank of Ireland (“the Central Bank”) issued a ‘Dear Chair’ [letter](#) addressed to fund management companies (“FMCs”) regarding its latest work on the effective application of the [Fund Management Companies - Guidance](#) (the “Guidance”).

The purpose of this letter was to:

1. Set out the results of a follow-up survey issued to Irish FMCs in June 2022;

2. Compare these results to the results of the [previous review](#) issued in October 2020; and;

3. Set out the Central Bank’s expectations for the sector going forward.

The Central Bank acknowledged that progress had been made in the implementation of the Guidance but concluded that **“there is more work to be done”**. The Central Bank also advised that “FMCs will be challenged on all aspects of their compliance with the framework as part of ongoing firm engagement and, in particular, as and when their operations grow”.

In addition to recognising the progress already made and the remainder of the work yet to be carried out, the Central Bank also emphasised that Irish FMCs currently manage a significant number of investment funds which have a wide footprint and so they must discharge their duties to a high standard in order to protect the interest of investors at a European and global level.

The Central Bank advised that the information collected as part of this review will inform their policy development and that work will continue within the Central Bank to identify the necessary changes to enhance and clarify certain aspects of the existing FMC requirements and the Guidance.

The Central Bank also requested that this letter be presented at forthcoming FMC board meetings and the facts raised above be discussed in light of the Guidance.

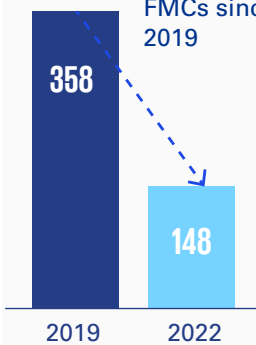
Results from the Survey

The Central Bank began by noting the change in risk profile of the sector using the headings of (1) A Changing Landscape and (2) Corporate Governance and Resourcing.

1. A Changing Landscape

a) Decrease in FMCs

59% decrease in In-Scope FMCs since 2019



The Central Bank pointed out that, compared to the previous review in 2019, **the number of FMCs had decreased from 358 to 148.**

b) Decrease in Self Managed Investment Companies (SMIC)

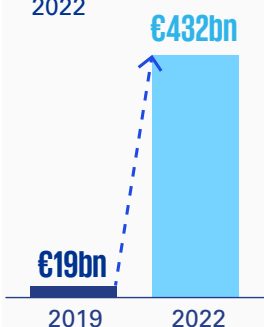
90% decrease in SMICs operating in Ireland between 2019 and 2022



The decrease in FMCs was predominantly as a result of a **90% decrease in the number of SMICs** operating in Ireland. The Central Bank also noted that this sharp decline in the number of SMICs had also resulted in the **significant growth in FMCs providing services to third party funds** with such AUM now in the region of €540Bn.

c) Increase in MiFID services

Significant increase in AUM for MiFID IPM services provided in 2022



The Central Bank survey also highlighted the **significant growth** in the level of **MiFID individual portfolio management** services being carried out by FMCs from a base level AUM of €19Bn in 2019 to €432Bn in 2022.

Key Considerations for Firms

Training: Where firms have taken on MiFID services, they need to demonstrate that they have the appropriate knowledge and skillsets, both at Board level and at Management level, so that the requirements of the new authorisations/ service lines are fully understood.

Has additional training been provided to Board members or employees within your firm for any new MiFID services?

Operational Resilience: Firms need to demonstrate that they have the operational capacity and resilience to take on additional services lines.

Can you demonstrate that you have applied the guiding principles of CP140 - Cross Industry paper on Operational Resilience, proportionate to the nature, scale, and complexity of your firm. Are these principles captured within your operational resilience plan?

For more information, please visit our website: [CBI Perspective on Operational Resilience - December 2021 \(assets.kpmg\)](https://assets.kpmg.com/content/dam/kpmg/pdf/2021/12/cbi-perspective-on-operational-resilience-december-2021.pdf)

Outsourcing Framework: Firms need to demonstrate that they have an appropriate outsourcing strategy in line with the nature, scale and complexity of their firm.

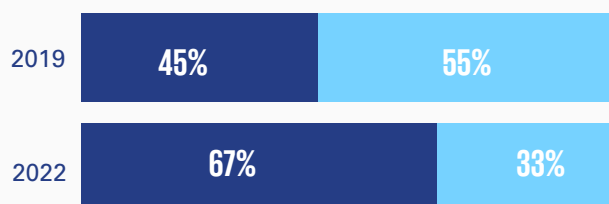
Do you have an outsourcing framework in place that captures all aspects of CP138 - Cross Industry Guidance Paper on Outsourcing?

2. Corporate Governance and Resourcing

The Central Bank noted that its review illustrated a notable increase in the resources available to FMCs together with progress in areas such as CEO appointments, director time commitments and resourcing of managerial functions.

a) Increase in Dedicated CEOs

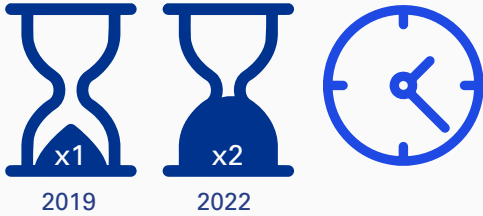
50% increase in FMCs with a dedicated CEO



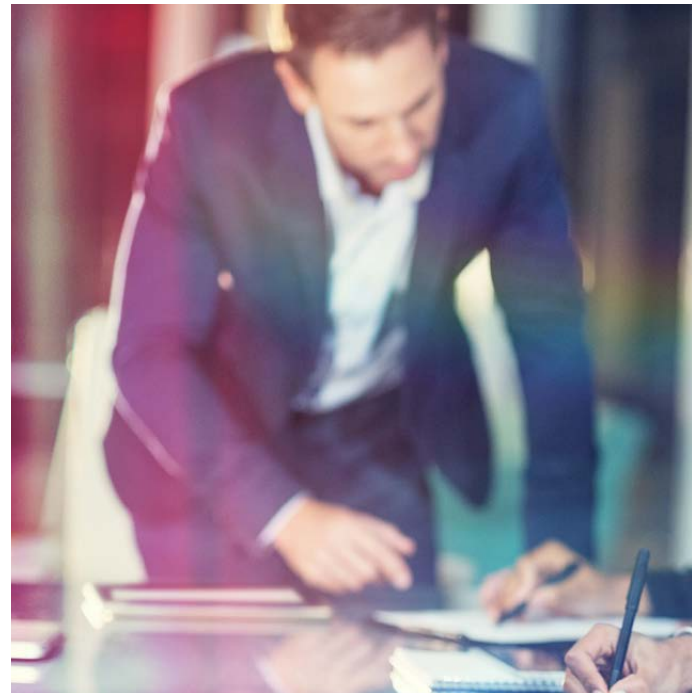
The Central Bank noted a significant uplift in the number of FMCs with a dedicated CEO and added that it expects that *"all but the smallest FMCs have a CEO appointed."*

b) Increase in Directors' Time Commitments

200% Doubling of time commitment from FMC Directors increase



The Central Bank found that the **time committed by FMC directors had, on average, almost doubled.**



c) Increase in Resources

213% Designated Person & Support Staff increased three-fold on average increase between 2019 and 2022



Since 2019, the average full time employee (FTE) **increase within FMC managerial functions was three-fold**, rising from 3.2 in 2019 to 10 in 2022. Also, the Central Bank noted that the average managerial function FTE in medium high and medium low PRISM firms was now approximately 23. The Central Bank highlighted the need for FMCs to remain ever vigilant on resourcing, in particular, in circumstances where the nature, scale or complexity of the firm changes.

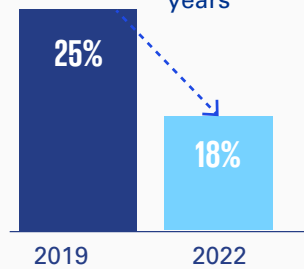
200% Increase in resourcing of managerial function in Top 10 Irish FMCs increase



The Central Bank also drew attention to the 200% increase in the resourcing of the managerial functions in the top 10 FMCs.

d) Decrease in 'Longstanding' INEDs

7% Decrease in INEDs with tenure > 10 years decrease



The number of independent non-executive directors ("**INEDs**") with a **tenure of greater than ten** years has decreased by 7%, from **25% in 2019 to 18% in 2022**. Whilst the Central Bank recognised that this was a move in the right direction, it commented that further change was necessary.

e) Increase in No. of Directorships Held by Women

1 in 5 directorships now held by women



There has been a **marginal increase in the number of directorships held by women from 16% in 2019 to 20% in 2022** but the Central Bank added that a "significant gender imbalance still exists at board level" and that it expected FMCs to continue to consider a range of diversity factors such as skills, age, culture and ethnicity in internal governance reviews.

Key Considerations for Firms

Board Training: With changes in board composition, firms should ensure that new board members are aligned with the short-term and long-term firm strategy.

Have you considered how board composition changes may impact the execution of the Firm's strategy? Is additional training available for incoming Board members?

Board Tenure:

Firms are expected to ensure that INEDs tenures do not exceed ten years. In such instances, firms are expected to have a plan to replace them, which is in line with CBI's diversity targets. The succession plans in place should reflect the skills and experience required to execute the firm's strategy.

Do you have a formal succession plan in place based on the nature, scale, and size of your firm? Is it aligned with future needs of the firm and periodically reviewed?

For more information, please visit our website: [CBI Perspective on Operational Resilience - December 2021 \(assets.kpmg\)](#)

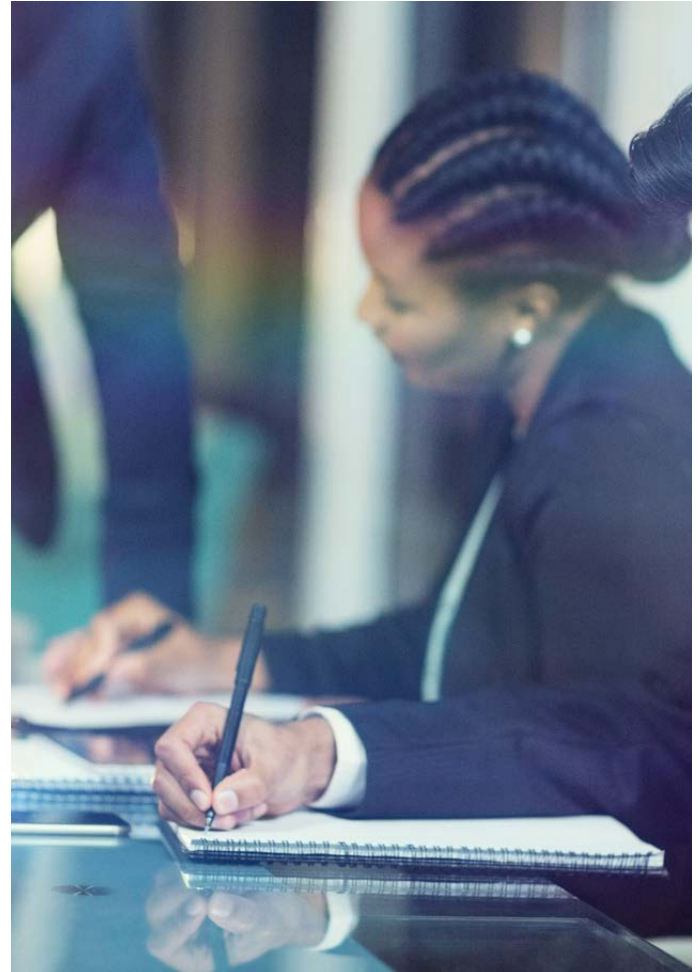
Individual Accountability and SEAR:

With incoming Individual Accountability rules expected in 2023, which proposes the introduction of a Senior Executive Accountability Regime ('SEAR'), firms will be expected to consider the impact of the new rules on their governance, organisational structures, processes and procedures, and record keeping.

Have you taken time to understand the implications of the Central Bank (Individual Accountability Framework) Bill 2022, as well as the CBI's Dear CEO F&P letters in April 2019 and November 2020?

Have you considered how to practically implement necessary changes into your existing business model to ensure the requirements are properly embedded and your model remains fit for purpose?

For more information, please visit our website: [Senior Executive Accountability Regime \("SEAR"\) - KPMG Ireland \(home.kpmg\)](#)



How can KPMG help?

Our CP86 team is a blend of Regulatory and Risk experts who have worked in regulatory policy, supervision and enforcement divisions of the Central Bank and have extensive experience in providing assistance to our clients on CP86 challenges from implementation to compliance. Our blended team will give you the right level of regulatory and risk experience which is key to embedding your CP86 framework and ensuring on-going compliance with the Central Banks requirements. We can assist you with addressing the Regulator findings or we can complete an independent review to ensure you are addressing all of Regulator findings and compliant with CP86.

Overarching Governance & Risk Framework review:

- We can assess your overarching Governance and Risk Management Framework to ensure it is adequately designed and fully considers the local regulatory environment.
- We can assist you with the assessment of the design and operating effectiveness of your CP86 framework to ensure it is fit for purpose for continuous compliance with CP86.

Operational Resilience

- We can help design an Operational Resilience model fit for your Business and wider organisation.
- We can help identify, define and map your firm's Important Business Services and the operational assets that underpin the delivery of these services.
- We can assist in the development of your Firm's Business Contingency Plan with scenario testing and Impact Tolerances

Perform a Gap Analysis & Impact Assessment:

- We can complete an assessment of your CP86 compliance / we can independently review the gap analysis completed by you. We also designed a self - assessment questionnaire.
- We would be delighted to discuss this with you. We will use our purposely built CP86 gap assessment tool to highlight areas of weakness and prioritise actions using our risk base scorecard

Remediation Assistance

- We can assist you address any weaknesses / issues identified and in particular in response to an RMP you may have received from the Regulator
- We can assist you with implementation of these remediation plans or assessment to determine if they are addressing the Regulators expectations

Contact us



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Produced by: KPMG's Creative Services. **Publication Date:** January 2023. (8927)