



29 February 2024

Dear Chief Executive Officer

On 29 February 2024, the Central Bank of Ireland (the **Central Bank**) published its Regulatory and Supervisory Outlook<sup>1</sup> (**RSO**) for the first time. This will be an annual report setting out the Central Bank's view on the key trends and risks facing the regulated financial sector, along with the regulatory and supervisory priorities we have set in the context of those risks.

The RSO is a first in that it addresses risks and priorities across *all sectors* of the Central Bank's regulatory and supervision mandate – building on previous publications<sup>2</sup>, the feedback we regularly provide through our sector-specific supervisory work, and the wide variety of engagement we have with stakeholders.

We hope it proves useful for you, your board and your senior leadership team to understand the Central Bank's view of the risk landscape, our regulatory expectations as well as what can be expected in terms of the Central Bank's focused supervisory work for the coming period.

The purpose of this letter is to draw the Regulatory and Supervisory Outlook to your attention, and to provide you with a high-level overview of our regulatory and supervisory priorities for 2024.

## Background

The Central Bank's mission is to serve the public interest by maintaining monetary and financial stability while ensuring that the financial system operates in the best interests of consumers and the wider economy. Our financial regulation remit is wide and expanding covering more than 12,000 entities across a range of sectors providing financial services in Ireland and overseas. To do this effectively and deliver on our mandate, the Central Bank aims to operate a high-quality regulatory framework, delivering risk-based supervision underpinned by a proportionate recourse to powers of enforcement.

## Economic context

Echoing what we told you in our letter to you last year<sup>3</sup>, the macro-financial environment remains very challenging, marked by economic and financial market uncertainty, geopolitical tensions and regional conflicts.

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<sup>1</sup> [Regulatory & Supervisory Outlook 2024](#)

<sup>2</sup> For example, [Securities Markets Risk Outlook Report 2023](#) and [Consumer Protection Outlook Report 2023](#).

<sup>3</sup> [Dear CEO Letter dated 16 February 2023](#)



The financial system in Ireland and internationally has shown financial and operational resilience in the face of the turmoil of recent years. However, this was in the context of extraordinary fiscal and monetary policy support; and notwithstanding this support, there have been a number of examples of severe distress – including the dash for cash episode in March 2020, the LDI crisis in Autumn 2022 and the banking turmoil in March 2023 – each uncovering vulnerabilities at an entity and financial system level.

All of this points to the need for both regulators and regulated entities to remain vigilant. This is particularly true in light of the changed macro policy stance – not to mention the risk landscape facing the financial sector. It is in this context that we have set our regulation and supervision priorities for the year ahead, which are outlined briefly below.

### Supervisory Priorities

What follow are our industry wide supervisory priorities and outcomes we seek to deliver. Not detailed here, but contained in the RSO, are more granular risks and supervisory priorities at a sector-specific level which sit below these six overarching priorities but are no less important.

- **Priority 1: Proactive risk management and consumer-centric leadership of firms.** The leadership of regulated entities adopt a more proactive and forward looking approach to managing the risks and uncertainties facing their organisations and their customers. This includes regulated entities evolving their approaches in line with the scale and complexity of their business models, the changing operating environment, the heightened risks and uncertainties they face while throughout actively considering their customers' interests.
- **Priority 2: Firms are resilient to the challenging macro environment.** Regulated entities are resilient and well-prepared in the face of risks in the macro environment, including the impact of the further pass-through of interest rate rises, economic uncertainty and the potential for further deterioration in asset values. The Central Bank expects firms to adequately prepare for, and mitigate, the impact of shocks that could arise in an environment of greater uncertainty and heightened risk. It also expects firms to be mindful of the consequences of this environment for their customers who may be facing financial difficulty and provide adequate support to them.
- **Priority 3: Firms address operating framework deficiencies.** Deficiencies identified in the governance, risk management and control frameworks of regulated entities are addressed to ensure they are effective, both in the current environment and into the future. This ranges from the need to consider financial and operational resilience in a holistic way, given the interdependencies between risks, to ensuring they have sufficiently robust Anti-Money Laundering and Countering the Financing of Terrorism controls as the financial system evolves and risk levels rise.
- **Priority 4: Firms manage change effectively.** Regulated entities keep pace with changes in the financial system and consumer needs and expectations through the well-managed evolution of their business strategies. The adequacy of firms' investment in, and their



ability to adapt to, rapidly developing technology will have consequences for firms' business models, their interaction with consumers and their operational resilience. Cyber security, data security and the maintenance of customer trust, including the ethical use of customers' data, will require investment and focus by firms.

- **Priority 5: Climate change and Net Zero transition are addressed.** Regulated entities improve their response to climate change and enhance their role in the transition to a Net Zero economy. This includes firms' risk management practices for physical and transition risk and the part they are playing in supporting sustainable finance. For its part, the Central Bank will be undertaking specific initiatives related to understanding the materiality of the flood protection gap in Ireland and scrutinising and mitigating the risk of greenwashing in the promotion and sale of financial products to investors.
- **Priority 6: The Central Bank enhances how it regulates and supervises.** The Central Bank continues to improve and transform its approach to regulation and supervision to ensure that it can carry on fulfilling its mission and mandate in a rapidly changing financial ecosystem. This includes continuing to enhance the authorisation processes and to develop a proportionate and responsive regulatory framework. The Central Bank will also continue to invest in its supervisory approach to be more data-driven, agile and scalable.

### Key Regulatory Initiatives

In addition to these supervisory priorities, we have a number of key regulatory initiatives in 2024. These were outlined recently to the Minister of Finance in Governor Makhoul's Financial Regulation Priorities letter in January 2024, and include:

- Putting in place a revised and modernised **Consumer Protection Code** to ensure that consumers are protected in a more digitalised financial services sector;
- Continuing to progress work both internationally and domestically to address systemic risks from the **non-bank sector** and deepening our analysis and understanding of macroprudential risks in this sector;
- Implementing the **Individual Accountability Framework** (including within our supervision of firms) and supporting external stakeholders to embed the new standards;
- Preparing for the implementation of the **Digital Operational Resilience Act**, in particular in the context of Ireland's large technology sector;
- Implementing the **Markets in Crypto Asset Regulation**, including technical standards and engaging with firms seeking authorisation under the new regime;
- Implementing the **Credit Unions (Amendment) Act 2023**, including updating the Credit Union Handbook and amending Central Bank Regulations;



- Developing policy work and supervisory expectations related to the use of artificial intelligence (AI) in financial services, including preparing for the implementation of the EU's AI Act.
- Working with and supporting the Department of Finance on:
  - The continued implementation of the Retail Banking Review;
  - The development of a framework to protect consumers' and business's access to cash the resilience of the cash system;
  - The National Payments Strategy;
  - The completion of the 2030 Funds Review;
  - The Financial Literacy Strategy; and
  - Key international policy files including in the areas of banking, payments, capital markets, anti-money laundering and sustainable finance.

We hope this letter, and our new Regulatory and Supervisory Outlook, are helpful in articulating our priorities and view of the risk landscape for the year ahead. Of course, it will be in our engagement with you and your colleagues over the coming months where all of these matters come to life – and we look forward to that dialogue.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "Sharon Donnery".

Sharon Donnery  
Deputy Governor, Financial Regulation

A handwritten signature in blue ink, appearing to read "Derville Rowland".

Derville Rowland  
Deputy Governor, Consumer & Investor Protection