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Chief Executive Officer / Branch Manager

06 March 2026

## **Re: Thematic Inspection of Outsourcing Risk – Fund Administrators and Depositaries**

Dear Sir / Madam,

As you will be aware, the Central Bank of Ireland ('the Central Bank') has adopted a more integrated and sectoral approach to regulation and supervision. While remaining risk-based and outcomes-focused, this sectoral approach prioritises those sectors, firms and issues that present the greatest risks to our safeguarding outcomes.

It facilitates our direct supervision of, and engagement with individual firms to better understand the sectoral risks and priority outcomes. Sectoral supervision is delivered through thematic reviews, onsite inspections, risk assessments, engagement meetings with key individuals etc. It is described in more detail in [Our Approach to Supervision](#).

Aligned with this approach, the Central Bank conducted a Thematic Inspection of Outsourcing Risk on Fund Administrators and Depositaries, collectively known as Fund Service Providers (FSPs), in 2025.

Outsourcing is a highly prevalent feature of the funds sector and is a key element of managing operational resilience. Outsourcing risks arise from the growing reliance on third party or group service providers for key activities. While outsourcing can deliver efficiencies, an overreliance on external providers can dilute local management's control over key activities. Risks are heightened in the absence of effective oversight and control of outsourced activities and/or deficiencies in outsourcing governance and

risk controls. Robust due diligence, governance and ongoing oversight are essential to manage concentration, dependency and conduct risks. A less than robust outsourcing oversight framework also exposes FSPs to the risk that they are not fulfilling their regulatory obligations.

### **Thematic Inspection Overview**

The inspection assessed the outsourcing oversight frameworks established by FSPs taking into consideration the good practices for the effective management of outsourcing risk, as outlined within the Central Bank's Cross-Industry Guidance on Outsourcing. For Fund Administrators, the inspection also considered the Outsourcing Regulations set out in Part 4 Chapter 2 of the Investment Firms Regulations 2023 and the Central Bank's related guidance.

In particular, the inspection sought to assess FSPs' governance, risk management and operational processes that relate to the management of their outsourcing oversight framework and activities. These were broken down into three categories:

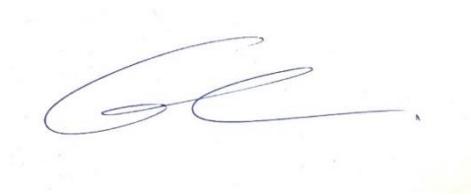
- **Outsourcing Lifecycle:** Risk identification and assessment processes including risk assessments, criticality assessments, due diligence, contracts and service level agreements and outsourcing reporting (e.g. KPIs and KRIs);
- **Governance:** Monitoring and reporting of outsourcing risks to the Board and/or its committees if applicable as well as assessing the roles of Compliance, Risk and Internal Audit; and
- **Operational Oversight:** Management of day-to-day operational oversight of outsourced activities (e.g. NAV calculation and sub-custodian oversight).

The Thematic Inspection identified that deficiencies continue to exist in the outsourcing oversight frameworks established by FSPs. Taking this into account, Appendix 1 sets out some general good practices observed during the Thematic Inspection to assist FSPs who outsource, to develop consistent practices and to enhance the management of outsourcing risks and operational resilience across the sector. These good practices should be considered in the context of your entity, and any potential enhancements that should be made to improve your ability to manage

operational resilience risk, including the identification, assessment, monitoring and reporting of outsourcing risks going forward.

These examples of good practices are not exhaustive and FSPs should, at all times, be evaluating their own risks relating to outsourcing. This letter is required to be brought to the attention of the Board / Management body of your entity.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'GC', is positioned above a horizontal line. The signature is fluid and cursive.

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**Gavin Curran**

**Head of Division**

**Funds Supervision Division**

**Capital Markets and Funds Directorate**

## Appendix 1: Observed Good Practice

The table below sets out some of the good practices the Central Bank has of a FSP in the establishment and maintenance of a robust outsourcing oversight framework. They are grounded in, and consistent with the Cross-Industry Guidance and effective risk management of outsourced activities and are not exhaustive.

This letter should be considered in conjunction with any other communications from the Central Bank in relation to outsourcing. In addition, FSPs should at all times be evaluating their own risks and deciding on how they are best managed or mitigated.

Please note these good practices do not replace or override any legal, regulatory or supervisory requirements applicable to FSPs, and it is a matter for FSPs to seek their own legal advice if they are unsure regarding their own obligations.

### Outsourcing forums / committees

As good practice, the FSPs have established outsourcing forums or committees. These forums / committees play an important role as the primary oversight forum for outsourced activities.

### Outsourcing Manager

The establishment of a dedicated Outsourcing Manager role to oversee the outsourcing oversight framework and Outsourcing Service Provider (OSP) monitoring was noted as a good practice amongst the FSPs included in the thematic assessment. In these instances, the FSPs considered the nature, scale and risk profile of their outsourcing universe before appointing a dedicated Outsourcing Manager.

### Role of Second Line of Defence

As good practice, FSPs established processes whereby there was formal input and sign-off of outsourcing proposals and initial and ongoing risk assessments by the second line of defence. As a best practice this was conducted prior to circulation to the relevant outsourcing committee / forum.

Another good practice noted of Compliance functions within the FSPs was the performance of independent compliance due diligence and assurance testing.

### Outsourcing Risk Appetite Limits

It was noted as good practice that FSPs established defined internal outsourcing risk appetite limits and thresholds (with supporting rationale) for the level of outsourcing the FSP will undertake. These limits are established, for example, at the activity, OSP and location level. This control is important for identifying and managing potential concentration and resiliency risks as well as ensuring local expertise is maintained to oversee the outsourced activities.

### Risk Metrics

As good practice, FSPs developed multi-layered outsourcing risk metrics to monitor (for example) concentration risks (total FTE by activity, total OSP FTE, total FTE by city), outsourcing incidents, outsourcing engagement, vendor performance and ongoing monitoring re: outsourcing lifecycle.

In addition to this, FSPs received performance self-certifications / attestations from OSPs. These self-certifications / attestations included confirmations of what activities were being performed by the OSP and where. These certifications were performed in addition to established due diligence and other outsourcing oversight mechanisms.

## Due Diligence and Risk Assessments

As good practice, due diligence and risk assessments are completed periodically, on a proportional basis, for all OSPs and outsourcing arrangements, not just those deemed critical or important. The frequency of such is determined by a risk assessment of the relevant outsourcing arrangement.

For Depositaries, it was noted that as part of due diligence of Global Custodians, good practice included the sample testing of:

- Due diligence reports of the sub-custody network produced by Network Management; and
- Legal advice<sup>1</sup> obtained and reviewed by Network Management.

## Outsourcing Oversight Documentation

As good practice, FSPs established entity specific tailored outsourcing oversight documentation such as an Outsourcing Oversight Framework, Outsourcing Policy. The establishment of entity specific outsourcing oversight documentation is important to ensure local outsourcing requirements and guidance are considered when developing and maintaining a robust outsourcing oversight programme.

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<sup>1</sup> As per Article 99 2a of AIFMD Level 2 and Article 17 of UCITS Level 2.

### Outsourcing Registers – Depositories only

It was noted that good practice amongst Depositories was to record Prime Brokers within their outsourcing registers. This was to ensure that the standards set out in the Central Bank's Cross-Industry Guidance on Outsourcing are applied to prime broker arrangements.

### NAV Oversight – Fund Administrators only

It was noted that Fund Administrators ensured the appropriate grade of seniority of the checker and the correct sequencing of reviews. A best practice was identified whereby the maker-checker process was automated with system generated controls in place to ensure the correct sequencing of reviews and that the checker was of an equal or higher grade to that of the maker. This is an important control within the operating process to ensure issues in the NAV calculation process are identified and rectified.