



Banc Ceannais na hÉireann  
Central Bank of Ireland

Eurosystem

# Board Effectiveness Review through the Lens of Diversity and Inclusion

Fund Management Companies  
Central Bank of Ireland  
Feedback Report

April 2026

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# 1. Overview

Board effectiveness is the cornerstone of good corporate governance, ensuring that boards provide sufficient oversight, make informed decisions and promote a culture of strong leadership. Diversity and Inclusion (D&I) is a key component of board effectiveness. “Diversity” can bring a broader range of experiences, perspectives and skills to the Board, while “Inclusion” can ensure these differences are valued and integrated into its processes improving the quality of decision-making and strengthening governance and oversight.

Diversity of thought is critical to ensure a range of perspectives are considered and evaluated to help policymakers, firms and businesses navigate their way through uncertainty. Firms which are sufficiently diverse and inclusive are better able to be proactive and forward-looking in managing risks and uncertainties facing their organisations and their customers. We also know that diversity, whether of gender, age, ethnicity, educational and professional background, among other characteristics, is critical to developing an effective culture.

This report outlines the findings from a review of Board Effectiveness through the lens of Diversity and Inclusion (D&I)

“...More needs to be done to encourage greater diversity-in all its forms in Irish regulated firms. The reasons are straightforward. In brief, it’s because there’s a growing body of research that confirms the benefits that inclusive diversity can bring to complex problem-solving, decision-making, governance, risk management, attracting talent, employee engagement and more”.

*Gabriel Makhlouf, Governor, Central Bank of Ireland, [Blog March 2025](#)*

in the Fund Management Company sector<sup>1</sup>. While D&I reviews have previously been conducted in both the Banking and Insurance sectors, prior to this review no standalone D&I review had been conducted in the Fund Management Company sector.

The review examined a number of key areas including:

- Composition of the Board, Senior Management Team<sup>2</sup> (SMT) and Board Committees including the role of the Organisational Effectiveness Director (OED)<sup>3</sup>
- The board evaluation process
- Strategic decision-making processes
- Succession planning
- Broader D&I practices were also considered, including the assessment of D&I policies, D&I reporting and the provision of relevant D&I training

This report sets out the range of findings from the review. Overall, our assessment is that while some positive practices were identified, more work needs to be done to enhance board effectiveness through the lens of D&I, within the fund management company sector. Issues were identified in governance processes relating to board

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<sup>1</sup> The review incorporates the applicable Regulatory frameworks including Fund Management Companies' Guidance (Regulatory requirements for: AIFs ([here](#)); AIFM ([here](#)); UCITs ([here](#)); and UCITs Management Companies ([here](#))). Fund Management Company Guidance 2016 ([here](#)) and Dear Chair Letters: (Thematic review of fund management companies' governance, management and effectiveness ([here](#)); and Follow up on thematic review of fund management companies' governance, management and effectiveness ([here](#))). In addition, the Central Bank has previously set out its expectations for regulated firms in relation to creating diverse and inclusive firms (2020 Thematic assessment of Diversity & Inclusion in insurance Firms ([here](#))).

<sup>2</sup> For the purpose of the review, the SMT refers to Senior Executives and Designated Persons.

<sup>3</sup> Part II of the Fund Management Companies – Guidance (December 2016), available [here](#).

effectiveness in all firms, with varying levels of understanding of D&I leading to D&I being considered and embedded, to varying extents, across these processes.

Where specific issues or concerns were identified, these are being followed up directly with the individual firms. The report also includes details of the positive practices that were identified, which may support firms in implementing changes to their practices.

The Central Bank expects that fund management companies, and other regulated firms, review and consider the findings of this review and examine their governance processes relating to board effectiveness through the lens of D&I against both the findings and good practices outlined. Where gaps or weaknesses are identified, firms should develop and implement actions to mitigate any risk. Firms should also continually evaluate their arrangements to ensure they remain fit for purpose.

## 2. Summary of findings and observations

### 2.1 Composition and effectiveness of the Board, Senior Management Team and Board Committees

Key considerations in relation to the composition and effectiveness of the Board, its sub-committees and the SMT are diversity of thought and independence of mind.

#### Diversity and Inclusion

D&I has a critical role in enhancing the effectiveness of a board, its sub-committees and the SMT. A diverse and inclusive board is better positioned to operate effectively, manage risk and deliver sustainable outcomes for all stakeholders. A more consistent and structured approach to embedding D&I within the organisation, particularly at board and senior leadership level, can strengthen governance, support better decision-making, and enhance overall board effectiveness.

Firms demonstrated varying levels of understanding regarding the impact of D&I on governance. Good practices were observed, including:

- Some firms adopted a structured approach to D&I evidenced through charter memberships, active board sponsorship, and embedding D&I into governance structures.
- Board and SMT membership in firms generally reflected diverse professional and educational backgrounds, which supports broader perspectives, richer discussion, and more informed decision-making at leadership level.
- Some firms also took proactive steps to address the challenges they said they were facing in attracting diverse applicants at senior level. These included the use of tools to help identify and reduce gender biased language, gender-neutral job descriptions, diverse interview panels at senior

levels of the organisation, and ongoing engagement and challenge by HR in terms of prospective candidates. Such initiatives demonstrate a proactive and structured approach to improving diversity in senior roles.

However, gaps were also observed that could weaken governance outcomes and limit the effectiveness of boards and senior leadership, demonstrating that while some firms are making progress, there remains significant scope for improvement:

- Some firms focused primarily on observable diversity characteristics (e.g. gender) while not fully considering, proactively recognising, or discussing other diversity characteristics, such as diversity of thought.
- The review identified some gender imbalances at both board and board committee levels, with a significant gender imbalance remaining at the SMT level across some of the firms reviewed.
- Some firms mistakenly equated D&I with Corporate Social Responsibility (CSR) activities such as charitable donations and community engagement. While these CSR efforts are valuable, they do not directly address D&I in the workplace. The root cause of the misunderstanding often lies in firms viewing D&I primarily as a social responsibility.
- Not all firms had diversity targets or metrics in place. D&I targets and metrics are key in ensuring that levels of diversity within firms are maintained and actively strengthened, and also supports the development of a diverse leadership pipeline and embedding diversity and inclusion throughout the organisation.
- Few firms implemented local D&I reporting, local Board D&I training, or board-level sponsorship.

## Independent Non-Executive Directors

The review highlighted an inconsistent approach across firms regarding the emphasis placed on the role of the INED on the board, and the value that their independence of mind brings to effective governance.

The role performed by INEDs on the board and board committees varied significantly:

- In the majority of firms, a INED performed the role of board chair, which is in line with good practice observed across other industries.
- Several INEDs were observed to have been in place for a prolonged period, in some instances for 10+ years. The Central Bank has previously communicated the need for firms to regularly assess director tenure as part of board composition reviews<sup>4</sup>. Where an INED has been in place for a prolonged period of time, the independence of the Director should be formally and comprehensively assessed at least annually and consider the appropriateness of the continued use of the INED designation.

Maintaining a strong presence of truly independent directors, who demonstrate independence of mind and objective judgement, helps to ensure effective oversight and challenge. Having a comprehensive process in place to assess and support the ongoing independence of INEDs further strengthens the overall governance framework.

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<sup>4</sup> 2020 Thematic review of fund management companies' governance, management and effectiveness, available [here](#). 2022 Follow up on thematic review of fund management companies' governance, management and effectiveness, available [here](#).

## 2.2 Governance processes relating to board effectiveness

### Board Evaluation

Enhancing the depth and scope of board evaluations, including the integration of diversity and inclusion considerations, can enable boards to identify areas for improvement and enhance overall effectiveness.

While annual board evaluations were conducted in all firms, they were carried out to varying degrees of detail. Some firms demonstrated a more structured and comprehensive approach. For example, a board skills matrix was used where directors assessed themselves as “Very Experienced, Experienced or Limited Experience” and provided a rationale for their chosen ratings. This promoted greater self-awareness of individual capabilities.

Another good practice observed was the inclusion of gender diversity within the board skills matrix, helping to embed D&I considerations directly into the evaluation process.

In addition, the following areas for improvement were identified:

- Some firms relied primarily on self-assessment questionnaires, while broader assessments such as skills gap analysis and attendance reviews were not applied.
- Many evaluations used a simple affirmative/negative response format, which limited the depth and usefulness of insights gained.
- D&I considerations, particularly around inclusivity, were often absent, reducing the evaluation's effectiveness in enhancing board dynamics.

**Board evaluations provide Firms with a valuable opportunity to identify critical blind spots and incorporate diversity of thought. When conducted effectively, these evaluations help enhance specific skills or knowledge required by the board, enabling it to continuously evolve and adapt to the changing external environment.**

## Succession Planning

All firms inspected had board and SMT succession plans, but their quality varied significantly. Strengthening succession planning processes with consideration for diversity and inclusion can improve board effectiveness and overall governance.

Good practices included:

- Some firms had comprehensive succession plans outlining named successors, clearly defined time horizons and detailed skills matrices. Others maintained separate documents for the succession plan and succession policy.
- A number of firms had clearly documented, for each of the key personnel, their principal activities, responsibilities, and the skills, competencies and experience a successor would require. Some also indicated whether a successor was ‘ready now’ or required further development, and noted which skills were missing from the board and SMT within their skills matrix.
- One firm maintained a named panel of potential successors for INED roles, from which future appointments could be drawn, a practice that supports succession readiness.

Areas identified requiring improvement were:

- Some succession planning policies lacked specificity and clarity on how succession plans influenced board and executive appointments.
- D&I considerations were largely absent, even in firms with diversity targets.
- In some instances, succession plans were out of date following turnover of named successors, did not include a

**Comprehensive succession plans can support Firms in reducing their over-reliance on key individuals, assist the development of diverse leadership pipelines, and support long-term governance effectiveness.**

version control, and did not assign responsibility to any individual for succession planning within the firm.

## Strategic Decision-Making

As part of the review, a strategic decision from each firm was reviewed. The review identified that firms adopted varying approaches to strategic decision-making. Some good practices were identified, including, diverse project teams advising the board on the strategic decision under review, well documented board strategic decision-making procedures and clear meeting minutes demonstrating challenge and discussion.

To further assess the quality of discussion, challenge and decision-making, board meetings were also observed as part of the review. In some instances, a clear formal decision-making structure was observed when decisions were being made. Establishing and embedding robust strategic decision-making processes can enhance the quality and effectiveness of board decisions.

However, these good practices were not applied by all firms and the following areas requiring improvement were identified:

- Some firms did not have a standalone decision-making policy and documentation of the strategic decision-making process was often insufficient.
- The review identified instances where key decisions were made outside of formal board meetings without clear summaries or records documented.
- Although the board minutes in most firms evidenced the approval of the actual strategic decision, many did not evidence the discussion, challenge, or voting process that led to the approval.

**Effective decisions made transparently with appropriate challenge promote accountability, and enable boards to fulfil their governance responsibilities more effectively.**

- Most firms did not conduct formal post-decision reviews (i.e. “lessons learned”), missing opportunities for continuous improvement.

Improving the governance around strategic decision-making, ensuring thorough documentation, and embedding formal review processes, while integrating diversity and inclusion considerations, can strengthen board effectiveness and overall governance quality.



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