



7 March 2022

Re: Fund Service Providers effectively managing risks due to Russian invasion into Ukraine

Dear Sir/Madam

The purpose of this letter is to communicate to Fund Service Providers (including fund management companies, fund administrators and depositaries), in relation to the ongoing Russian invasion into Ukraine. The contents of this letter should be taken into account as Fund Service Providers respond to unfolding events, particularly with respect to the financial sanctions, valuation of funds, liquidity management and decisions regarding dealing arrangements. The Central Bank will have regard to the contents of this letter as part of future supervisory engagements or any other action, including enforcement action, the Central Bank might take.

Financial sanctions

The Central Bank has published on its website details of new restrictive measures/sanctions that are adopted in this regard, as well as associated European Union / United Nations Guidance (sanctions).¹ Fund Service Providers are reminded that they must remain in compliance with the sanctions at all times with respect to any impacted fund asset or fund investor. In particular, recognising that this is a complex and changing environment, the Central Bank expects Fund Service Providers to take timely action, with heightened precautions, to ensure no breaches of the sanctions occur.

In this regard, in the event a Fund Service Provider identifies a relevant transaction or a proposed transaction including subscription or redemption activity with a target of the sanctions, the Fund Service Provider, in line with their obligations, must immediately freeze the account(s) and/or stop

¹ Available at: <https://www.centralbank.ie/regulation/how-we-regulate/international-financial-sanctions/changes-to-the-russia-ukraine-regulations>



the transaction(s) and immediately report this to Central Bank along with other relevant information.² This information can be reported by email to sanctions@centralbank.ie.

Valuation, liquidity and fund suspensions

Fund management companies are required to ensure that, for each fund under management, fair, appropriate and consistent pricing models and valuation procedures are applied to ensure the proper valuation of the assets of the fund.³ Fund management companies need to be cognisant of the potential for impaired valuations for example: stale pricing; unavailability of prices; or prices which are objectively not reliable. It is the responsibility of fund management companies to take all necessary steps to ensure that the valuation of fund assets are fair and proper and in accordance with the relevant fund valuation policies and rules. In the current market conditions certain asset-classes are subject to pronounced devaluation and / or their ability to trade has been wholly impaired. Fund management companies must ensure valuations applied to such assets appropriately reflect these changes.

The Central Bank's expectation is that Fund Management Companies, relevant Pre-Approved Control Function holders and other relevant responsible persons should, on an ongoing basis, assess the liquidity position of each fund under management to ensure that the liquidity of the investment portfolio remains in line with the fund's redemption policy and takes into account the potential redemption demands of investors. Particular attention needs to be given to effectively deploying an appropriate suite of liquidity management tools, including suspension of the relevant fund. In current market conditions, depending on the specific portfolio characteristics of the fund, this may be appropriate in furtherance of obligations to act in the best interest of investors. Fund

² Before submitting a report to the Central Bank, Fund Service Providers should take reasonable steps to ensure that the person, entity or body identified is the same person, entity or body as that listed in the relevant sanctions list (i.e. by verifying the name with other identifying information).

³ In the case of UCITS Management Companies, see schedule 5 of the Irish UCITS Regulation which requires that *"Management companies shall ensure that fair, correct and transparent pricing models and valuation systems are used for the UCITS they manage, in order to comply with the duty to act in the best interests of the unit-holders. Management companies must be able to demonstrate that the UCITS portfolios have been accurately valued.*

In the case of Alternative Investment Fund Managers, see Regulation 20 of the Irish AIFM Regulations which requires that: *An AIFM shall ensure that, for each AIF that it manages, appropriate and consistent procedures are established so that a proper and independent valuation of the assets of the AIF can be performed in accordance with this Regulation and the AIF rules or instruments of incorporation.*



management companies are reminded of the need to be open and forthcoming to the Central Bank with issues materially affecting funds under management.

Depositaries are also reminded of their fiduciary obligations in relation to funds to which they are appointed. Depositaries should therefore ensure, in furtherance of their obligation to act honestly, fairly, professionally, independently and in the best interests of investors, that their oversight of funds ensures these interests are safeguarded. The Central Bank views this critical and independent function of paramount importance.

The Central Bank recognises that, in light of current market volatility, breaches of certain requirements relating to the portfolio composition of funds may occur. Where such breaches have occurred, they should be reported to the Central Bank in the normal course and may be subject to supervisory engagement depending on the nature of the breach in question.

Engagement with the Central Bank

In addition to required regulatory reporting obligations (including in relation to the activation of certain liquid management tools) during this period, where matters of concern arise or potential risks look likely to crystallise, Fund Service Providers should engage in a timely manner with their relevant Central Bank supervisor.

This letter must be brought to the attention of all members of the Board of the Fund Service Provider, fund, relevant Pre-Approved Control Function holders and other relevant responsible persons.

Yours sincerely

A handwritten signature in black ink that reads "D. Rossi". The signature is written in a cursive style with a distinct flourish at the end.

Darragh Rossi
Head of Funds Supervision Division