30 April 2020

Re: Measures related to investment funds in light of ongoing market uncertainty due to Covid-19

Dear Sir/Madam,

On 16 April, recognising that regulated firms are under significant organisational stress and that some limited and time-bound regulatory flexibility may allow firms to better serve consumers, investors and the wider economy, the Central Bank of Ireland (the Central Bank) set out some areas it will allow limited regulatory flexibility as regards requirements applicable to securities markets, investment management and investment firms in light of the challenges posed by COVID-19. In addition, the Central Bank clarified that it will apply the measures outlined in various statements made by the European Securities and Markets Authority (ESMA) in recent weeks.

The purpose of this letter is to provide additional information pertaining to fund management companies.1 The Central Bank will continue to review its approach throughout the duration of the COVID-19 pandemic and may provide further updates as required.

Liquidity management

In August 2019, the Central Bank issued a communication to fund management companies reminding them of the importance of ongoing, effective liquidity management and emphasising compliance with legislative and regulatory obligations for UCITS and AIFs.2 While that communication related to ongoing work in the context of Brexit preparedness, its contents remain fully applicable in the current context. The Central Bank communicated an expectation that the Board, relevant directors and designated persons should, on an ongoing basis, assess the liquidity position of each fund under management, ensuring that the liquidity of the investment portfolio remains in line with the respective fund’s redemption policy taking into account investors’ potential redemption demands. It was noted that the execution of the liquidity risk management

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1 This includes any self-managed investment company which is itself regulated as an AIFM or UCITS management company.

2 Legislative and regulatory obligations include, in the case of UCITS, the Irish UCITS Regulations which implement the UCITS Directive and Level 2 Commission Directives (including 2007/16/EC and 2010/43/EU), and the Central Bank UCITS Regulations which incorporate CESR Guidelines on eligible assets for UCITS. In the case of AIFs, relevant obligations are set out in the Irish AIFM Regulations which implement the AIFM Directive.
framework for each fund under management should be calibrated to take into account dealing frequency, investment strategy, portfolio composition and investor profile on an ongoing basis, with stress testing a key part of the process noting that individual asset liquidity and investor demands can change quickly and without warning. The deployment of liquidity management tools such as duties and charges, gates and suspensions should be done in a transparent and proportionate manner, taking into account the best interests of investors.

In the context of recent market conditions, the Central Bank expects that effective liquidity management includes an assessment as to whether a UCITS or AIF has appropriate liquidity management tools in place. Such an assessment should take into account dealing frequency, investment strategy, portfolio composition and investor profile of the fund. Where it is considered necessary to expand the range of such tools, or make other changes to address liquidity risk, the fund management company should take the necessary steps to amend the relevant fund documentation, ensuring clear and effective notification to investors. Any such notice should give investors sufficient information (including information on any potential risks or costs) and sufficient time to redeem prior to the implementation of any such change.

Central Bank UCITS Regulations / AIF Rulebook
Fund management companies are under regulatory obligations to act in the best interests of the investors in the investment funds under management. While recognising that a well-run fund management company should serve the interests of investors in the funds that it manages, the Central Bank understands that, in light of recent market volatility, breaches of requirements set out in the Central Bank UCITS Regulations or the AIF Rulebook may be identified. The Central Bank expects fund management companies to minimise the potential for such breaches. Nevertheless, certain requirements may be breached for reasons outside of the control of the fund management company. Where 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. Any breach should be remedied by the fund management company as a priority objective, taking due account of the interests of investors. Fund management companies should, in light of their mandate to investors, consider the appropriateness of communicating the occurrence of any breaches arising to their investors whether by way of disclosure in financial statements or by way of other separate communication.

Investor disclosure
In keeping with commonly recognised principles for effectively functioning securities market, transparency related to the features and potential risks of products is of critical importance. The Central Bank expects fund

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For avoidance of doubt, where notification of a breach is reported by a service provider of the fund management company, such as the depositary, duplicate reporting is not required.
management companies to ensure there is full, accurate and timely disclosure of risks and other information which is material to investors’ decisions. In that respect, the Central Bank acknowledges that the current crisis brings with it challenges, some of which have not materialised and the consequences of which may remain unclear for fund management companies. As part of its obligations to ensure risks are identified, monitored and managed during this time, fund management companies may have identified a risk (or potential risk) which may warrant additional disclosure to investors (or potential investors). Where such risk may materially affect the investment made by an investor in a fund which is not already covered by existing prospectus disclosure, a fund management company should consider the extent to which the additional risk (or potential risk) should be brought to the attention of investors in prospectus documentation. The Central Bank expects that an application for authorisation of a new fund would contain relevant risk factors in documentation as a matter of course.

Minimum of two directors that are Irish residents
In the event of incapacitation of an Irish resident director on the board of a fund management company or fund, the Central Bank recognises that there may be a delay in finding a replacement due to the COVID-19 pandemic. In that instance, the fund management company or fund should refer to the Central Bank’s website4 for information on addressing vacancies which might arise for Pre-Approval Controlled Functions (PCFs) during this period and engage with the relevant supervisor at the Central Bank.

Data collection for UCITS and AIFs
As noted in the communication issued by the Central Bank on 16 April 2020, reliable supervisory reporting is crucial in times when the financial system faces many challenges caused by the COVID-19 pandemic. In January 2019, in response to Brexit preparedness, the Central Bank increased its monitoring of investment funds liquidity and redemption activity. This involved putting in place arrangements for the collection of new data or increasing the frequency of collection of certain information. These arrangements have remained in place and in some instances have been supplemented.

As noted, the Central Bank’s approach to regulatory flexibility and related matters will remain under review throughout the duration of the COVID-19 pandemic. Should the need arise the Central Bank will provide further updates in this regard.

Yours sincerely

Patricia Dunne
Head of Division – Securities and Markets Supervision Division

4 https://www.centralbank.ie/consumer-hub/covid-19/faq-for-regulated-firms