Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

Review of delegation in the Irish funds sector

Central Bank of Ireland
Feedback Report

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Executive Summary

The Central Bank of Ireland (Central Bank) launched a review of delegation[1] practices in 2025 within the Irish Funds sector to examine delegation practices among a sample of Fund Management Companies (FMCs) authorised in Ireland, with a particular focus on governance, oversight arrangements, and the effectiveness control frameworks in managing delegated activities at FMCs. This review forms part of the Central Bank's ongoing supervisory engagement with the sector and builds on earlier thematic work conducted by the Central Bank on the effectiveness of FMCs and their operational frameworks.

Delegation and outsourcing[2] are a core feature of the European asset management operating model and are widely used by FMCs authorised in Ireland. They enable firms to access specialised expertise, global investment capabilities and operational efficiencies, thereby supporting the optimal functioning of investment funds on behalf of investors. Delegation arrangements can enhance investor outcomes by allowing FMCs to leverage experienced portfolio managers and service providers across jurisdictions, facilitating diversified investment opportunities and efficient capital allocation. In this way, delegation also supports the broader role of investment funds in channelling capital into European markets and the wider economy.

At the same time, delegation introduces a range of governance, oversight and operational considerations that must be carefully managed by FMCs. The regulatory framework requires that FMCs retain ultimate responsibility for all delegated activities and maintain

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[2] While the term "delegation" is used generally in this report, the Central Bank has been clear that delegation and outsourcing are the same thing and are subject to the same rules and requirements.

sufficient substance, resources and oversight to ensure that delegated functions are performed in accordance with regulatory requirements and in the best interests of investors.

Previous supervisory work and thematic reviews[3] by the Central Bank highlighted the importance of strong managerial functions, effective oversight of delegates and clear accountability for delegated activities to be retained within FMCs. Those reviews identified areas and led to enhancements to FMC governance structures, including improved documentation of oversight activities to ensure designated persons and boards maintained sufficient challenge and engagement with delegates. The findings of those earlier reviews have informed supervisory expectations and continue to shape the Central Bank's assessment of FMCs delegation arrangements.

This review has highlighted that, in general, FMCs operating a delegation model have in place good governance frameworks, controls, oversight processes and data capabilities. FMCs recognise the importance of and have implemented quality governance and decision-making, risk-management and controls in meeting their responsibility to investors and their regulatory obligations. These findings reflect the important progress that has been made over recent years including in the implementation of the Central Bank's Fund Management Companies Guidance, in meeting supervisory expectations, and responding to the demands of an evolving operating environment.

The review has also identified that there are a number of FMCs which require certain elements of their governance arrangements

[3] https://www.centralbank.ie/docs/default-source/regulation/industry-market-sectors/funds/industry-communications/dear-chair-letter---thematic-review-of-fund-management-companies-governance-management-and-effectiveness---20-october-2020.pdf

https://www.centralbank.ie/docs/default-source/regulation/industry-market-sectors/funds/industry-communications/dear-chair-letter-follow-up-on-thematic-review-of-fund-management-companies-governance-management-and-effectiveness.pdf and operating models to be enhanced. Aspects for improvement include board independence, over-reliance on group level committees, resourcing concerns, lack of contingency planning and limitations with data access. These findings have been categorised across the following themes in the body of this report: Governance, Portfolio Management, Risk Management, Delegate Oversight and Data Capabilities.

The Central Bank's findings underscore that while delegation delivers important benefits for investors and supports the optimal functioning of European capital markets, it must be accompanied by robust governance and oversight within the authorised FMC. FMCs must ensure that delegation complies at all times with legislative requirements and does not result in an erosion of responsibility or control, and that the capability, knowledge and authority necessary to oversee delegated activities effectively is retained. Strengthening oversight of delegation arrangements will continue to remain an important area of focus for the Central Bank.

Finally, it is important to note that this review has provided very useful and detailed information for the Central Bank in relation to delegation practices.

Background

Ireland is a leading domicile for investment funds in Europe and currently hosts 121 authorised FMCs responsible for the management and oversight of a broad range of funds. These FMCs operate within the regulatory frameworks established under European Union legislation, including the UCITS[4] and AIFM[5] regimes,

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[4] UCITS Regulations state that a management company shall not 'delegate its functions to the extent that it becomes a letterbox entity'.

[5] AIFMD Level 2 text sets out criteria for determining if an FMC should be considered a letterbox entity, which includes the extent of delegation of investment management functions.

which permit the delegation of certain functions, such as portfolio management and risk management, subject to defined regulatory conditions and safeguards.

Delegation has supported the development of global investment strategies and has contributed to the efficient allocation of capital in domestic, European and international economies. It allows for expertise to be harnessed and investment opportunities to be realised wherever they arise. The regulatory framework seeks to balance these benefits with the need to ensure that firms are well run and investors' interests are secured at all times. Firms are required to demonstrate that they exercise sound management and decision making and exercise sound and effective control over any function they delegate.

Recognising the importance of and benefits from delegation, provided it is done on the basis that responsibility and control is retained, the Central Bank undertook this review to gain a deeper understanding of how delegation arrangements currently operate, with a focus on the arrangements in place for portfolio and risk management activities.

The exercise also provided the opportunity to consider if individual FMC delegation frameworks are meeting supervisory expectations in line with the overarching European regulatory and the Central Bank's current guidance frameworks, specifically requirements across UCITS[6], AIFMD[7], Central Bank's FMC Guidance (CP86)[8] and Central Bank's Cross Industry Guidance on Outsourcing (CP138)[9].

[6] UCITS Regulations state that a management company shall not 'delegate its functions to the extent that it becomes a letterbox entity'.
[7] AIFMD Level 2 text sets out criteria for determining if an FMC should be considered a letterbox entity, which includes the extent of delegation of investment management functions.
[8] Central Bank's Fund Management Companies Guidance asserts that delegation 'does not reduce the FMC board's ultimate responsibility' and that it must 'at all times retain and exercise overall control of the relevant company's management.'
[9] https://www.centralbank.ie/docs/default-source/publications/consultation-papers/cp138/cross-industry-guidance-on-outsourcing.pdf

Overview of approach

To support the review, the Central Bank undertook a data gathering exercise across a sample of authorised FMCs in Ireland. This exercise comprised both a quantitative data collection and a qualitative survey designed to provide a detailed and comparable view of delegation arrangements across the sector.

This review consisted of four main components:

(i) A quantitative data request[10], issued to all FMCs, sought information on the scale and structure of delegation arrangements. This data enabled the Central Bank to develop an aggregated view of delegation practices within the sector and to identify common structures and trends.

(ii) A qualitative survey[11], also issued to all FMCs, sought more detailed information on firms' governance, oversight and monitoring practices. In particular, the survey explored the rationale for delegation, compliance with legislation, governance arrangements and details on portfolio and risk management activities.

(iii) A desk-based review of approximately 40 FMCs was conducted covering a significant portion of Assets under Management (AuM) across approximately 4,600 investment funds.

(iv) On-site inspections took place with 21 FMCs. This sample provided coverage of 40% AuM, across approximately 3,000 investment funds. Supervisors met with senior personnel at each FMC.

[10] Quantitative data request issued to 125 FMCs
[11] Qualitative survey issued to all FMCs, with Third-Party FMCs receiving a bespoke survey

Sample selection

One of the main considerations of the review was to ensure a representative assessment across the sector to include all types of operating models.

The initial phases of the review captured the total population of FMCs for both the quantitative and qualitative surveys. For the desk-based review and onsite inspections, the sample selection process considered several different FMC characteristics including:

- **Scale**: a sample of small, mid-sized and large FMCs based on AuM.
- **FMC Operating Models**: including standalone entities, entities part of a wider Group structure and third-party management companies.
- **Location of delegates:** FMCs engaging the services of a geographical mix of delegates across the EU, UK and Rest of the World.
- **Type of Investment strategies**: different types of investment strategies across a variety of asset classes.
- **Levels of Portfolio Management and Risk Management:** selection based on levels of retained and delegated activities.
- **Supervisory knowledge/experience:** leveraged supervisory knowledge to inform a sample of FMCs that indicated exposure to possible higher delegation risks.

Supervisory expectations

This review shows that FMCs are, in general, operating effective delegation frameworks in accordance with the Regulations and in line with the Central Bank's supervisory expectations and safeguarding outcomes. Our findings are encouraging and reflect the progress that has been made over recent years to evolve firms' approaches so that they are better resourced, and where strong levels of substance and decision making within the FMC is the norm. This reflects the enhanced requirements and expectations deriving from evolving regulation, the Central Bank's Fund Management Companies Guidance, and market and supervisory experiences of recent years including BREXIT, Covid-19, and geopolitical turbulence.

Set out below is a summary of the supervisory expectations that underpinned the thematic review. These are drawn from the relevant legislation and regulations and from the Central Bank's implementing standards and guidance set out in the Fund Management Companies Guidance and were, for the most part, evident in the FMCs subject to the review.

Governance

- FMCs must have sound governance frameworks in place that are fit for purpose for the business and operating model being deployed. These must ensure that the fund is well run in accordance with its strategy and that risks are effectively managed.
- The FMC Board must always ensure that the firm has not delegated its functions to such an extent that it is at risk of being unable to effectively manage the fund or exercise sufficient authority over decision making.
- Robust governance and control frameworks are critical. If these pillars are not in place, the ability of a FMC to control the fund, and oversee and monitor the delegated activities is compromised. This may adversely impact the interests of investors and the continued resilience of the funds sector.

Portfolio Management

- The Central Bank expects FMCs to ensure that effective oversight and control frameworks are in place for portfolio management activities.
- Where delegation occurs, FMCs must ensure that due diligence is completed to ensure that the delegate meets all the relevant requirements of European and Irish legislation and the relevant local rules and Guidance.
- Effective oversight frameworks must support fully informed and timely decision making by FMCs in relation to the portfolio management activity. The FMC must clearly demonstrate their active decision-making responsibility for portfolio management through documented governance processes and decisions for both delegated and retained portfolio management.

Risk Management

- The Central Bank expects that each FMC implements effective risk management frameworks that reflect the FMCs operating model, the complexity of the relevant investment strategy, and the nature and composition of the underlying portfolio of assets. These frameworks should clearly distinguish between those activities that are retained and those that are delegated.
- Where aspects are delegated, appropriate depth of verification of delegate outputs supporting FMC decision-making must be retained. The FMC must clearly demonstrate their active decision-making responsibility for risk management through documented governance processes and decisions. Access to timely and accurate data is essential for

FMCs to make a comprehensive assessment of all risk management activities.

- Importantly, where an FMC operates a delegation model, there must be a well-considered balance between portfolio management and risk management delegation so that the overall degree of delegation is not disproportionate and meets the requirements of relevant legislation.

Delegate Oversight

- The Central Bank expects FMCs to retain clear decision-making authority and control over all delegated activities. An effective delegation model is supported by a robust, documented oversight framework. This ensures that FMCs have sufficient information to exercise effective governance and make timely, informed and evidence-based decisions about delegated activities.
- FMCs should ensure that there is a clear due diligence methodology applied consistently across all delegates, including sub-delegates, with an appropriate level of on-site engagement. There should be defined objectives and triggers for due diligence of delegates, supported by consistent documented evidence trails.
- There should be a strong level of formality, depth and accountability across the oversight frameworks and FMCs should not rely solely on due diligence questionnaires or self-reporting by the delegate.

Data Capabilities

- The Central Bank expects that all FMCs ensure that they have appropriate data delivery and data management practices in place to facilitate access to timely and accurate data to support both effective decision making and oversight of delegates.

- Whilst capabilities here continue to evolve, FMCs should address any gaps which persist in strategy, integration, data governance and data reporting effectiveness that could impact the execution of their responsibilities in managing the fund portfolio.

Observations

One of the key considerations of this review was how different FMC operating models incorporate delegation practices. Three main FMC models were observed within the Irish FMC landscape. The review provided an opportunity to consider how these different models were meeting the Central Bank's expectations in relation to the requirements set out in legislation and guidance.

The main operating models observed were:

- a FMC entity delegating portfolio management activities to Group entities, while retaining risk management activities;
- a hybrid model, where the FMC utilises both group and third-party delegates to perform portfolio management, while retaining risk management activities;
- a third-party model, where the FMC delegates portfolio management activities and certain risk management tasks to multiple third-party delegates.

The thematic review found that FMCs are in compliance with regulatory requirements and largely meet our supervisory expectations. The review also identified areas that would benefit from enhanced focus. A small number of FMCs fell materially short of supervisory expectations and are now subject to appropriate time-bound risk mitigation programmes to remediate these deficiencies.

Outlined below are our findings across the key themes of this review:

Governance

For the most part, we found that the quality of governance arrangements was good across the sector. Firms recognised the importance of, and implemented, high quality governance, based on the right combination of individuals fulfilling their collective and individual responsibilities effectively. This was reflected in appropriately diverse boards who demonstrate appropriate levels of oversight and challenge.

- FMCs evidenced established governance frameworks which consisted of diverse and experienced board compositions and clear reporting lines which provide for an appropriate structure to oversee and challenge delegated activity.
- FMCs have established local committees that provide forums for regular challenge of delegate performance, review of delegate reporting and escalation of delegate-related issues. Evidence was also provided of Board challenge, awareness of role of local autonomy in decision making, awareness of risks attached to delegated model and future pipeline of business.
- FMCs leveraged group expertise, shared services and resource pools to strengthen delegate due diligence, on-site reviews and ongoing monitoring. Clear governance structures and defined roles within these arrangements ensured accountability and effective coordination of oversight activities across the group, supporting consistent delegate management.

However, some practices were observed which did not meet our supervisory expectations and will require enhancement, these include:

- For a small number of FMCs the level of board independence needs to be enhanced. This arose in particular where group influence on the board was too high, compounded at times by directors serving beyond best-practice tenure limits.
- We found examples of the need for resource enhancement, including cases where designated persons were not sufficiently senior or were performing too many roles.
- In some cases, FMCs demonstrated an over-reliance on group-level committees, where local representatives had limited influence to independently challenge delegate decisions or performance issues.
- We observed some FMCs operate with largely informal governance practices, lacking documented policies and procedures including entity-specific risk statements, which heightens the risk of inconsistent decision making and inadequate oversight of delegates.

Portfolio Management

Across the sector, we observed that where portfolio management activities are delegated, oversight was robust and generally well executed. Firms recognised the importance of, and implemented, robust delegation frameworks that were applicable for portfolio management activities. This was reflected in appropriately structured monitoring and oversight teams who demonstrated and retained effective levels of risk assessment and decision-making.

Under the theme of portfolio management, some areas where FMCs demonstrated alignment with our supervisory expectations include:

- FMCs demonstrated robust oversight processes, evidencing regular delegate engagement, detailed performance analysis, comprehensive reporting and clear escalation pathways for decision making related to delegated portfolio management activities.

- FMCs also demonstrated appropriate contingency planning, facilitating continuity of service in the event of termination of portfolio management delegates.
- For those FMCs retaining some or all portfolio management activities, they demonstrated commensurate levels of substance and resourcing for these activities.

However, some practices were observed which did not meet our supervisory expectations and will require enhancement. These include:

- Some FMCs were unable to demonstrate suitable autonomy with respect to oversight and decision making of delegated portfolio management activities.
- Some FMCs operate an unstructured approach, lacking documented procedures, performance standards and regular monitoring.
- In some instances, we observed limited attention being given to establishing explicit wind-down or transition procedures where a third-party portfolio manager is unable to continue to fulfil their mandate.

Risk Management

Risk management activity is largely retained by FMCs. Substance was observed within the FMCs, with variability of risk management activities being undertaken. Across the sector, risk management frameworks were generally well-established, with FMCs recognising the importance of comprehensive risk management practices underpinned by clear policies and procedures. This was generally reflected in appropriately resourced risk functions, demonstrating effective levels of risk identification, assessment and mitigation.

Areas where FMCs demonstrated alignment with supervisory expectations include:

- Where retained, risk management was established as a core function which enabled FMCs to maintain independent oversight, set risk limits and monitor compliance appropriately.
- FMCs demonstrated independent verification of delegated risk activities, including shadow or independent checks with real-time data access and pre-trade compliance controls. This enables FMCs to independently validate the outputs from their delegates relating to risk management.

However, some practices were observed under this theme which did not meet our supervisory expectations and will require enhancement:

- Where FMCs engage delegates to support core elements of risk management activities, governance and risk management measures require enhancement to ensure they function effectively and meet expectations set out in the Central Bank's Cross Industry Guidance on Outsourcing[12]. In some FMCs, we noted that risk management resourcing needed strengthening to ensure effective decision making and oversight of activities.
- Some FMCs were unable to demonstrate robust independent challenge or access to real-time data, relying instead on delegate reporting. Access to timely and accurate data emerged as a material differentiator in the effectiveness of risk management frameworks.

[12] https://www.centralbank.ie/docs/default-source/publications/consultation-papers/cp138/cross-industry-guidance-on-outsourcing.pdf

Delegate Oversight

Throughout the review, we observed that delegate oversight frameworks were in place, with FMCs recognising the importance of robust oversight practices supported by clear monitoring procedures and regular performance assessment. This was reflected in appropriately resourced oversight functions that demonstrated effective levels of delegate accountability, compliance and performance management.

Areas where FMCs demonstrated alignment with our supervisory expectations include:

- FMCs adopt a risk-based approach to delegate due diligence using Due Diligence Questionnaires and RAG scoring to prioritise oversight resources. Regular reporting including SLA/KPI provide ongoing visibility of delegate performance, compliance and operational status, enabling FMCs to identify emerging issues, track remediation and maintain continuous oversight.
- FMCs conducted targeted annual on-site visits across their network of delegates to assess delegate capabilities, controls, systems and personnel.

However, some practices were observed under this theme which did not meet our supervisory expectations and will require enhancements. These include:

- Instances of FMCs relying on group processes for delegate due diligence rather than conducting their own direct assessment. Relatedly, we observed instances of insufficient representation of local FMC management at group level committee considering delegation oversight.

- Insufficient involvement of Designated Persons and Operational Risk functions in delegate oversight, with some FMCs engaging group or seconded personnel.

Data Capabilities

For the most part, FMCs recognise the importance of, and implemented, robust data management practices supported by clear governance frameworks and quality standards. This was reflected in appropriately resourced data functions who demonstrated effective levels of data accuracy, accessibility and integrity.

Under the theme of data capabilities, some areas where FMCs demonstrated alignment with our supervisory expectations include:

- FMCs demonstrated an increasing awareness and use of data as a strategic asset, with data improvement programmes implemented in larger firms. Reliance on automated reporting and business intelligence tools is rising, supporting timely Management Information and compliance dashboards.
- Larger FMCs established formal data policies and procedures, including approaches to data acquisition, retention and accuracy.
- Dedicated resources to data were noted, focusing on accessibility, reliability and quality, with some FMCs having dedicated data teams in place, particularly those operating at higher scale or complexity levels.

However, some practices were observed under this theme which did not meet our supervisory expectations and will require enhancements. These include:

- A fragmented approach to data integration in some FMCs, with disparate systems for risk, investment, operations and compliance, resulting in manual data reconciliation.

- Some FMCs engaging delegates for pre/post trade controls and elements of investment and borrowing restrictions monitoring, including instances of overriding internal risk limits.
- Instances where FMCs had not established processes and contingency arrangements to manage potential data loss or interruption.

Evolving landscape and next steps

The Irish funds sector continues to navigate an increasingly complex and dynamic operating environment with a changing regulatory landscape, changing investor expectations, evolving geopolitical situation and technological enhancements. The sector's ability to adapt effectively to this context will be essential to maintaining a robust and resilient delegation operating model.

Such changes underline the importance of strong governance, and it is fundamental that the regulatory framework governing delegation arrangements evolves to remain effective and proportionate. The Central Bank is committed to a regulatory approach that reinforces and preserves the benefits of delegation by appropriately and proportionately strengthening governance, oversight, responsibility and accountability.

As such the Central Bank will engage in a review of governance arrangements for FMCs this year, including enhancements to the current framework as regards delegation, cognisant of the changing nature, scale and complexity of the sector since the last review, the risk environment and the findings from this supervisory work.

Areas in scope of the review include simplifying the guidance, simplifying and reinforcing the PCF framework for FMCs, enhancing our Governance requirements and considering how we might proportionately apply the IAF / SEAR framework to the funds sector.

Action required

All FMCs should consider the contents of this report with input from the FMC Board and conduct an analysis of the supervisory expectations and observations set out herein. FMCs are expected to put in place a time-bound plan by year end to address any gaps identified in their day-to-day operational, resourcing and governance arrangements in respect of delegation, ensuring they are in line with all relevant rules and guidance. In tandem with this, the Central Bank has commenced supervisory engagement with FMCs where shortcomings have been identified.