



Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem

Thematic Assessment:

Compliance Function in the MiFID
Investment Firm Sector

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Introduction

The compliance function is a crucial function within regulated firms, responsible for identifying, assessing, monitoring and reporting on firms' compliance risk. The establishment of a permanent, independent and effective compliance function is key to ensuring a robust governance framework and supporting the delivery of good outcomes for firms' customers.

In our 2025¹ and 2026² Regulatory and Supervisory Outlook publications, the Central Bank of Ireland (the 'Central Bank') identified weaknesses in culture, governance and risk management as key risks for the MiFID Investment Firm sector. In response to these identified risks, and in line with the Central Bank's safeguarding outcomes³, we recently undertook a thematic assessment of the compliance function across a cohort of MiFID Investment Firms. The Central Bank would like to take this opportunity to thank all firms who participated in the thematic assessment during which we found firms to be open and engaged.

Our decision to conduct this thematic assessment reflects the Central Bank's recognition of the instrumental role the compliance function plays in reducing firms' compliance risk and supporting firms in ensuring they are securing their customers' interests. This was underscored by Gerry Cross, Director of Capital Markets and Funds, in his address at the Compliance Institute AGM⁴ in January 2026 where he emphasised the essential role played by the compliance community in ensuring that firms are well-run and contributing to a

1 https://www.centralbank.ie/docs/default-source/publications/regulatory-and-supervisory-outlook-reports/regulatory-supervisory-outlook-report-2025.pdf?sfvrsn=e185651a_5

2 <https://www.centralbank.ie/docs/default-source/publications/regulatory-and-supervisory-outlook-reports/regulatory-supervisory-outlook-report-2026.pdf>

3 The Central Bank's four safeguarding outcomes are (1) Protection of Consumer and Investor Interests (2) Safety and Soundness of Firms (3) Financial Stability and (4) Integrity of the Financial System.

4 <https://www.centralbank.ie/news/article/speech-Gerry-Cross-Director-Capital-Markets-Funds-Compliance-Institute-AGM-14-January-2026>

financial system that is trusted and resilient. Furthermore, the compliance function performs a crucial task in linking the regulatory framework to the culture, approach and decision making of their firms.

The key objectives of the thematic assessment were to assess firms' adherence to the compliance function requirements set out in Article 22 of the MiFID II Delegated Regulation⁵ (Delegated Regulation) and the related ESMA Guidelines⁶. The following were the key areas of focus for this thematic assessment:

- i. Determine the adequacy of the compliance function and related compliance framework;
- ii. Assess the effectiveness of the compliance planning, monitoring and testing process; and
- iii. Ascertain the quality of compliance reporting to the board/ sub-committee(s).

Overall firms were found to have a good understanding of their obligations in relation to the establishment of an effective compliance function. The Central Bank was particularly pleased to see the active involvement of the compliance function in strategic decision-making regarding new products and business lines. Firms also appear to have well established compliance functions with appropriate levels of resources for the nature and scale of their business.

However, weaknesses were also identified that require remediation. Many firms did not have effective succession plans or contingency arrangements in place to ensure the permanence and effectiveness of the compliance function. Compliance-led training programmes were absent in some firms which may inhibit the development of a

⁵ <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32017R0565>

⁶ https://www.esma.europa.eu/sites/default/files/library/guidelines_on_certain_aspects_of_mifid_ii_compliance_function_requirements.pdf

strong compliance culture. Some firms also failed to demonstrate that they have an effective compliance monitoring programme in place. In some cases, improvements are also required in relation to the quality of board and committee meeting minutes in terms of reflecting discussion and challenge of compliance related matters.

The purpose of this industry communication is to outline the key findings from the thematic assessment and to remind firms of the related requirements and the Central Bank's expectations of firms and their boards in respect of the design and operating effectiveness of a robust compliance function. This report also sets out the Central Bank's expectations in terms of next steps that all MiFID Investment Firms should take in consideration of the findings from the thematic assessment.

Background

The compliance function in regulated firms plays a critical role in ensuring that firms comply with their regulatory obligations. They do this through establishing and maintaining appropriate frameworks, governance structures and controls to minimise the risk of firms failing to comply with these obligations. A well-functioning compliance function contributes directly to the protection of consumer and investor interests and the delivery of good outcomes for firms' customers.

The Central Bank's thematic assessment of the compliance function was conducted across a cohort of MiFID Investment Firms in two phases:

Phase 1 Request for Information Questionnaire and Desk-based Review:

MiFID Investment Firms in scope of the thematic assessment completed a request for information questionnaire and provided their compliance framework documents. A detailed desk-based

review of firms' submissions was conducted, following which a selection of firms was brought forward to Phase 2.

Phase 2 Targeted Assessment:

Phase 2 firms were subject to more in-depth assessment which included in-person meetings with the Head of Compliance to gain a deeper understanding of the compliance frameworks in place.

Summary of Findings

Firms generally demonstrated a sound understanding of the applicable regulations and ESMA Guidelines pertaining to the compliance function, however enhancements are required in several areas. A summary of the good practices and the areas for enhancement identified during the thematic assessment are outlined below.

I. Determine the adequacy of the compliance function and related framework

The Central Bank observed that firms recognise the importance of involving the compliance function in relation to strategic initiatives that could affect their risk profile as outlined in the ESMA Guidelines. The compliance function was actively engaged in decision-making processes concerning new business lines or new financial products thereby acknowledging the compliance function's input as an integral component in setting business strategy. The Central Bank was pleased to see that in many instances the compliance function was a voting member of firms' product approval committees and had appropriate committee representation across the organisation.

It was noted during the thematic assessment that firms' compliance functions appear to be adequately resourced proportionate to the nature, scale and complexity of their investment services and activities. However, the Central Bank observed varying degrees of

effectiveness in establishing adequate arrangements to ensure compliance function responsibilities are fulfilled during staff absences thus maintaining the compliance function on a permanent basis, as required by the Delegated Regulation. Specifically, several firms were unable to demonstrate robust succession plans and contingency arrangements for compliance roles or provide evidence of comprehensive skills assessments and development plans for their compliance teams. These weaknesses present a vulnerability to maintaining a permanent and effective compliance function.

Firms' compliance functions demonstrated an understanding of their advisory and assistance responsibilities with compliance training provided by all firms on a regular basis. However, there were instances where limited direct compliance-led training was delivered by the compliance function. Effective compliance training is a critical mechanism for embedding regulatory awareness, including regulatory changes, and an appropriate compliance culture throughout a firm. A visible and active compliance function, which can be evidenced through direct compliance-led training delivery, reinforces the importance of compliance and regulatory obligations across all business areas and organisational levels and signals senior management commitment to compliance and setting the 'tone from the top'. The Central Bank expects firms to ensure their compliance function is actively engaged in the design and delivery of compliance training to embed an appropriate compliance culture at all organisational levels.

II. Assess the effectiveness of the compliance planning, monitoring and testing process

The Central Bank notes most firms have established risk-based compliance monitoring programmes and have calibrated appropriate monitoring tools, methodologies, scope, and frequency to assess compliance with their obligations. The Central Bank welcomed the extension of monitoring activities beyond desk-based assessment to

include on-site inspections of business areas to verify the effective implementation of policies and procedures in practice.

In some firms, weaknesses were identified in the compliance risk assessment process. Specifically, not all identified risks were subject to regular review in accordance with the ESMA Guidelines.

Furthermore, compliance plans and the documented compliance universe lacked sufficient detail. In one instance, the firm did not prepare an annual compliance plan at all. These weaknesses impair the board/sub-committees' ability to discuss, and challenge, planned compliance activities and to monitor progress against the established plan.

An example of good practice identified in the compliance monitoring process was the linking of compliance monitoring findings to identifying training needs in specific business areas. Following delivery of targeted training, the firm conducted follow up monitoring activities to assess the effectiveness of the training. This demonstrates the value of linking compliance monitoring to business process improvement.

The thematic assessment observed that horizon scanning is in place in most firms, recognising its importance in enabling the compliance function to maintain robust compliance frameworks and fulfil regulatory obligations effectively. The Central Bank expects all firms to prioritise horizon scanning, as it enables the compliance function to prepare proactively for regulatory changes, adjust compliance frameworks in anticipation of changes, and provide the board and senior management with visibility of the evolving compliance environment to inform strategic decision making.

III. *Ascertain the quality of compliance reporting to the board/ sub-committee(s)*

The Central Bank observed that all firms within scope of the thematic assessment regularly provide mandatory compliance reports to the board and sub-committees. These reports are generally well documented, cover all relevant business units, and contain the required relevant information including a summary of reviews undertaken, findings and actions taken to address significant risks.

However, weaknesses were identified in board minutes. In a number of instances, these minutes provided insufficient evidence of substantive discussion or challenge of compliance related matters. Specifically, the Central Bank observed that board minutes did not consistently demonstrate challenge or scrutiny of the compliance reports and recommendations presented to governance forums. While appropriate compliance reporting mechanisms are in place, the Central Bank found insufficient evidence that board and committee engagement with compliance related matters was sufficiently robust to ensure effective oversight and accountability. Firms should ensure that board and committee minutes accurately capture the discussions and challenges raised at board and committee meetings.

These findings indicate that while firms have established the foundational elements of effective compliance functions, there are weaknesses in the robustness of arrangements for permanence, the depth of risk-based compliance monitoring, and evidence of quality of board oversight. The Central Bank considers these weaknesses to be significant given the compliance function's critical role in protecting consumers and maintaining financial system integrity.

Next Steps for Firms

The Central Bank expects all MiFID Investment Firms to consider the contents of this report and conduct a comprehensive self-assessment of their compliance function against the findings outlined above and the requirements set out in Article 22 of the MiFID II Delegated Regulation and the related ESMA Guidelines.

Furthermore, the Central Bank would like to remind firms of the revised Consumer Protection Code and related Guidance on Securing Customers' Interests and the Protection of Consumers in Vulnerable Circumstances⁷. The Central Bank's guidance on Securing Customers' Interests sets out that we expect firms providing MiFID services to consider and apply that guidance in the context of fulfilling their obligation to "*act honestly, fairly and professionally in accordance with the best interests of [their] clients*" in accordance with Regulation 31 of the MiFID Regulations. In addition, the Guidance on Protecting Customers in Vulnerable Circumstances should also be considered by firms when providing MiFID services. MiFID Investment Firms should consider how their compliance function can support firms in embedding these standards in their business.

Where gaps/weaknesses are identified, MiFID Investment Firms should develop and implement actions to address these in a proactive and timely manner.

The Central Bank requires this report to be discussed at the next Board meeting, and for the discussion to be recorded in the meeting minutes.

The Central Bank may engage directly with firms on the above during the course of our supervisory activities.

⁷ <https://www.centralbank.ie/regulation/consumer-protection/consumer-protection-code/guidance-on-consumer-protection-code-2025>