Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

Thematic Review

Liquidity Risk Management in the MiFID Investment Firm Sector

September 2026

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Introduction

Liquidity Risk requirements for investment firms are governed by Article 43 of the Investment Firm Regulation (IFR). The IFR, and the Investment Firm Directive (IFD), came into force on 26 June 2021. The regulatory framework is complemented by the Joint EBA and ESMA Guidelines for SREP under the IFD (the Joint Guidelines).

During 2025, the Central Bank of Ireland (the Central Bank) conducted a thematic review of liquidity risk (the thematic review) on a sample of MiFID investment firms. The Central Bank would like to take this opportunity to thank all firms who participated in the thematic review, during which we found firms to be open and engaged.

The thematic review considered whether the sample of investment firms were managing liquidity risk exposures in line with both the Joint Guidelines and the Central Bank's expectations. The firms reviewed were requested to complete a liquidity risk questionnaire and provide supporting documentation such as the Internal Capital Adequacy and Risk Assessment (ICARA), policies and procedures, and internal management information.

The overall aim of the thematic review was to establish an understanding of how the liquidity risks that these firms are exposed to are managed within firms' risk management frameworks. In this regard, the thematic review focused on two specific aspects:

I. The firms' evaluation of their exposures to liquidity risk; and

II. The adequacy of liquidity risk management frameworks in place.

This supervisory work is aligned to the Central Bank's 'Safety and Soundness of Firms' safeguarding outcome[1], which aims to ensure that firms are safely managed, financially, operationally and strategically sound enough to withstand major adverse changes in economic, financial or marketplace conditions or internal or external disruption to people, systems or processes, such that substantial harm to consumer and investor interests, financial stability or the functioning of the economy is avoided.

Overall, the sample of investment firms were found to be managing liquidity risk exposures broadly in line with the Joint Guidelines and the Central Bank's expectations. However, it was noted that there were varying degrees of maturity across firms' liquidity risk management frameworks. This report sets out both

[1] 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.

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elements of good practice identified as well as areas where enhancements are required for some firms.

The purpose of this industry communication is to outline the key findings from the thematic review and to remind firms of the related Joint Guidelines and the Central Bank's expectations of firms and their boards in respect of the design and operating effectiveness of liquidity risk management frameworks. This communication 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 review.

Summary of Findings

The main findings of the thematic review are set out below under two key headings: (i) Evaluation of Liquidity Risk, and (ii) Liquidity Risk Management. Please also refer to Appendix I for examples of good practices observed during the thematic review as well as some areas for improvement.

Evaluation of Liquidity Risk

This aspect of the thematic review examined how firms self-assessed the material liquidity risks arising from their business activities, their ability to meet liquidity needs over different time horizons, their ongoing compliance with the minimum liquidity requirement under Article 43 of the IFR, and the stability of their funding sources.

I. Assessment of Material Liquidity Risks

It is expected that investment firms perform a self-assessment of the full range of material liquidity risks that they are exposed to by virtue of their business models, and products and services offered. The analysis of material risks should be supported by detailed information outlining the controls in place to manage and ensure appropriate oversight of these risks. The assessment should be performed from both the normative and economic perspectives.

The normative perspective is a multi-year assessment of the firm's ability to meet its liquidity-related regulatory and supervisory requirements. Under the economic perspective the firm is expected to identify and quantify all material risks that may cause economic losses and deplete the firm's liquidity resources. The firm is expected to ensure that its risks are adequately covered by liquidity resources in line with the

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firm's internal approach. Both the normative and economic perspectives are expected to inform each other and be integrated into the firm's risk management framework.

Our assessment found that the **majority** of firms performed an adequate assessment of their business model and the liquidity risks arising as a result of their activities.

II. Ability to Meet Liquidity Needs Over Different Time Horizons

Investment firms should demonstrate the ability to meet their liquidity needs at all times. This is of particular importance for firms trading on own account given the increased level of intraday liquidity risk associated with this activity.

No issues of concern were noted in this aspect of the review, with **all firms** demonstrating consideration of intraday liquidity risk and its relevance to their individual businesses. The majority of firms identified intraday as a material risk and provided analysis to support this view in addition to details regarding the controls in place to manage the risk. Firms that did not consider intraday risk to be a material also provided a clear rationale for this conclusion.

III. Ongoing Compliance with the Minimum Regulatory Liquidity Requirement

As part of the analysis within the ICARA, investment firms should demonstrate the ability to maintain on-going compliance with the minimum liquidity requirement as specified in Article 43 of the IFR. This analysis should be performed from both a Business as Usual (BAU) perspective and a stressed perspective.

All firms within the thematic review clearly demonstrated the ability to ensure ongoing compliance with the minimum liquidity requirement, both in BAU and under stress. It was positive to note that a number of the firms reviewed operate to a self-determined minimum level of liquidity based on the firm's business model and underlying liquidity risk exposures. In all such cases, this minimum level of liquidity is a higher requirement than that of the IFR minimum requirement.

IV. Stability of Funding

Investment firms should identify and quantify stable funding sources within the ICARA. The assessment of the firm's funding profile should consider all information relevant to the firm, including the business model, products traded, key risks to the

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funding profile, diversification of funding sources, and the nature of funding available to the firm (e.g. committed/uncommitted).

The thematic review identified that **all firms** reviewed demonstrated consideration of the stability of their funding, with this typically being considered as part of the stress testing framework.

Liquidity Risk Management

This aspect of the thematic review focused on the adequacy of the liquidity risk management arrangements in place within the sample of firms reviewed. This included the appropriateness of the liquidity risk management framework, liquidity risk limit framework, monitoring arrangements, stress testing, and contingent funding sources available to the firms.

I. Appropriateness of Risk Management Frameworks

Our assessment of firms' risk management frameworks focussed on the design of the frameworks in the context of liquidity risk and whether these frameworks appeared to commensurate with the liquidity risk exposures of each firm. The thematic review identified that **all firms** reviewed have enacted a three lines of defence structure for the management of liquidity risk, which includes independent review and validation performed by the second and third lines, and a committee structure for reporting and escalating any issues of concern.

II. Appropriateness of Limit Frameworks

This aspect of the review assessed the limit frameworks in place for monitoring liquidity risk, including the rationale for indicators and their calibration. It was noted that **all firms** had implemented specific liquidity risk limits, although the rationale for their calibration was not always clear. For example, **some firms** provided inadequate justification for the calibration of limits used while others had not built in buffers/early warning indicators into their thresholds.

III. Monitoring Arrangements

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Investment firms are expected to establish monitoring arrangements that allow the firm to identify any liquidity shortfalls before they occur in order for the firm to take action(s) to address these shortfalls.

Overall, monitoring arrangements implemented by the firms reviewed appeared adequate with respect to the liquidity risk exposure for each firm. The **majority of firms** reviewed conduct daily monitoring of their liquidity positions.

IV. Stress Testing Frameworks

Stress scenarios utilised by investment firms should consider the firm's self-identified material liquidity risks and be supported by realistic assumptions. Stress testing should be conducted from both the normative and the economic perspective. The thematic review identified that the **majority of firms** had developed appropriate frameworks with stress tests clearly aligned to the firm's self-assessed material liquidity risks and conducted from both the normative and economic perspective. However, **some firms** provided insufficient detail regarding the impacts of stress scenarios on the firm's liquidity position.

V. Contingent Funding Sources

The thematic review considered contingent liquidity actions available to the firms reviewed to address any potential shortfalls. Overall, it was noted that there is a high level of reliance on funding from affiliate entities to meet any stressed liquidity requirements. For some firms it was noted that contingent funding (including that from affiliates) is uncommitted in nature, giving rise to the potential risk that this funding is not made available in a stressed scenario.

Next Steps for Firms

The Central Bank wants to see financially resilient firms that have established frameworks to enable them to appropriately manage the risks that they are exposed to, minimise these exposures, and protect both their customers and the integrity of the financial system.

In considering the findings from this thematic review on a sample of firms, the Central Bank expects all investment firms and their boards and senior management to revisit the Joint Guidelines to consider their adherence to same.

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Where gaps or weaknesses have been identified, firms should develop and implement actions to address these in a timely and proactive manner. The Central Bank would like to emphasise the responsibilities of the board and senior management when considering liquidity risk as part of an investment firm's overall risk management framework, in order to ensure the financial resilience of the firm. Boards and senior management should ensure that risk management frameworks are well designed, are operating effectively, and are sufficiently robust.

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.

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Appendix I – Good Practices and Areas for Improvement

I. Assessment of Material Liquidity Risks

Good Practice

- The majority of firms presented clear analysis of the firm's business activities and the level of resulting liquidity risk exposures within the firm's ICARA.
- The material risk assessment conducted by some firms considered broader risks or events that could lead to potential outflows of liquid resources, such as regulatory fines, legal claims, HR risk, and the loss of intellectual property rights.
- In cases where liquidity risk exposure was considered minimal or immaterial due to the nature of a firm's business activities, clear rationales were evident from the firm's ICARA.

Areas for Improvement

- Some firms' ICARAs included limited detail on liquidity risk exposures and their impact on the firm.
- Some firms did not provide analysis as to how liquidity risks impact the firm from both a normative and economic perspective.

II. Appropriateness of Risk Management Frameworks

Good Practice

- Some firms provided a clear elaboration of the firm's risk appetite for liquidity documented in the Risk Appetite Statement.
- Some firms evidenced that their liquidity risk appetite was calibrated based on the firm's self-determined minimum liquidity requirement.

Areas for Improvement

- A small number of firms provided insufficient information in the risk register on liquidity risk exposures.

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- A small number of firms provided insufficient information within the firm's risk register on liquidity risk controls.

III. Appropriateness of Limit Frameworks

Good Practice

- Some firms set limits clearly reflective of the firm's business model and/or funding model.
- Some firms demonstrated that their limits aligned to the output of internal stress testing and the firm's economic assessment of minimum liquidity needs.

Areas for Improvement

- Some firms provided inadequate justification for the calibration of limit thresholds.
- There were instances of firms using the same thresholds for the firm's liquidity metric as the own funds metric, with no rationale for the appropriateness of this approach.
- Some firms provided liquidity limits with binary (i.e. '0' or '1') thresholds, with no buffers or associated Early Warning Indicators.

IV. Stress testing Framework

Good Practice

- The majority of firms developed stress tests clearly aligned to the firm's self-assessed material liquidity risks.
- The majority of firms are conducting stress testing from both the normative and economic perspectives and considers the ability to ensure compliance with both the minimum liquidity requirement under IFR and the firm's self-assessed minimum level of liquidity.
- Some firms have also produced by reverse stress test scenarios to complement the ICARA stress tests in place.

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Areas for Improvement

- Some firms only conducted liquidity stress testing from the normative perspective, with no consideration of the economic perspective
- Some firms provided limited details regarding the impacts of stress scenarios on the firm's liquidity position

V. Contingent Funding Arrangements

Good Practice

- Some firms have additional contingent funding actions available to them in addition to affiliate support, such as pledging of assets, use of repo, sale of sovereign bonds held by the firm.
- Some firms have produced a firm-specific contingency funding plan.

Areas for Improvement

- Some firms have not established any formal contingent funding.
- Some firms have confirmed that they do not have any external funding sources/facilities.
- Some firms contingent funding actions are focused on reducing expenses, rather than representing a source of additional liquidity.
- Some firms have presented no credible contingent funding options outside of parental support.

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