

Central Bank of Ireland clarifies its Priorities and Focus

The Central Bank of Ireland (the “CBI”) published its second annual “Securities Markets Risk Outlook Report” (the “Report”) in February 2022. This is designed to inform stakeholders of the key risks perceived by, and areas of focus for, the relevant section of the CBI, the Securities and Markets Supervisory Directorate (“SMSD”), in 2022. It also seeks to assist regulated entities by setting out its expectations regarding their responsibilities for mitigating and managing relevant risks.

Background

The Report notes the general environment with covid uncertainty, technological change and the transition to a carbon neutral environment all being macro factors. Market stresses and increased debt levels have resulted in concerns relating to stretched asset values and increased appetite for risk in a search for yield. The CBI has clarified that it views its supervisory mission as being to ensure observance of five key principles: investor protection, product transparency, strong governance, market trustworthiness and resilience. The firms it regulates are expected to have ongoing regard for these overarching principles.

Key Risks Identified

Having given a review of developments over 2021, the Report highlights 8 key risk areas identified for the year ahead as well as a series of expectations for firms to demonstrate the addressing of associated concerns:

- Misconduct risk: broad in scope. Main focus on market abuse and trading outside mandates.
- Sustainable finance: both general compliance with the SFDR and related legislation as well as “greenwashing” concerns.
- Governance: includes the nature of board oversight, governance structures and due diligence conducted on service providers. The Report notes concerns pertaining to some key trends including self-managed funds converting to external management and “advisors” acting as de facto managers.
- Conflicts of interest: in the context of connected party transactions in particular.

- Financial innovation: leading to a growth in retail investing and new products but there are concerns that this may be facilitating an increase in financial scams as well as heightening concerns around the influence of, often unregulated, third parties.
- Data: GDPR (again!) and related concerns.
- Cyber security and related operational resilience (already the subject of CP 140).
- Market dynamics: in particular related volatility. Further focus on liquidity and leverage, already a concern in recent years.

Supervision Priorities for 2022

The Report notes that priorities will include completing the Common Supervisory Action (“CSA”) on fund valuations and that on UCITS Costs and Fees. This will be supplemented by targeted risk assessments and triggered supervisory actions where required. There will be a defined work plan in conjunction with the enforcement section, which indicates a more aggressive approach to that adopted historically. As well as the CSAs additional international co-operation and continuing development of data infrastructure are also planned.

Next Steps

Firms would be well advised to review their policies to ensure consistency with the advisory elements of the Report and, where deficiencies were identified, to seek to timetable remediation of the necessary elements in their own work plans for 2022. Going forward, incorporation of analysis of this now annual report and inclusion of its provisions would be advisable as best practice.



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