



Fund Management Company Guidance

**"CP86" Thematic Review Findings
and Required Actions**

Your Partner For What's Next

CP86 Thematic review - Findings

- ▶ On 20 October 2020, the Central Bank of Ireland ("the Central Bank") published the outcome of a thematic review of the effectiveness of fund management companies (UCITS Managers and AIFMs, including self-managed UCITS/AIFs).
- ▶ The requirements were introduced in 2017 for new firms and in 2018 for existing firms, after an iterative period of consultation which commenced in 2015. These requirements, or this 'framework for governance, management and oversight in fund management companies', are commonly referred to within the industry as "CP86".
- ▶ The Central Bank has satisfied itself that "CP86", when correctly embedded, provides a framework of robust governance and oversight arrangements.

A Matter of Priority:

- ▶ The Central Bank's expectation was that existing firms had been compliant since 2018, however, it was found that a significant number of firms have not implemented a governance framework to the standard set out by CP86, particularly those firms that were authorised pre-CP86.
- ▶ The Central Bank has warned that follow ups with firms where shortcomings were identified will be conducted and that this is not a one-off review.
- ▶ All fund management companies are required to critically assess their daily operations against the requirements, while taking into account the findings of the review, and implement the necessary changes to ensure full adherence to CP86. This assessment should be completed and an action plan discussed and approved by the Board by the end of Q1 2021.

// Too many firms evidenced significant shortcomings. The lack of attention to issues that affect good governance is unacceptable and raises serious concern for the Central Bank //

**Director General of Financial Conduct,
Derville Rowland.**



Resourcing

Many companies did not meet the expectation of at least 3 suitably qualified FTEs, thus failing to demonstrate effective management and oversight.



Designated Persons

Significant shortcomings were identified in how some Designated Persons carry out their role, including inadequate quality reviews and insufficient support and time allocated to discharge responsibilities.



Delegate Oversight

Some companies were unable to evidence that appropriate due diligence/review had been carried out on delegates initially and on an on-going basis, with some not having formal SLAs documented.



Risk Management Framework

A high level of over-reliance on Group was found. Each company is required to have a local Risk Appetite Statement and Risk Register which are relevant to their operations.



Board approval of new funds

Not all companies could evidence approval by the Board of the launch of sub-funds, or in cases of approval, insufficient time was dedicated to discussion and challenge of these.



Organisational Effectiveness Director ('OED')

In many cases, it could not be demonstrated that the OED acts as a change leader due to lack of Board reporting, evidence of resource evaluation and formal records of meetings with Designated Persons.



Governance and Culture trends identified

A significant gender imbalance was found, with only 16% of Director roles held by women. In addition, it was found that the majority have not appointed a CEO and that some INEDs have excessive tenures.

High-level Thematic Review findings – some example questions for your consideration

RESOURCING		Are you sufficiently resourced / have a plan to remedy resource constraints?
1	Lack of traditional governance structures in many fund management companies (including CEO in situ).	
2	Absence of frequent/scheduled Board member rotation and evidence of excessive INED tenure (over 10 years).	
3	Time commitments of Directors and Designated Persons are below Central Bank expectations, with an absence of Board-specific Terms of Reference.	
4	Resourcing levels – managerial and support staff – lower than expected. Co-mingling of support staff working on both Investment Management Risk Management functions. Lack of documented succession plans.	
5	Inadequate support available to Designated Persons.	
DESIGNATED PERSONS		Do you have at least three FTE located in Ireland?
1	Deficiencies in how Designated Persons discharge their roles, particularly in level of independent verification performed and review of information by Designated Persons and inadequate challenge of delegates.	
2	Lack of clearly defined thresholds for Board escalation & poor quality of reporting.	
DELEGATE OVERSIGHT		Do you continually assess the appropriateness of designated persons?
1	Inconsistent application of due diligence to delegates, at on-boarding and especially on an on-going basis.	
2	Over-reliance on group-wide framework, policies and procedures, with a lack of evidence of review.	
3	Over-reliance of delegate policies and procedures and an absence of review of same & lack of effective engagement with delegates.	
RISK MANAGEMENT FRAMEWORK		Do you do adequate due diligence of delegates which is tailored to the type of delegate?
1	Absence of entity-specific Risk Management Framework, Risk Appetite Statement and Risk Register.	
2	Over-reliance on group-wide framework, policies and procedures.	
BOARD APPROVAL OF NEW FUNDS		Do you have an entity specific risk management framework?
1	Board minutes are not sufficiently detailed to demonstrate robust discussion and challenge.	
2	Necessary reviews – Board effectiveness evaluations; Board composition; and INED tenure – are not formally conducted, recorded and reported.	
3	Lack of Board approval of new funds, or, in some instances being approved too close to launch.	
4	Gender imbalance at Board level.	
ORGANISATIONAL EFFECTIVENESS DIRECTOR ('OED')		Do you have a CEO appointed?
1	Weaknesses across many fund management companies in how the Director for Organisational Effectiveness ("OED") performs the role.	
2	Absence of formalised meetings between OED and Designated Persons.	
3	Failure to take adequate consideration of conflicts of interest and personal transactions into account.	
4	Failure to carry out necessary analysis of resources or demonstrate how resource levels are determined.	
5	Lack of formalised Board reporting by OED.	
GOVERNANCE AND CULTURE TRENDS IDENTIFIED		Does the board receive CP86 reporting?
1	Many companies have not appointed a CEO.	
2	28% of companies have at least one INED with a tenure greater than 10 years.	
3	There is significant gender imbalance with just 16% of directors being female.	
Is the tenure of INEDs sufficiently monitored?		Have you appointed an OED?
Do you have a Diversity Plan in place?		Do regular formal meetings between the OED and designated person take place?

CP86 - How KPMG can assist

Our CP86 team is a blend of Regulatory and Risk experts who have worked in regulatory policy, supervision and enforcement divisions of the Central Bank and have extensive experience in providing assistance to our clients on CP86 challenges from implementation to compliance. Our blended team will give you the right level of regulatory and risk experience which is key to embedding your CP86 framework and ensuring on-going compliance with the Central Banks requirements. We can assist you with addressing the Regulator findings or we can complete an independent review to ensure you are addressing all of Regulator findings and compliant with CP86.

How can we help you?

01. Perform a Gap Analysis & Impact Assessment:

- ▶ We can complete an assessment of your CP86 compliance / we can independently review the gap analysis completed by you. We also designed a self-assessment questionnaire. We would be delighted to discuss this with you.
- ▶ We will use our purposely built CP86 gap assessment tool to highlight areas of weakness and prioritise actions using our risk base scorecard

02. Overarching Governance & Risk Framework review:

- ▶ We can assess your overarching Governance and Risk Management Framework to ensure it is adequately designed and fully considers the local regulatory environment
- ▶ We can assist you with the assessment of the design and operating effectiveness of your CP86 framework to ensure it is fit for purpose for continuous compliance with CP86

03. Overall CBI response, Board readiness and project management:

- ▶ We can develop / review your plans to address the findings and manage multiple stakeholders
- ▶ We can complete an assessment to ensure your programme is meeting Regulator expectations
- ▶ We can complete a Board readiness assessment prior to Board sign-off

04. Remediation assistance

- ▶ We can assist you address any weaknesses / issues identified and in particular in response to an RMP you may have received from the Regulator
- ▶ We can assist you with implementation of these remediation plans or assessment to determine if they are addressing the Regulators expectations

Sample outputs:



Gap analysis & Impact assessment

We will use our purposely built CP86 tool to support completion of a gap analysis & impact assessment.



Project support

We can support you throughout your project to ensure you achieve the tight regulatory deadlines



Reporting

We can provide you with an independent report articulating key findings / gaps and assessment of remediation effort and proposed project plan for your Board (Board Readiness Assessment)



Contact Us

Begin your action plan by having a conversation with our CP86 team.



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