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Central Bank of Ireland Letter on Liquidity Risk Management

The Central Bank of Ireland ("**Central Bank**") has written to fund management companies regarding the importance of effective liquidity management.

On 7 August 2019, the Central Bank wrote to chairs of fund management companies reminding them of the importance of effective liquidity management and to observe their obligations under the UCITS Directive and the Alternative Investment Fund Managers Directive ("**AIFMD**"). A fund management company is defined in the letter to include: a UCITS management company; an authorised alternative investment fund manager ("**AIFM**"); a self-managed UCITS investment company; or an internally managed alternative investment fund ("**AIF**") which is an authorised AIFM.

The Central Bank states that the letter forms part of its ongoing work and engagement with the Irish funds industry on Brexit preparedness. Liquidity management has been the subject of regulatory focus of late following the recent suspension of the Woodford Equity Income Fund in the UK and the publication of the European Securities and Markets Authority ("**ESMA**") guidelines on liquidity stress tests for investment funds.

In the letter, the Central Bank highlights a number of factors as playing an important role in liquidity management.

- Each fund should operate under a **liquidity risk management framework** that takes into account: (a) dealing frequency; (b) investment strategy; (c) portfolio composition; and (d) investor profile, on an ongoing basis. This could involve both daily and intra-day supervision if necessary.

- **Liquidity stress testing** should allow for the fact that individual asset liquidity and investor demands can change quickly and without warning.

- **Liquidity management** mechanisms such as duties, charges, gates and suspensions should be used transparently and proportionately.

- The responsibility for liquidity risk management, including compliance with all legislative and regulatory obligations in relation to the liquidity of each fund under management, should be overseen by the board of the fund management company, individual directors and relevant designated persons. They should ensure, on an ongoing basis, that the liquidity of a fund's investment portfolio is consistent with its redemption policy and takes into account investors' redemption demands.

- **Fund documentation** should be clear, accurate and consistent with legislative and regulatory obligations.

As part of its Brexit preparedness work, the Central Bank is continuing to collect relevant data and monitor investment fund liquidity in this regard. The Central Bank asks that the letter be brought to the attention of all members of the board, relevant designated persons and to the relevant persons within delegate fund service providers. The Central Bank will have regard to the contents of the letter as part of future supervisory engagements.

Arising from the letter and recent international regulatory focus on this issue, the designated person responsible for fund risk management should undertake a review of their risk management framework to take account of the issues highlighted in the industry letter and the ESMA consultation.

Please get in touch with your usual Asset Management and Investment Funds Department contact or any of the contacts listed in this publication should you require further information in relation to the material referred to in this update.

Full details of the Asset Management and Investment Funds Department, together with further updates, articles and briefing notes written by members of the Asset Management and Investment Funds team, can be accessed at www.matheson.com.

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