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Dear Chief Executive Officer

The Central Bank of Ireland (the **Central Bank**) has today published its Regulatory and Supervisory Outlook (**RSO**) for 2025. This annual report sets out the Central Bank's view on risks and priorities across the whole of the financial sector in the context of our regulatory and supervisory mandate.

We hope it proves useful for you, your board and your senior leadership team to understand the Central Bank's view of the risk landscape, our supervisory expectations as well as what can be expected in terms of the Central Bank's supervisory work for the coming period.

Similar to last year, the purpose of this letter is to draw the RSO to your attention and outline our regulatory and supervisory priorities for 2025. This year we are also providing you with a high-level overview of the recent changes to our supervisory model.

Background

The Central Bank's mission is to serve the public interest, by maintaining monetary and financial stability while ensuring that the financial system operates in the best interests of consumers and the wider economy. Our financial regulation remit is wide and expanding, covering more than 13,000 entities across a range of sectors providing financial services in Ireland and overseas.[1]

We are enabled in delivering our mission by robust and proportionate regulatory frameworks. While these frameworks play an important and necessary role, on their own they are not enough – and must be complemented by effective risk-based supervision. An effective supervisory approach is critical to addressing the increasingly connected and complex risk landscape within, across and outside of the financial system. In the face of this increasing complexity and interconnectedness, we are further integrating our approach to supervision, as outlined below.

[1] This figure includes approximately 9,000 investment funds. In this letter, the terms "regulated entities", "firms" and "institutions" are used interchangeably.

Macro environment

This year's RSO report is set against the backdrop of an increasingly fast-moving, uncertain world, which is being shaped by a complex interplay of geopolitical, economic, technological and environmental forces.

While the global economy is stabilising following several years of overlapping negative shocks, momentum on reducing inflation is slowing and the near term growth outlook remains weak in many countries, with some facing significant fiscal challenges. Considerable uncertainty remains on the future path of economic growth, inflation and monetary policy globally, although the expectation is that interest rates will stay higher for longer relative to pre-pandemic levels.

The current geopolitical situation is characterised by ongoing tensions, regional conflicts and global power shifts. A further escalation in any of these areas of concern or other such developments could trigger a cascade of adverse economic, financial market, supply chain and operational impacts. Despite this highly uncertain backdrop, financial markets have been performing strongly. However, sentiment is fragile and market volatility can rise quickly. It is in this context that we have set our regulation and supervision priorities for the year ahead.

Supervisory Priorities

The industry wide supervisory priorities and outcomes we seek to deliver at a headline level remain, as set out in last year's report and are as follows:

> **Priority Outcome 1: Proactive risk management and consumer-centric leadership of firms.** The leadership of regulated entities adopt a more proactive and forward-looking approach to managing the risks and uncertainties facing their organisations and their customers.
>
> **Priority Outcome 2: Firms are resilient to the challenging macro environment.** Regulated entities should have sufficient operational and financial resources, adaptability and recoverability, to be resilient and well-prepared in the face of risks in the macro environment, economic and financial market uncertainty and fragile sentiment. This is particularly important given the breakdown in previously stable international relations, protectionism, and other political, technological and environmental developments. This also includes being mindful of the consequences of this environment for their customers who may face financial difficulty and vulnerable circumstances, and provide adequate support to them.

Priority Outcome 3: Firms address operating framework deficiencies. Deficiencies identified in the governance, risk management and control frameworks of regulated entities are addressed to ensure they are effective, both in the current environment and into the future.

Priority Outcome 4: Firms manage change effectively. Regulated entities should keep pace with changes in the financial system and consumer needs and expectations through the well-managed evolution of their business strategies. The adequacy of firms' investment in, and their ability to adapt to, rapidly developing technology will have consequences for firms' business models, their interaction with consumers, their operational resilience, resource contention, and cost profile.

Priority Outcome 5: Climate change and net zero transition are addressed. Regulated entities must continue to improve their responsiveness to climate change, the implications for their businesses and customers, and they must manage its impact and enhance their role in the transition to a net zero economy.

These supervisory priorities apply across all sectors and to the different aspects of the Central Bank's financial regulation responsibilities. They frame and complement our more detailed supervisory strategies for the different sectors of the financial system.[2]

Our sixth priority relates to the Central Bank's own approach to regulation and supervision. Namely:

Priority 6: The Central Bank enhances how it regulates and supervises. We continue to improve and transform our approach to regulation and supervision to ensure that we can continue to fulfil our mission in a rapidly changing financial ecosystem. This includes continuing to enhance authorisation processes, continuing to develop a proportionate, responsive regulatory framework and evolving our supervisory approach.

Supervisory Approach

In pursuit of this objective, our new supervisory framework became effective in January 2025. The new supervisory approach remains outcomes-focused and risk-based, and builds on our existing supervisory principles and practices. Further information on our new approach has been set out in our recently published 'Our Approach to Supervision' document.

[2] More detail on our sectoral priorities is set out in the RSO 2025.

Under the framework, we consider the financial system as consisting of three overarching industry categories based on related products and services: Banking & Payments, Insurance, and Capital Markets & Funds. Each category contains a number of sectors covering all supervised entities. Each sector is supervised in an integrated, holistic way with a multi-year supervisory strategy. These strategies are informed by our supervisory priorities and articulate the targeted outcomes we seek to achieve, and the proportionate supervisory or regulatory actions we will take at a sectoral, or individual firm level.

Our supervisory work is informed by a structured process to facilitate the identification and prioritisation of risks, threats and vulnerabilities. We take an integrated approach to the prioritisation of risks, where we focus on those risks most likely to threaten the delivery of our safeguarding outcomes[3] and/or those risks significantly beyond our risk tolerance levels.

We deliver supervision through a broad range of supervisory actions and interventions, which are used to prevent or mitigate risks posed to our safeguarding outcomes. These actions and interventions, range from awareness and expectation setting activities, to programmatic supervision with individual firms and sectors, escalating to policy and/or enforcement and resolution actions.

We expect this year to be a year of dialogue about our new approach as part of supervisory engagements with firms and sectors, as both your firm and the wider system becomes more familiar with its implementation.

Finally, the integrated nature of our mandate as a central bank and regulator with European and international responsibilities remains unchanged. We continue to be part of the European System of Financial Supervision (ESFS)[4] as well as being part of European Central Bank Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM).

[3] Our four safeguarding outcomes are; the protection of consumers and investors interests, the integrity of the financial system, the safety and soundness of firms, and financial stability.

[4] The ESFS is a network centred around the three European Supervisory Authorities (ESAs), the European Systemic Risk Board and national supervisors.

Key Regulatory Initiatives

In addition to these supervisory priorities, we have a number of regulatory initiatives in 2025. These, amongst others, were outlined recently to the Minister for Finance in Governor Makhlouf's Financial Regulation Priorities letter in February 2025, and include a number of cross cutting priorities:

Finalisation of the revised **Consumer Protection Code** to ensure consumers are protected in a more digitalised financial services sector. This will include continuing to engage with stakeholders ahead of the Code being finalised and published this year;

Implementation of the **Markets in Crypto Assets Regulation (MiCAR)**, including engaging with firms seeking authorisation and furthering our work to raise awareness of the risks related to crypto for consumers;

Ensuring firms have effective governance underpinned by strong ethical culture and robust systems of delivery. This will include continuing to embed the **Individual Accountability Framework** for in-scope firms (including the extension of the Senior Executive Accountability Regime to (independent) non-executive directors) and supporting external stakeholders through ongoing engagement; and

Enhancing operational resilience, including cyber-related resilience, across the financial sector, in particular through the effective implementation of **Digital Operational Resilience Act (DORA)**.

In a number of areas we will also be working closely with other public sector stakeholders, in particular the Department of Finance. This includes working with the Department to implement the National Payments Strategy, the Financial Literacy Strategy and the recommendations from the 2023 Funds Review.

In relation to European and international developments, in addition to our own activities across the European Supervision of Financial Regulation and with international standard setters, we will continue to support the Department in EU financial services files, in particular in the areas of banking, payments and asset management. This includes progressing proposals related to the Savings and Investments and Banking Unions, both of which remain important for Europe's long-term economic resilience and success.

In addition, we will be proactively engaging, domestically and internationally, with the regulatory simplification agenda. However, in any drive to simplify, we will call out the risks should the legitimate aims of simplifying frameworks go too far, and we will ensure that we do not compromise on delivering the stability, resilience and protections that consumers and the wider economy needs – and indeed the public expects.

We hope this letter, and our new Regulatory and Supervisory Outlook, are helpful in articulating our priorities and view of the risk landscape for the year ahead.

Yours sincerely,

Mary-Elizabeth McMunn	Derville Rowland
Deputy Governor, Financial Regulation	Deputy Governor, Consumer & Investor Protection