

Central Bank of Ireland Virtual Funds Industry Engagement Event

COVID-19 Impact on the Funds Industry

Friday 25 September, 14:30 – 16:30

Agenda Item 1: Welcome & brief introduction by Central Bank

Speaker: Derville Rowland, Director General, Financial Conduct

Time Slot: 14:30-14:40

Good afternoon everyone, thank you for joining us for this virtual funds industry engagement event. I am joined here today by my colleagues:

- Gerry Cross, our Director of Financial Regulation / Policy and Risk, and Asset Management Supervision;
- Colm Kincaid, our Director of Securities and Markets;
- Vasileios Madouros, our Director of Financial Stability; and
- Mark Cassidy, our Director of Economics and Statistics.

The purpose of this event is to gain insights from key firms and representative bodies, on your experiences, lessons learned and vulnerabilities identified from the Covid-19 crisis. This is also an opportunity for the Central Bank to provide our views on the crisis and set out our key supervisory and policy priorities for the funds sector.

As you are aware, the Covid-19 pandemic has led to a collapse in global economic activity and has had a significant impact on financial markets. At the outset of the crisis, risk aversion in financial markets reached levels not observed since the global financial crisis of 2008¹. This translated into higher yields and spreads on risky assets, broad liquidity challenges and safe haven assets coming under strain².

We acknowledge that funds sector broadly demonstrated sufficient operational resilience throughout the Covid-19 pandemic, however the episode has highlighted certain vulnerabilities and it is recognised that market instability reduced only after substantial non-standard monetary policy support from European Central Bank and other global central banking authorities.

As a result, it is apparent to regulatory authorities that these vulnerabilities need to be looked at. Therefore, further work is required to demonstrate that the funds sector is effectively managing the risks to which it is exposed, particularly in relation to leverage, liquidity and

¹ Source: [OECD Policy Responses to Coronavirus \(COVID-19\): Global financial markets policy responses to COVID-19](#)

² Source: [Financial Stability Review 2020: I](#)

valuation uncertainty and ultimately that the sector is not amplifying risks to the wider financial system.

Let me share with you a number of reflections which hopefully you will have an opportunity to further discuss during the course of this session. Governor Makhoul articulated our approach well when, in a speech in June, he explained that *“At the Central Bank, we have been working with international counterparts, including at fora such as the FSB, ESRB, ESMA and IOSCO to not only ensure a coordinated international response to the recent COVID-19 shock to market functioning, but also on how to build resilience in this part of the financial system over the medium-term. Given the cross-border and interconnected nature of this form of financing, international cooperation is a key element of our work to fully understand the nature of the risks from a macroprudential perspective.”*

1. With this in mind, at international level, we have seen the Financial stability Board (FSB) identify reinforcing the resilience of non-bank financial sector as a key priority and signalled understanding potential risks, risk transmission and policy implications for sector is more important than ever. We see this as a significant development and expect this to be a key area of focus for the FSB when considering post crisis measures. By November, the FSB plans to carry out what they describe as a holistic review of the market conditions in March;
2. Partly in response to this, IOSCO reprioritised its work programme in April and is now examining the impact of Covid-19 on the funds sector in conjunction with the FSB. The Central Bank is actively participating in a number of these discussions including the group which organises IOSCO’s interactions with the FSB on these topics;
3. At a European level we have also seen increased activity at ESMA and the ESRB on these matters, both in terms of immediate crisis response but also a shifting of priorities to ensure risks identified are mitigated.

In addition to the conduct and prudential regulatory focus, the dynamics observed at the outset of the market turbulence have also highlighted the importance of developing and operationalising macroprudential tools for the investment fund sector. This is an area of significant importance for the Central Bank given Ireland’s position as the sixth largest centre for Non-bank Financial Intermediation activity globally. At an online event hosted by Bruegel³ in June, our Governor noted that, together with our international colleagues, the Central Bank is committed to *“developing and operationalising a more comprehensive macroprudential framework to safeguard financial stability”*⁴.

Underpinning liquidity and risk management is ensuring adequate resourcing for Management Companies. The EU passporting system and cross border activity operates on the basis of trust between home and host countries and therefore trust that common, high quality standards are applied. There must be confidence and trust such that investors in one jurisdiction feel confident to invest in products from another jurisdiction. As an entry point to the European Union, the importance of Irish Management Companies being effective in meeting their obligations and

³ Bruegel is a think tank devoted to policy research on economic issues.

⁴ [Making the case for macroprudential tools for the market-based finance sector: lessons from COVID-19 - Governor Gabriel Makhoul](#)

delivering good outcomes for investors cannot be understated. A core component of this is the need for good governance arrangements and that Management Companies are entities of substance which have resources available to ensure that the firm is operating effectively and forward planning, in normal periods and times of market stress. We will be communicating further on these matters over the coming weeks but let me just say that it is a shared responsibility to ensure Ireland's financial sector is well regarded at home and abroad. Firms which do not meet expectations in terms of governance and resourcing hamper those efforts.

My colleagues will expand on the Covid developments during today's session, which will be split into three parts covering:

- 1) Macrofinancial perspective on Covid-19 and the funds sector , which will be led by Vas;
- 2) Reflections from our supervisory engagements during Covid market events, which will be led by Colm; and
- 3) Potential future policy developments, which will be led by Gerry.

There will be time for discussion on each part of the session and we encourage all participants to actively engage and contribute to these discussions.

Finally, let me say that I hope this is a productive and informative session. I will now hand over to Gerry to run through some housekeeping issues.

Thank you.