

ADVISORY | INDUSTRY INFORMATION

Central Bank Industry Letter on asset valuation

On 14 December 2023, the Central Bank of Ireland (the "Central Bank") published its [industry letter](#) on asset valuation (the "Industry Letter"), following on from ESMA's final [report](#) on its 2022 common supervisory action on valuation (the "CSA")(the "ESMA Report"). Firms should consider the contents of the Industry Letter, in conjunction with the ESMA Report to determine if any action is required to be taken.

The CSA mandated the Central Bank to investigate Irish fund management companies ("Firms") as regards:

1. compliance with the asset valuation rules under the respective UCITS and AIFM Directives/Regulations;
2. adherence to valuation principles and methodologies (with a view to reflecting a true and fair view of their financial positions both under normal and stressed market conditions in line with applicable rules); and
3. evaluating how Firms' policies and procedures worked during the COVID-19 pandemic.

The Industry Letter notes that the majority of the Firms in the sample were able to demonstrate adherence to the relevant legislation and supervisory expectations as outlined in the scope and assessment framework of the CSA, albeit the Central Bank noted for the vast majority of Firms deficiencies in the quality and detail of the information initially provided by Firms required the Central Bank to conduct follow-up engagement to gather further evidence and information.

The Central Bank did identify a 'significant minority' of Firms who could not evidence compliance with the expectations of the Central Bank and the legislative requirements, and confirmed that risk mitigation programmes ("RMPs") were issued to a number of Firms. The Central Bank has further indicated that they expect senior management within Firms to review all information before submitting this to the Central Bank, due to ongoing issues with the quality of submissions. This is an important consideration for senior management taking into account the introduction of the Individual Accountability Framework commencing from the 29 December 2023.

The Industry Letter outlines in further detail a number of key findings, observations and actions which should be considered by Firms (in conjunction with the ESMA Report), in the following areas:

Findings

1. **Use of group asset valuation policies and procedures:** The Central Bank noted that some Firms continued to rely upon group valuation policies and/or procedures with limited or no reference to their Irish operations, which may lead to inaccuracies in the valuation process in the context of the relevant Firm, its compliance with the local regulatory environment, and the operational roles and responsibilities of those involved with the Irish asset valuation process at the Firm.
2. **Lack of formal asset valuation error procedures:** The Central Bank identified Firms which either, did not have standalone valuation error procedures, or whose procedures were insufficiently detailed, for example, by not addressing how the Firm would revalue, recalculate and resettle affected transactions or investor compensation.
3. **Poor quality of asset valuation policies and procedures:** A minority of Firms were identified as having had poor asset valuation policies and procedures, and noted that extracts from fund documentation and/or operations manuals are not a substitute for a standalone policy, which clearly outlines the operational tasks and responsibilities for all parties involved.
4. **Limited evidence of periodic reviews:** The Central Bank found that a majority of Firms could not demonstrate the performance of periodic reviews of their asset valuation policies and procedures, with no documented evidence of review, document version control and an absence of a clear governance process to conduct such reviews.

Observations

1. **Liquidity stress testing:** The Central Bank reminded Firms that the results of stress testing and scenario analysis should be incorporated into liquidity management frameworks and decision making.
2. **Independence of the asset valuation function at Firms:** The Central Bank reiterated that Firms should ensure clear segregation of roles and independence within the valuation function.

Actions required

1. **Policies and procedures:** Firms should have documented, comprehensive and entity specific asset valuation policies and procedures which clearly outline the operational roles and responsibilities for all parties involved in the asset valuation process.
2. **Regular Review:** Asset valuation policies and procedures should be subject to review by senior management at least annually, or where required, throughout the year to ensure they remain fit for purpose, and the policies and procedures should be applied consistently across all funds managed by a Firm.
3. **Errors Procedures:** All Firms should have a formalised and comprehensive errors procedure in place to ensure remedial action is implemented when valuation errors or incorrect calculations of the net asset value occur. These procedures should also be reviewed at least annually and updated where required.

Next Steps

The contents of the Industry Letter should be brought to the attention of the board of directors of Firms for consideration and appropriate actions should be taken without delay. Firms are required to conduct a review of their asset valuation frameworks to ensure they continue to be fit for purpose and adhere to all relevant legislative requirements including the expectations above. This review should be completed by the **end of Q2 2024**. In circumstances of non-compliance with any of the requirements raised in the Industry Letter, the Central Bank may decide to take action, in the course of future supervisory engagement, or when exercising its supervisory and/or enforcement powers.

We have been assisting clients in reviewing these processes and advising on the types of enhancements that should be considered.

If you have any queries on the content of this advisory and/or the impact that it may have on you and your business, please speak to your usual contact in Walkers or connect with any of the contacts listed below.

Further information

We practice Bermuda, British Virgin Islands, Cayman Islands, Guernsey, Irish and Jersey law from an international network of ten offices across Europe, the Americas, Asia and the Middle East. For more information, please get in touch with your usual contact at Walkers or any of the contacts in your region listed below.



Nicholas Blake-Knox

Partner and head of Asset Management and Funds
Ireland

+353 1 470 6669

nicholas.blake-knox@walkersglobal.com



Damien Barnaville

Partner
Ireland

+353 1 863 8529

damien.barnaville@walkersglobal.com



Eimear Keane

Partner
Ireland

+353 1 470 6622

eimear.keane@walkersglobal.com



Aongus McCarthy

Partner
Ireland

+353 1 470 6624

aongus.mccarthy@walkersglobal.com



Shane Hickey

Senior Associate
Ireland

+353 1470 6600

shane.hickey@walkersglobal.com



Joseph Mitchell

Senior Associate
Ireland

+353 1470 6649

joseph.mitchell@walkersglobal.com