WILLIAM FRY

// ASSET MANAGEMENT & INVESTMENT FUNDS

Asset Management & Investment Funds Update

March 2025

Key Dates & Deadlines: Q1 / Q2 2025

The following are key dates and deadlines in Q1 / Q2 2025 along with possible impacts and action items arising for fund managers.

Date	Source	Summary	Action/Impact
Q1 2025		AIF Rulebook consultation The CBI expects to publish an AIF Rulebook consultation which would include AIFMD II transposition	
Q1 2025		Central Bank of Ireland – Money Market and Investment Fund Return Update In Q1 2025 the CBI plans to organise a follow up workshop with industry and management companies on the additional reporting requirements	Please see article on the topic in the February 2025 update for further details.
12 March 2025		Loan originating AIFs Deadline for responding to ESMA consultation for open-ended loan-originating AIFs	Please see article on the topic in the January 2025 Update for further details
14 March 2025		Compliance and internal audit functions – ESMA CSA Response date for management companies who received the questionnaire from the CBI on compliance and internal audit functions	Please see article on the topic in this update for further details.
27 March 2025		Irish domiciled Hedge funds – Central Bank of Ireland review Date for completion of questionnaire	Please see article on the topic in this update for further details.

Q2 2025	ESMA CSA on sustainability disclosures ESMA expected to issue its report on the outcome of the CSA	
End Q2 2025	Central Bank of Ireland ETF review Date by which fund management companies are required to incorporate any necessary changes to frameworks and practices in accordance with the requirements of the CBI letter on review of the ETF ecosystem	Please see article on the topic in the December 2024 Update for further details
2 April 2025	UK SDR naming and marketing rules End of temporary flexibility period for FCA 'naming and marketing' and disclosure rules	Please see article on this topic in the November 2024 Update for further details.
21 May 2025	ESMA Guidelines on funds' names using ESG and sustainability related terms Funds in existence before 21 November 2024 must comply with the guidelines from this date.	Please see article on topic in the September 2024 Update for further details
Q4 2025	SFDR update The European Commission's 2025 work programme has indicated that legislative changes to SFDR are scheduled for Q4 2025	
December 2025	ECB Regulation on investment fund statistics including money market funds The first reporting under the European Central Bank Regulation on statistics on investment funds, including money market funds, will be with a reference date of December 2025	Please see article on the topic in the February 2025 update for further details.
31 December 2025	Sustainable Finance omnibus simplification package Date by which the European Commission has asked member states to implement the proposals delaying CSRD reporting for certain companies by 2 years and the effective date of CSDDD by 1 year	Please see article on the topic in this update for further details.

Compliance and Internal audit Functions – ESMA Common Supervisory Action

On 14 February 2025, ESMA announced the launch of a common supervisory action (CSA) to be conducted in 2025 with national competent authorities (**NCAs**) on the compliance and internal audit functions of UCITS management companies and AIFMs across the EU.

The CSA aims to assess the extent to which fund management companies have established effective compliance and internal audit functions with adequate staffing, authority, knowledge and expertise to perform their duties under the AIFM and UCITS frameworks. The work will be done using a common assessment framework developed by ESMA. On 17 February, the Central Bank of Ireland (**CBI**) circulated a questionnaire on the topic to a sample group of fund management companies to be completed and returned by 14 March.

It is expected that NCAs will share knowledge and experiences through ESMA to foster convergence in how they supervise the compliance of fund management companies with the relevant rules on the topic and that ESMA will publish a final report with the results of the exercise in 2026.

Irish Domiciled Hedge funds – Central Bank of Ireland Review

The CBI has launched a review of the Irish domiciled hedge funds sector, to improve understanding of the financial stability risks of the hedge funds sector in Ireland and to enhance supervisory understanding of the sector. The review also includes "other funds" that follow hedge fund like strategies involving derivatives usage and/or leverage. For the purposes of this review, the CBI is gathering data on specified funds through a questionnaire.

The CBI will contact fund management companies to notify them when the final questionnaire is available on the CBI Portal for completion. The CBI has indicated that the timeframe for completion of the questionnaire via CBI Portal return is 27 March 2025. Following submission of the returns, the CBI will assess and analyse the information provided and where needed, request further information and/or schedule direct engagements with relevant fund management companies.

The CBI communication and questionnaire should be brought to the attention of board members and relevant senior management of the recipient firm.

Central Bank of Ireland 2025 Regulatory and Supervisory Priorities

The CBI published its **Regulatory and Supervisory Outlook** on 28 February 2025 for the year ahead. The report encompasses the CBI's risk assessment and priorities for the period ahead. It sets out its views and supervisory agenda and is intended to assist financial firms in their own engagement with the CBI and its expectations of them.

Funds sector key risks overview

Key risks identified for the funds sector are:

- Leverage and liquidity – an "evergreen" sectoral risk
- Asset valuation and market risks
- Operational risks and resilience
- Sustainable finance
- Data, AI and modelling risks
- Strategic risk and adopting to structural change.

A table setting out the key risks overview is at the end of this article.

Alternative assets

The CBI has noted increased engagement by funds and fund service providers (**FSPs**) in relation to proposals for investment in alternative assets, such as crypto-assets, private debt and collateralised loan obligations.

Key supervisory activities 2025/2026

The CBI works with relevant European and global regulatory bodies such as ESMA and IOSCO. Priority supervisory activities include:

• Risk-based review of applications regarding funds and FSPs.

• Sectoral and thematic assessments, including the completion of the ESMA Common Supervisory Action on compliance and internal audit functions.

• Continuing the focus on delegation and outsourcing arrangements in fund management companies.

• Focusing on FSPs' implementation of the requirements of DORA.

• Continuing to enhance and use fund data and risk models to deliver a data-led, agile and risk-based approach to the effective and efficient oversight of the sector.

AML

The AML National Risk Assessment, published by the Department of Finance, assesses the money laundering and terrorist financing risks of the funds sector as medium high. This assessment is driven by the often complex legal structures of funds, which can create a lack of transparency in relation to the ownership and control of these structures.

Fund management company governance

Fund management company governance continues to be a key area of focus for the CBI. Responsibility for any activities delegated and outsourced ultimately rests with the regulated fund and FSP outsourcing the activity. In particular, the outsourcing risks associated with White Label Fund Management Companies/Third Party Management Companies remain a supervisory focus, given the growth of this business model in recent years.

Asset valuation and market risks

While interest rates and inflation rates have both reduced in recent times, the external environment for funds remains challenging due to high macroeconomic uncertainty and elevated geopolitical risk. Such factors have the potential to impact funds, their investors and FSPs, including contributing to spikes in market volatility and giving rise to material asset revaluation risk, in particular given some funds' high concentration in equity holdings, including the so-called "Magnificent 7" stocks of Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla.

FUNDS SECTOR KEY RISKS OVERVIEW

Topic	Risk description	Risk drivers and risk outlook for 2025/6
Liquidity and leverage risks	Leverage and liquidity are "evergreen" sectoral risks which require on-going monitoring and mitigation. Liquidity issues can restrict a fund's ability to meet redemption requests upon demand. Instances in which leverage and liquidity issues arise together require particular focus, e.g. high levels of leverage in some fund cohorts can amplify liquidity issues within such funds.	Deficiencies in fund and Fund Service Provider (FSP) liquidity risk management frameworks. Funds with less liquid assets. Highly leveraged funds. Interconnectedness between the non-banking financial institutions (NBFI) and traditional financial sectors.
Asset valuation and market risks	The response of the financial system to the external environment and moves towards more private assets increase valuation risks in the sector, with harder to value asset types or those with greater inherent market risk are increasingly proposed within fund structures.	Volatile geopolitical environment and changing investor preferences. Asset valuation challenges at asset class level.

Operational risks and resilience	The increase in digitalisation of fund operations, as well as the interconnectedness of the funds industry, exacerbates the potential impact of a successful cyberattack and operational disruptions. The risk that outsourcing frameworks of funds and fund management companies (FMCs) do not adequately mitigate third party risks. Money laundering and terrorist financing risks is driven by the often complex legal structures of funds, which can create a lack of transparency in relation to the ownership and control of these structures which can be further compounded where the bank and custodian accounts of a fund are held in offshore jurisdictions, particularly those jurisdictions with bank secrecy laws.	Increasing deployment of technology and digitalisation. Geopolitically-driven threats. High levels of delegation and outsourcing in the funds sector. Growth of white label/third party management companies.
Sustainable finance	The funds sector fails to support or encourage the transition to a sustainable economy. Risks related to non-compliance with relevant Sustainable Finance Disclosure Regulation (SFDR) rules which may divert investments from their intended use, i.e. greenwashing.	Shifting investor demand for "green" products and the promotional advantages of "sustainable" or "ESG" labels Global climate targets not being met.
Data, AI and modelling risks	Increasing use of AI tools could potentially have regulatory and investor protection consequences if not governed properly. Inaccurate and/or incomplete fund returns submitted to the Central Bank raise questions about data governance procedures and effectiveness.	Increasing deployment of generative AI tools. Poor governance of data completeness and accuracy by funds and FSPs.
Strategic risk and adapting to structural change	Retail investors are unable to participate in financial markets sufficiently to support the achievement of better returns for themselves (subject to their risk appetite and tolerance). Funds are unable to support the funding of innovation and the scaling of Irish and other EU companies. Risks arising from the growth in complex investment strategies in growing new market segments.	Lack of confidence, opportunity and/or incentives for citizens in Ireland and some other EU countries to participate in the funds market. Embedded culture of bank-financing in the EU. Growth in demand for new types of potentially more complex and higher risks investments.

Irish Property Funds – Regulatory Engagement and Reporting Schedule

Irish Funds engaged with the CBI in relation to its 2025 supervisory engagement plans for property funds. The CBI has prepared a timeline detailing deadlines for engagement on the asset disposal template, annual fund questionnaire, annual return submission deadline and leverage reduction and maintenance plans.

CBI Irish property funds return

The return template can be found at the end of the CBI webpage containing details of the framework macroprudential measures for property funds. Guidance notes accompany the return.

ESMA's 2026 – 2028 Work Programme

ESMA has published its 2026 – 2028 work programme.

Highlights

Key points from the programme include ESMA's planned work on:

- developing the new Savings and Investments Union
- increasing the competitiveness of the European financial sector, including through simplification of rules and the reduction of compliance costs
- preparing for and implementing new supervisory mandates, such as those related to DORA and the regulation on ESG rating providers
- taking actions against the risk of greenwashing and enhancing its regulatory framework to support the EU's green transition and ensure transparency in ESG disclosures
- actively monitoring developments relating to blockchain and AI, reassessing its rulebook to ensure its relevance and exploring the potential of leveraging these technologies for supervisory purposes
- implementing legislative files including the reviews of MiFID II, EMIR (EMIR 3), CSDR (CSDR Refit), AIFMD, the UCITS Directive and the ELTIF Regulation
- shortening the settlement cycle (T+1) by Q4 2027
- monitoring the risks posed by the growth of the non-bank financial intermediation (NBFI) sector.

Sustainable Finance Omnibus Simplification Update

The European Commission (**EC**) unveiled plans on 26 February 2025 to introduce amendments simplifying the Corporate Sustainability Reporting Directive (CSRD), the Corporate Sustainability Due Diligence Directive (CSDDD), the Carbon Adjustment Mechanism (CBAM), and the InvestEu Regulation. The simplification is proposed as part of a drive to boost European competitiveness and unleash growth. The package is accompanied by a draft Taxonomy Delegated Act for public consultation.

From an investment fund perspective, the most relevant changes are those to CSRD and, to a lesser extent, CSDDD. The proposals would have the effect of reducing the number of companies in scope to report under CSRD by about 80%. It will bring CSRD scoping criteria more in line with CSDDD.

While AIFs and UCITS are not in scope to report under CSRD, fund service providers which are large companies or listed SMEs or their parent groups may be in scope. Investee companies of AIFs and UCITS may have to report under CSRD. This has been viewed as being a valuable source of sustainability information which AIFs and UCITS can avail of to discharge their own sustainability disclosure requirements under SFDR. If the number of companies ultimately reporting under CSRD reduces by 80%, this will accordingly reduce the amount of sustainability information available directly from companies.

What are the proposals for CSRD and CSDDD?

- A proposal for a Directive amending the CSRD and the CSDDD;
- A proposal which postpones by 2 years the application of all reporting requirements in the CSRD for companies that are due to report in 2026 and 2027 (so-called wave 2 and 3 companies) and which

postpones the transposition deadline and the first wave of application of the CSDDD by one year to 2028.

CSRD

The entry into application of CSRD reporting requirements is phased according to different categories of undertakings. In the first wave, large public interest entities with more than 500 employees must report for the first time in 2025 for financial year 2024. In the second wave, large companies must report in 2026 for financial year 2025. Large companies are defined as companies exceeding two out of the three following thresholds: €50 million net turnover, €25 million balance sheet total, 250 employees.

In the third wave SMEs whose securities are listed on an EU regulated market must report in 2027 for financial year 2026. In the fourth wave, certain non-EU undertakings that have business in the territory of the Union above certain thresholds must report in 2029 for financial year 2028.

It is proposed that all companies with up to 1,000 employees and 50 million turnover or a balance sheet above EUR 25 million will be outside the scope of CSRD. This will take out of scope many undertakings in the second wave and some from the first wave. For the companies in scope under the revised thresholds, the Commission will adopt a delegated act to revise and simplify the existing sustainability reporting standards, the ESRS.

Net turnover thresholds for third country entities subject to CSRD reporting requirements at group level will be raised from €150million in the EU to €450 million. The net turnover threshold for an in-scope branch will increase from €40million to €50million.

The proposed provisions in CSRD also create a derogation for companies with more than 1,000 employees and a turnover below EUR 450 million by making the reporting of Taxonomy voluntary, and also, put a stronger emphasis on transition finance by introducing the option of reporting on partial Taxonomy-alignment.

Sector specific standards will no longer be adopted.

CSRD requires limited assurance of sustainability reporting, but it is proposed to remove the possibility to move to reasonable assurance. Instead of an obligation for the EC to adopt standards for sustainability assurance by 2026, the EC will issue targeted assurance guidelines by 2026.

The requirement for double materiality assessment will not change.

CSDDD

The proposals postpone, by one year, the transposition deadline of 26 July 2027 and the first phase of the application of the sustainability due diligence requirements, covering the largest companies, to 26 July 2028. Simplified due diligence obligations will benefit both the very large companies (including company groups, license and franchise systems) that fall under the scope of the CSDDD (estimated to be about 6000 EU and 900 non-EU companies) and their value chain partners, including SMEs and small mid-cap companies (i.e. companies with not more than 500 employees). CSDDD amendments such as the extension of maximum harmonisation, the streamlining of stakeholder engagement, and the clarification – and better alignment with the CSRD – of the obligations regarding adoption of transition plans for climate change mitigation will benefit, in particular, the very large companies that fall under the scope. The harmonised EU conditions for civil liability will be deleted. It is also proposed to delete the review clause on inclusion of financial services in the scope of the due diligence directive.

Timeline and next steps

The proposals will now be submitted to the European Parliament and the Council for their consideration and adoption as two separate directives. The first directive postpones (i) the CSRD reporting requirements for second and third wave entities by 2 years and (ii) the transposition deadline for CSDDD. A second directive contains the more substantive changes.

The EC has asked the co-legislators to treat this omnibus package with priority. The first directive postponing CSRD reporting and transposition of CSDDD has a requested date for member state implementation of 31 December 2025. The second directive is likely to take longer to agree and become effective.

Once the directives enter into force in Europe, member states must introduce national legislation to implement at local level.

Simplifying the EU Taxonomy

The Omnibus package includes amendments to the CSRD regarding Taxonomy reporting as a derogation to Article 8 Taxonomy Regulation. In addition, the European Commission (**EC**) proposes draft amendments to the Taxonomy Disclosures, Climate and Environmental Delegated Acts.

Proposed voluntary Taxonomy reporting

For companies within the future CSRD scope (large companies that have more than 1,000 employees) with a net turnover up to 450 million, the Omnibus proposal envisages voluntary Taxonomy reporting. This will reduce the number of companies that are obliged to report their Taxonomy alignment.

Moreover, companies that have made progress towards sustainability targets, but only meet certain EU Taxonomy requirements, may choose to voluntarily report on their partial Taxonomy-alignment. This enables them to demonstrate their existing efforts and progress towards full alignment and receive recognition for their commitment to sustainability. The Omnibus proposal also mandates the EC to develop delegated acts to ensure standardisation in terms of the content and presentation of the respective reporting.

Proposed amendments to Taxonomy

The EC is also publishing for consultation draft amendments to the Taxonomy Disclosures Delegated Act and the Taxonomy Climate and environmental Delegated Acts which:

- simplify the reporting templates, leading to a reduction of data points by almost 70%.
- exempt companies from assessing Taxonomy-eligibility and alignment of their economic activities that are not financially material for their business (e.g. those not exceeding 10% of their total turnover, capital expenditure, or total assets).

Further amendments are proposed to the main key performance indicators of financial institutions, especially the green asset ratio (GAR) for banks. Based on the published text banks will be able to exclude from the denominator of the GAR, exposures that relate to undertakings which are not under the future scope of the CSRD (i.e. companies that are not large undertakings with 1,000 or more employees).

The EC is also asking for feedback on two alternative options for simplifying the most complex “Do no Significant harm” criteria for pollution prevention and control related to the use and presence of chemicals that apply horizontally to all economic sectors under the EU Taxonomy. In the public consultation, stakeholders are invited to provide feedback to both alternative options.

AML Risk Assessment of the Irish Funds sector

The Irish government will soon be conducting a risk assessment of Ireland’s fund and asset management sector. This is being done as part of a national risk assessment project. An anonymous survey will be issued as part of the assessment.

Previous national risk AML assessments

Ireland produced its first AML/CFT National Risk Assessment (NRA) in 2016, then updated it fully in 2019. The NRA provides a broad assessment of Ireland’s Money Laundering/Terrorist Financing (ML/TF) risks, to enhance the understanding of them and to develop effective strategies to address them.

A number of sector-specific ML/TF risk assessments have also been conducted. These generally examine an emerging risk or facilitate greater understanding of a specific sector of the economy. Four sector-specific risk assessments have been produced to date the gambling sector in 2018, new technologies in 2019, legal persons and legal arrangement, in 2020 and Trust or Company Service Providers in 2022.

The CBI produced a report in 2015 on Anti -Money Laundering/Countering the Financing of Terrorism and Financial Sanctions Compliance in the Irish Funds Sector.

DUBLIN | CORK | LONDON | NEW YORK | SAN FRANCISCO

William Fry LLP | **T:** +353 1 639 5000 | **E:** info@williamfry.com

williamfry.com