“Outcomes and Opportunities – responding to challenge and change” Remarks by DG McMunn at Irish Funds Annual Global Funds Conference

21 May 2025 **Speech**

Good morning. Thank you to Irish Funds for the invitation to address their Annual Global Funds Conference today.[1]

The theme of this year's conference - *‘Towards 2030: Acceleration, Transformation & Innovation’* - is a fitting one.

Given the volatility of global events over the last few weeks, it is more important than ever that we continue to look to future. Both to understand and be able to take advantage of potential opportunities – particularly with regard to transformation and innovation – but also to be prepared for whatever the future may hold.

But before I look to the future, I will spend a few moments looking back – and taking stock of recent and potentially seismic global developments.

Shifting geo-political plates

The last few months and indeed weeks have seen a sudden shift in geo-economic fragmentation both in terms of an accelerated pace and scale.

While a return to more protectionist policies had been forecast for some time – and specific events such as COVID-19 and the Russian invasion of Ukraine provided concrete examples of trade fragmentation and heightened geopolitical tensions – the recent and potentially significant fracturing of trading relations has come about quite suddenly.

As you all know too well, this has resulted in increased financial market volatility across the globe.

Our Governor has previously spoken about what geo-economic fragmentation may mean for a small open economy like Ireland[2] – and my colleague Deputy Governor Madouros will set out some thoughts this week on the domestic impact of recent events. But for the purposes of today's remarks, and given the nature of the Irish funds sector – as a globally relevant hub for fund and asset management – I would like to briefly focus on its impact on Ireland's large internationally-focused financial sector.

In the wake of recent market volatility, we have seen significant capital flows through our financial system and, as you would expect, have been closely and carefully analysing regulatory and market data during this period.

Many of you will be familiar with the heightened engagement that has taken place in recent weeks between Central Bank supervisors and regulated firms. Alongside regular regulatory reporting, this supervisory engagement is an important source of information for us. Both in terms of understanding unfolding events and market dynamics in the short and medium term – but also as policymakers looking to consider the longer term impact and costs associated with geo-economic fragmentation.

Throughout this recent market turmoil, I am glad to say the Irish financial sector managed the heightened market volatility well – with markets continuing to function in an orderly manner throughout. While that is noteworthy, this should be seen in the context of it being a relatively short market event – and indeed before the tariff "pause" there were some worrying dynamics emerging in international bond markets.

As ever, quickly taking stock of lessons learnt and preparing for the future is important – particularly as we know uncertainty is likely persist for some time, and future bouts of market volatility may well be ahead. As such industry should use any "pauses" to prepare.

And the Central Bank for its part is also taking stock – as well as continuing to consider potential transmission channels and drivers of risks through which future market events may impact the financial system.

This is important as the economic forecast is characterised by downside risks to growth. Therefore the possibility of a more significant slowdown cannot be ignored, with the prospect of worsening trade tensions, tighter financial conditions amid higher public and private debt levels, and complex interconnections within the financial system, which could amplify negative shocks. [3]

As such we all need to be prepared for potential macro or market shocks, and ensure we are maintaining and indeed building both financial and operational resilience for the period ahead.

Regulation and Supervision – delivering our safeguarding outcomes

Stepping back a bit from recent events, I would like to speak more generally about our Regulatory and Supervisory work, in particular as it relates to the funds sector.

In February, we published our Regulatory and Supervisory Outlook (RSO).[4] The RSO set out our view of the risk landscape and our corresponding priorities and expectations.

As with all of our work this is driven by our mandate and our mission – and indeed our four safeguarding outcomes, namely: financial stability, the safety and soundness of firms, the protection of consumer and investor interests, and the integrity of the financial system.

We moved to a new supervisory approach at the beginning of the year, because we recognised the interrelated and interdependent nature of these outcomes – and this is in part why we introduced a new integrated supervisory framework.

While interconnected, let me briefly take each of these in turn, and specifically how we are seeking to deliver these outcomes in the context of the funds sector.

In terms of **Financial Stability**, we work to ensure the financial system can absorb rather than amplify shocks – so that it can provide financial services to households, investors and businesses through good times and bad. We also work to ensure that Irish-domiciled entities do not contribute to the build-up of systemic risk internationally.

With respect to NBFI, learning the lessons of market events over the last number of years we have worked domestically and internationally on macro prudential policies for the sector – to ensure sufficient ex ante resilience to adverse shocks.

The development of a macro-prudential policy framework for the funds sector remains a focus for the Central Bank, in terms of strengthening the overall regulatory architecture and enhancing the sector's systemic resilience to adverse shocks. This includes the implementation and monitoring of the two domestic macro-prudential measures relating to Irish property funds and Irish authorised Sterling-denominated liability driven investment funds. And we are also supporting and proactively engaged with work at an international level in a range of areas – including liquidity risk management in open-ended funds at the FSB and IOSCO.

In terms of **Safety and Soundness** this is about ensuring firms themselves are safely managed, and financially, operationally and strategically sound enough to withstand major adverse changes[5] so that substantial harm to consumers' and investors' interests, financial stability or the functioning of the economy is avoided.

Given the external risk environment, and in line with our broader approach, for the Funds sector we will be continue to focus on operational resilience, with a focus this year on the implementation of DORA.

We will also continue to focus on the effectiveness of fund management companies – in terms of their governance, organisational resourcing and capabilities, and their operational resilience and outsourcing – recognising both the important role delegation plays in the sector as well as the perennial principle that while you can delegate certain activities and functions, one cannot delegate responsibility or effective control. This work will include a survey of fund management companies – to be launched next week – to ensure we have a comprehensive understanding of different business models and approaches in the sector.

In terms of **financial integrity**, we work to ensure individuals and firms uphold the integrity of the financial system through their conduct, and by implementing robust systems of prevention, detection, and investigation of misconduct, financial crime and market abuse – thereby protecting the integrity of the financial system, users of financial services, markets and wider society. We will continue to focus on strengthening AML risk assessments, governance and oversight in the sector, including scrutinising the robustness of these controls.

And finally and importantly in terms of the **protection of consumer and investor interests** our work is focused on ensuring firms and the system is working in the best interest of consumers and investors, placing their interests at the centre of how products and services are designed and delivered, and that firms respond appropriately to material changes in customers' circumstances and/or changes in the external environment.

For this sector, this includes ensuring the rising complexity of investment strategies does not lead to consumer detriment. But it also includes the importance of innovation, of product choice, availability and suitability for investors and of course orderly market functioning.

In terms of innovation, to take one example I spoke last week of the potentially transformative impact distributed ledger technology and tokenisation could have on the sector – with the potential to deliver huge efficiency and disintermediation gains, reduce costs and complexity and better empower businesses and consumers. These are all things which done well would clearly be in the best interests of the system, consumers and the wider economy.

For our part, in line with our desire to foster innovation that delivers good outcomes, we are engaging with the broader system on the development and potential use of this technology. From a regulatory point of view, we are ensuring there are no unintended regulatory impediments to tokenisation of traditional assets or if enabling regulation is required.

But there is only so much the Regulator can do in terms of fostering any innovation, including tokenisation. And in that regard there is an onus on industry to adapt and innovate – lest it be left behind.

Strategic Imperatives – Savings and Investment Union

Delivering in the best interest of investors brings me to another point and how we in Europe ensure our financial sector – and indeed our capital markets – are best delivering for our citizens and our economy.

Recent events have only resulted in an increased urgency for Europe to effectively respond to the prevailing external environment and its structural growth challenges.

As the Draghi and Letta reports highlighted, EU economic growth has been persistently slower than in the US over the past two decades, while China has been rapidly catching up.[6] Both reports set out the stark challenges facing Europe – challenges which have in many ways grown over the last months, though so too have the opportunities that can come if we properly respond to them.

I would humbly suggest that such a response needs to really focus on policies that seek to boost productivity and innovation along with the completion of the EU Single Market – including the delivery of a single banking union, and the Savings and Investment Union, which I will touch on shortly.

After all, we know that Europe's internal market barriers are equivalent to a tariff of 44% for manufacturing and 110% for services.[7] And from a public policy perspective, capital needs to be allocated more efficiently throughout the European Union, harnessing the power of the Single Market while remaining open to global capital and aligned to global standards.

And lest we forget what is at stake here – the Draghi report estimates that an additional annual investment of €800bn is needed to meet the financing needs to deliver on Europe's objectives, particularly around decarbonisation, digitalization and defence.

And while some of the political impetus around climate change may have waned in recent times, the facts have not changed. Nor has the existential challenge it presents and the need for us to adapt to a fundamentally different economy of the future. The funds sector has a crucial role to play in allocating capital to meet this challenge, helping us transition to a net zero world.

All of this is why delivering on Savings and Investment Union is so important. And Ireland with its large and international financial centre has an important role to play in achieving that.

As we collectively work to respond to this challenge and to deliver a Savings and Investment Union to better meet our needs, I would make three points:

Firstly, I think in the period ahead we need to focus on tangible actions that will deliver deeper and more liquid capital markets – why I would support European savings and investments accounts as well as measures to appropriately develop our securitisation markets, and we look forward to engage with forthcoming proposals on this agenda. And as we have said before our priority should be to build deeper and more liquid capital markets rather than focusing on building more regulatory architecture.[8]

Secondly, we should not forget long standing ambitions to complete banking union and a European deposit insurance scheme – which would improve the resilience of our banking sector as well as potentially forming the foundations for simplification and measures to better ensure our banking sector is performing its important function of financing the European economy.

Thirdly we should remember that to deliver better capital markets, we need to deliver at both a national and EU level. We also need to recognise that building a more productive and innovative economy is a complex issue involving many levers at many levels – and involving national, EU and industry initiatives. So while I welcome SIU I would also say we need to ensure we are all fully playing our part to deliver from the bottom up and the top down a more competitive Europe.

In the area of funds, the Department's Funds 2030 review is a positive example of a national initiative, and we are progressing implementation of the recommendations. Industry, of course, has its role to play, ensuring it is innovating and delivering products that are meeting the needs of consumers and investors.

Conclusion

Let me conclude by touching on simplification – alongside SIU one of the other strategic responses in Europe to our productivity and competitiveness challenges.

I have spoken before of how we at the Central Bank are thinking about Simplification.[9] It may surprise some that we welcome it, but we do – and are proactively engaging with this agenda, and how we can deliver on our outcomes in a simpler way.

But as we embrace the opportunities from simplifying our framework, we are also clear about the risks – in particular if simplification slides into de-regulation and lower standards, which would introduce more costs than benefits.

A stable and orderly functioning financial sector is a pre-condition for stable growth; and chasing unsustainable growth in the short term through looser standards, rarely pays off in the long run.

As such we will engage in simplification discussions on the principle of maintaining the resilience and protections that have been built in recent years, but with the objective of delivering these same standards in simpler and less burdensome ways. Doing this we want to openly engage with the sector – to hear about areas where there are unnecessary rules or complexity or where processes or requirements can be improved.

We will also continue to ensure that we are maximising our collective resources, living our risk appetite and being effective and efficient in our regulation and supervision – all of which our new supervisory approach will help us deliver.

Let me conclude there. Before I do, I will leave you with one final thought. Best summed up by a quote, often attributed to Albert Einstein: "*in the midst of every crisis lies great opportunity".* As we find ourselves at this time of geo-economic crisis, let us look to meet the challenge and grasp the opportunities.

SIU and Simplification done right can help us do just that – delivering competiveness, stability and resilience, ensuring stable long term growth and making sure the financial system continues to operate in the best interests of consumers and the wider economy.

Thank you.

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[1] With thanks to James O'Sullivan and Cian O'Laoide for their help preparing these remarks.

[2] Geoeconomic fragmentation from a small open economy perspective - address by Governor Gabriel Makhlouf to the Global Interdependence Centre Conference, dated 16 May 2023.

[3] IMF World Economic Outlook, April 2025.

[4] Regulatory and Supervisory Outlook Report (2025) (PDF 2.15MB)

[5] For example changes in economic, financial or marketplace conditions or internal or external disruption to people, systems or processes.

[6] The future of European Competitiveness, September 2024.

[7] IMF Regional Economic Outlook – Europe. A Recovery Short of Europe's Full Potential.

[8] Capital in (the third decade of) the Twenty-First Century - Remarks by Governor Gabriel Makhlouf at the Irish Association of Investment Managers Annual Dinner
[9] “Shocks and shifts – regulation and supervision in a changing world” – Remarks by Deputy Governor Mary-Elizabeth McMunn at the IOB.