

Irish Fund Directors Association response to Consultation Paper 156 - Central Bank approach to innovation engagement in financial services (November 2023)

Dear Sir, Madam

We welcome the publication of the Central Bank of Ireland's paper entitled Consultation Paper 156 Central Bank approach to innovation engagement in financial services and we appreciate the opportunity to provide feedback on this paper.

The Irish Fund Directors Association ("IFDA") is the independent representative body for board members and an associate membership of Designated Persons (DPs) within the Irish funds industry.

IFDA is dedicated to fund governance and our purpose is to develop and support our community of professional independent directors and represent the interests of our members to other key stakeholders in the industry. As an association we advocate industry best practice, support networking of peers and issue recommendations and views on Corporate Governance topics impacting the investment funds industry.

IFDA has reviewed the paper from our members' perspective and we make the following general comments.

Question 1: What is your feedback on the enhancements underway with the Innovation Hub? Are there other areas that should be developed?

IFDA notes the establishment of the Innovation Hub in Q4, 2018.

IFDA has been apprised of the high level improvements underway in the Innovation Hub but is not in a position to offer specific feedback on the detail of "enhancements underway within the innovative hub". The IFDA Innovation Working Group is a newly formed working group which has been established with the express purpose of providing input on the part of independent directors on areas of innovation within the asset management industry. We hope that our input in this regard will aid in the deliberations on the part of the Central Bank of Ireland ("Central Bank").

IFDA will seek to represent the views of its membership through the working group.

IFDA broadly agrees with your stakeholder feedback of your Consultation Paper 156 pages 8 & 9 in particular:

- The Innovation Hub is a "good first step to enhance engagement... and would welcome an evolved engagement approach in line with the continued development of the innovation ecosystem."
- It is also noted that the CBI is uniquely positioned to feed back to industry on what they are observing to be pain points which innovative practice and emerging technology might address, be they thematic challenges (for example performance fee calcs, AML workflows, on-boarding challenges, EUCs, historical cash breaks etc.) or where specific areas of reg data appear to be

difficult to source with consequent quality and timeliness issues. “Chatham House” ruled roundtables with industry under the auspices of the Innovation Hub might be considered to this end (as was the case with the RegTech Sprint Technology Roundtable hosted by the CBI in April 2018).

- Good strides have been made to raise awareness of the Innovation Hub, but there is more work to be done to raise its profile within IFDA. The Innovation Working Group will work with the Hub to address this in 2024.
- **Are there other areas that should be developed?**
 - IFDA “has a strong openness to engage with the Central Bank” not only “within innovative programmes already taking place in the ecosystem” but also on innovative emerging trends they see amongst client companies, stakeholders and key individuals. Specifically we refer to the tokenization of funds which we believe will significantly aid the investment management industry globally. See answers to Q3 and Q4.

Question 2: What is your feedback on the proposal to establish an Innovation Sandbox Programme? Will the proposal support the Central Bank in meeting our overall objectives, including the needs of consumers and the wider economy?

IFDA agrees that establishing an Innovation Sandbox makes sense and is in line with best international practice, sustaining the long term health of the Irish Investment funds industry, the provision of high quality jobs and contributing to a strong Irish economy.

Will the proposal support the Central Bank in meeting our overall objectives, including the needs of consumers and the wider economy?

IFDA is aware, at a high level, of the CBI’s overall objectives (price stability, financial system stability, protecting financial consumers and the operation of an efficient payment system).

We would hope that the proposal will indeed support the Central Bank in meeting its overall objectives, including the needs of consumers and the wider economy.

Question 3: What is your feedback on the operating model of the Innovation Sandbox Programme?

IFDA’s view of the proposed innovation Sandbox Programme operating model (p15 & p16, Consultation Paper 156) is (broadly speaking) it makes sense under the four headings of:

1. Thematic approach
2. Call for proposals
3. Call for applicants
4. Innovation Sandbox Programme

We advocate that it is critically important that the investment funds industry is strongly represented as a major provider of quality employment (c 35,000 people) on the Financial Industry Forum's Sub-Group. We believe that the voice of the independent director is an important one in this regard as IFDA represents an independent constituency of over 200 members and seeks to reflect important considerations as they apply to the industry.

Question 4: Are there specific themes or areas of innovation that the Central Bank Innovation Sandbox Programme should address?

IFDA believes that asset digitisation and tokenisation are likely to be areas of particular focus within the investment management industry and therefore will be considered by the association's Innovation Working Group.

The opportunities offered by AI and Large Language Model (LLM) technologies, particularly where appropriately governed and deployed, should be explored through various lenses such as improved investor experience, data quality, new product scenarios and stronger compliance processes.

Other areas with potential to enhance existing processes or bring new product types and greater protection for the investor are semantic technologies, Distributed Ledger Technology (DLT) operational workflows, Quantum computing, and cryptological advances, such as Zero Knowledge Proof and sharding.

Yours sincerely,

IFDA