New MAS Outsourcing Guidelines for Fund Managers and Other Financial Institutions

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Executive Summary

Monetary Authority of Singapore (MAS) recently released New Outsourcing Guidelines

- New guidelines increase the requirements of institutions for oversight and controls over outsourcing arrangements
- Previous guidelines applied primarily to Licensed financial institutions. The new guidelines also apply to Registered Fund Management Companies, Exempt Corporate Finance Advisers and Financial Advisers.
- Institutions must perform an assessment of its existing arrangements by **26th October 2016**, with rectifications by **26th July 2017**

Previous Rules

The MAS outsourcing guidelines issued in 2004 required licensed financial institutions to implement an outsourcing framework. Institutions had several requirements, including the requirements to:

- Notify MAS prior to (or within 2 months of) entering into material outsourcing arrangements
- Have a framework instituted by the Board/senior management to evaluate risks and materiality of all existing and prospective outsourcing arrangements, as well as conduct periodic review of such arrangements.
- Evaluate capability of service providers.

Previous Rules (cont'd)

- Ensure written agreements containing specified terms (such as allowing MAS access to records) were in place
- Maintain a central record of all material outsourcing arrangements
- Conduct reviews (at least annually) to review financial / operational condition of service provider. Institutions should periodically commission independent audit and expert assessments on security & control environment of service provider.

Key Changes

Applies to more financial institutions

- The new guidelines apply to a much broader set of institutions, including Registered Fund Managers, Exempt Corporate Finance Advisers and Financial Advisers

Additions to arrangements considered "material outsourcing"

- Definition of material outsourcing has been expanded to include an arrangement that involves customer information and, in the event of any unauthorised access, disclosure, theft or loss, may have a material impact on an institution's customers

Key Changes (cont'd)

More detailed assessment of service providers

- Greater emphasis has been placed on the need to evaluate service providers, including their technology risk management and business continuity arrangements
- In addition, institutions must ensure that independent audits and/or expert assessments of all its outsourcing arrangements are conducted

Greater emphasis on board and management responsibilities

- Increased emphasis on the board's role in setting a suitable risk appetite, and on senior management's role with respect to maintaining effective control with respect to outsourcing arrangements

Key Changes (cont'd)

Amendments to MAS reporting

- Institutions no longer have to pre-notify MAS prior to entering into material arrangements. They must now submit a prescribed outsourcing register to MAS at least annually. They must also submit copies of audit reports on service providers.

Cloud Computing

- MAS acknowledged that institutions are making increased use of cloud computing (including in-house or off-premises private and public cloud arrangements), and clarified that these are considered outsourcing arrangements. No highly prescriptive guidance is given, but institutions are reminded to ensure appropriate oversight and controls are in place over such arrangements

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