



Q: What should we document regarding outsourcing?

Consider the ‘outsourcing life-cycle’ as referenced in the EBA Guidelines on Outsourcing and the information that would be gathered at each stage of the life-cycle. Documenting the actions performed at each stage, or at least the pertinent points, should be approached from internal control, governance and risk management perspectives as well as evidencing the outsourcing process (in support of internal audit, reviews and inspections).

The scope of information to be documented should include, as a minimum:

- **Service descriptions and associated service levels** – an agreed service description (approved by the Board) and associated service levels will form the basis of the outsourcing arrangement. They should be included in the outsourcing agreement and used to ensure that services are provided as required (essential to enable the oversight of the outsourced activities).
- **Risk assessment work** – specific risk assessments performed in relation to the outsourcing of a particular function, i.e. is outsourcing sensible from a risk perspective? Ideally the outsourcing arrangement would reduce risk. If there will be an increase in risk the firm would need to proactively implement some risk mitigations. Records should be kept to evidence the risk impact and actions taken to ensure risk remains within the firm’s risk appetite.
- **Due diligence performed on the service provider** – the initial due diligence performed on the service provider as part of the selection process should be retained, not just for reference purposes but to facilitate the ongoing review and update of the due diligence performed. A due diligence checklist is a useful way to coordinate the due diligence activities; the completed checklist and documents collected should be retained.
- **Contractual agreements** – Each outsourcing relationship should have a contractual agreement designed to ensure that the outsourced services are provided in accordance with the firm’s requirements. Contractual arrangements should support compliance with regulatory requirements and be approved by the Board. Contracts and copies of Board minutes approving the execution of the contractual agreement should certainly be retained.
- **Management information** – The contractual agreement should support the provision of management information (“MI”) from the service provider to the firm to enable the firm exercise appropriate oversight. MI would be provided from the service provider to the designated contact point for the firm (this role should be detailed in the agreement). MI from the service provider would, typically, be used to produce MI for use within the business and, in particular, for distribution to the Board. This information would typically be provided (and therefore retained) as part of the ‘Board Pack’ provided to directors ahead of each Board meeting.

Records should be kept in line with the firm’s record keeping policy (which is typically detailed in the Compliance Manual) and would usually be for a minimum period of 6 years.