Financial Conduct Authority

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Thematic Review TR13/10

Outsourcing in the Asset Management Industry: Thematic Project Findings Report

November 2013

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1. Executive summary

We carried out a thematic review of outsourcing[1] in the asset management industry. This report summarises our reasons for the review, the scope and methodology, key findings and next steps for firms.

The findings within our report will be of interest to all firms operating in the asset management industry, including hedge fund managers.[2]

Background

We expect asset managers subject to SYSC 8 to act in the best interests of their customers by ensuring that the service they provide is not compromised by outsourcing critical activities.

Our review focused on assessing two key areas of risk relating to outsourcing of critical activities that could result in poor outcomes for customers if not mitigated effectively. These were:

- asset managers having inadequate contingency plans in place to deal with a failure of their service provider (*'Resilience risk'*) and
- asset managers applying inadequate oversight of their service provider (*'Oversight risk'*)

Key findings of our review

Our key findings with respect to each risk are:

(1) Resilience risk

Last year we found that asset managers were largely unprepared for the failure of a service provider undertaking critical activities, as firms' contingency plans had not considered how to maintain operations and service to their customers. So we wrote to CEOs[3] in December 2012 setting out our expectations of asset managers that outsource critical activities.

1 An asset manager is engaged in outsourcing if it appoints a service provider to conduct an activity which the asset manager would otherwise complete itself whilst conducting its regulated business.

2 Managers of alternative investment funds will become subject to the delegation rules in Article 20 of AIFMD. In addition, the common platform requirements (including SYSC 8) continue to apply to an *AIFM investment firm* which is a *full-scope UK AIFM* in respect of its *MiFID business.*

3 Link to Outsourcing Dear CEO Letter

We are pleased with the level of engagement from asset managers in response to our Dear CEO letter and during 2013 we have started to see improvements in asset managers' planning for the failure of a service provider.

We are also encouraged by the industry-led work intended to help firms with contingency planning. This work is being driven forward by the Outsourcing Working Group (OWG)[4] whom are devising principles to guide the industry, with a key aim of improving portability between providers. In addition to helping mitigate the resilience risk, there could be wider benefits to the industry and their customers if asset managers were able to move service providers more readily.

The detailed findings on Resilience risk are in Section 4 of this report.

(2) Oversight risk

We are reassured that all asset managers within the sample had oversight arrangements in place to oversee their service providers. The effectiveness of oversight arrangements varied from firm to firm, with only some asset managers able to demonstrate high standards of oversight consistently across all outsourced activities. Where oversight of an activity was lacking, we found the main cause was insufficient internal expertise to carry out the oversight.

The detailed findings on Oversight risk are in Section 5 of this report.

Next steps for asset managers

In light of our findings, asset managers should review their own outsourcing arrangements and where appropriate:

- enhance their contingency plans for the failure of a service provider providing critical activities, taking into account industry-led guiding principles where applicable, and
- assess the effectiveness of their oversight arrangements to oversee critical activities outsourced to a service provider, making sure the required expertise is in place

4 The OWG is comprised of the Investment Management Association, several asset managers and key service providers.

2. Reasons for the review

The asset management industry outsources a growing number of critical activities to a small number of service providers that are usually part of complex international banking groups. This has resulted in the asset management industry becoming highly dependent on service providers that at a group level will have exposure to activities other than the provision of outsourcing services.

Asset managers consider outsourcing beneficial for various reasons, but alongside these benefits outsourcing brings additional risks. We carried out the review because we were uncertain whether asset managers generally were effectively managing the risks associated with outsourcing to ensure that customers are not adversely affected. The two key areas of risk which formed the basis of our review were:

(1) *Resilience risk* – If an asset manager's service provider was to suddenly fail and therefore be unable to provide their outsource services for an indefinite period, the asset manager in turn would not be able to continue the service it is contracted to provide to its customers. For example, investors may not be able to redeem their fund holdings at a fair and accurate valuation on a timely basis. Without viable contingency plans in place, this scenario could result in detriment to the asset manager's customers.

We recognise that the probability of a scenario occurring which could cause such a failure of a service provider is low, but the impact on asset managers' customers would be significant and therefore firms should manage the risk.

(2) *Oversight risk* – If asset managers fail to oversee their service providers effectively, it could result in poor outcomes for their customers. For example, if an asset manager fails to detect pricing errors made by the service provider due to poor oversight, investors in the fund could miss out on returns they should have received.

Alongside this report the FCA has carried out a review of the governance of unit-linked funds in the life insurance sector.[5] This review carried out by the FCA Life Insurance Department also included an assessment of the oversight of outsourced activities, producing similar findings to our review but with more examples of serious failings.

5 www.fca.org.uk/news/tr13-8-the-governance-of-unit-linked-funds

3.
Description of the work carried out as part of the thematic review

The scope of activities included in the review

We reviewed the outsourcing of operational activities that are important to an asset manager's business, including back office and middle office activities as well as fund administration. For custody of client assets, we chose only to include the reconciliations of assets held in custody.

The methodology used for the review

We selected a sample of 17 asset management firms of varying sizes, ownership structures and business models to form a sample that we believe is representative, in terms of outsourcing activity, of the asset management industry as a whole.[6]

For each of the 17 asset managers, we carried out a desk based analysis of information, followed by on-site visits. We assessed whether asset managers were complying with SYSC 8, by having:

- adequate contingency plans in place for the failure of their service provider and
- effective oversight of their service provider(s)

On oversight, we assessed the firms' overall oversight frameworks and looked in depth at four specific areas of outsourced investment operations where we considered there to be a risk of errors or omissions potentially resulting in customer detriment, namely:

i. reconciliations of assets held with the custodian

ii. pricing and valuations of a portfolio or specific instruments

iii. corporate actions relating to instruments held (such as payment of dividends, rights issues, meetings of shareholders etc) and

iv. trade processing

We completed our assessment work on the sample at the end of 2012, providing firm-specific feedback and publishing a Dear CEO letter, referred to above. The letter set out our concerns about the inadequacy of asset managers' contingency plans for the failure of a service provider.

6 The sample included three hedge fund managers.

Our findings on *oversight ris*k in this report are based on what we found in the sample of 17 firms. Our findings on *resilience risk* are also based on our findings in the sample, along with our extensive discussions with the wider industry on this topic which has taken place since the start of 2013. We have worked with: the Investment Management Association ('IMA'); key service providers; the Chief Operating Officers of the larger asset managers at two roundtable events; and consultants.[7]

7 A number of consultants have provided us with their ideas about how asset managers could mitigate the resilience risk.

4.
Resilience risk detailed findings

This section of the report sets out what we found during our review of how asset managers prepare for the failure of a service provider.

Our findings on *resilience risk* from the initial review of 17 asset managers

Based on our initial assessment of asset managers last year, we concluded that firms in the sample were unprepared for a failure of their service provider. We identified that these asset managers had, up to the start of our review, focussed their attention and resources on business continuity plans for temporary operational disruptions to outsourced services. Where asset managers informed us that they had a contingency plan in place for the outright failure of a service provider, we found their plans were underdeveloped. These asset managers had not considered how their plan would work in practice under stressed market conditions and/or what implications the plan would have for their customers.

Examples of underdeveloped contingency plans for the failure of a service provider:

Moving service provider
The vast majority of asset managers within the sample told us they would move from the failed incumbent to another service provider. However, due to the long, complex process involved in moving service providers[8], together with the concentration risk in the provider market place, this cannot happen at short notice and be completed quickly. These asset managers had not given adequate consideration to how they would continue to service their customers whilst the transfer was taking place.

Individual step-in rights[9]
Some of the asset managers told us that they would exercise individual step-in rights and take over the outsourced activity but failed to demonstrate how they would overcome the operational difficulties of 'stepping-in' to the service provider. In particular, none of the firms in the sample could inform us how they would resolve the problem of data privacy due to all of the provider's customers being managed on the same systems. As such, individual step-in rights do not appear to provide a viable mitigating solution.

8 The timeframe can vary considerably, from three months to two years, depending on the outsourced activity in question.

9 A legal clause in the contract between the asset manager and service provider which is generally constructed to allow the asset manager to take over from the service provider in certain situations, with the aim of ensuring business continuity.

Insourcing activities
A few of the asset managers in the sample told us they would continue the activities in-house. This does not, however, appear feasible even in the short term as these firms could not evidence that they had timely access to the required expertise, technology and data to enable them to insource at short notice. The exception to this was the hedge fund managers we reviewed, who fully replicate the majority of outsourced activities in order to ensure their service provider operates effectively. This would allow those hedge funds to continue servicing their customers uninterrupted should their service provider fail.

Too big to fail
Some of the asset managers said they were comfortable with not having a contingency plan in place at all because their service providers are part of systemically important banking groups that are too big to fail and therefore the respective governments would bail them out. This assertion is inconsistent with the Prudential Regulation Authority's (PRA's) focus on the ability of systemically important global groups to be wound-down and resolved in a controlled manner. It is also a breach of FCA requirements, as set out in SYSC 8, to not adequately manage the risks associated with outsourcing a critical activity.

Industry's response to our Dear CEO letter

We communicated our initial findings from the sample of firms, outlined in the section above, in a Dear CEO letter to asset managers in December 2012. We set out our concern that the industry was not taking adequate steps to mitigate the risk of the failure of a key service provider. The letter also explained that the contingency plans for such an event should be 'viable, robust and realistic'.

We are pleased with the proactive response to our Dear CEO letter with firms taking action both on an individual basis and together as an industry, notably the IMA published a useful White Paper[10] on the topic in May 2013.

We are encouraged that in July 2013 the OWG comprising both asset managers and key service providers was formed to devise principles to guide firms on (1) standardisation; (2) exit planning; and (3) oversight models (we refer to them as the 'guiding principles' in the section below). In addition to helping mitigate the resilience risk, it is clear from our discussions with the OWG that there will be wider benefits to the asset management industry from adopting these guiding principles where appropriate. For example, improving portability and making outsourcing contracts less 'sticky' could enhance competition within the service provider marketplace which in turn could drive up service level standards.

10 Link to IMA White Paper

Our current findings on *resilience risk* from our collaboration with industry during 2013

Since the beginning of 2013 we have been working with asset managers on the various options available to them and acknowledge that there is not a one size fits all solution or 'silver bullet' that will result in complete mitigation of the *resilience risk*. Instead, there is a collection of mitigating measures that together could improve asset managers' ability to deal with the failure of a service provider.

As most asset managers are likely to move to a new service provider if their incumbent provider were to fail, firms should consider if they have not already:

- how their contingency planning would allow them to continue to service their customers during the interim period whilst the transfer takes place, and
- if appropriate, how their ability to transfer between providers can be improved

As described in the section above, the OWG has been formed to develop guiding principles for firms. This includes guiding principles aimed at increasing standardisation in areas that have the most impact on transition timescales, such as service definition documentation.[11] If asset managers adopt the guiding principles on standardisation where appropriate, this may help improve the efficiency and reduce the time in which outsourced activities are transferred.

We found some asset managers are identifying a 'stand-by' service provider to help reduce the time it takes to transfer providers. The benefit of this is that if an asset manager's current service provider fails, the asset manager knows immediately which service provider to transfer to without having to complete a new, prolonged proposal process and due diligence. This of course will only be beneficial if the 'stand-by' provider is willing and able to take on the additional business at that time. To help ensure this is the case, some asset managers are considering formalising the relationship with their 'stand-by' provider.[12]

Similarly, other asset managers have different service providers carrying out different outsourced activities. In the event that one of the service providers fails, by already having a working relationship in place with another provider, this should help speed up the transfer of additional outsourced activities to that provider.

There are other steps that asset managers are taking to enhance their readiness for a failure of their service provider. Most importantly, asset managers are beginning to devise and put in place exit plans that focus on the continuation of service to their customers in the event of a failure of their service provider. Recent findings show that for asset managers to provide continuity of service whilst exiting from one service provider and moving to another at short notice they require:

- a detailed understanding of their asset manager's operational exposure to their service provider(s)
- identification of the outsourced activities that are essential to ensure a basic level of service to customers, and
- knowledge of how, where and at what regularity the essential activities are expected to be carried out and how they are to be overseen

11 For example, Service Level Agreements and operating model overviews.
12 For example, by having in place a Memorandum of Understanding.

When devising exit plans, asset managers should consider whether the plan should be:

- a subset of current BCP subject to similar controls, such as updating and testing the plan on a periodic basis and
- formalised with the service provider at the outset of a contractual relationship or as soon as reasonably possible, including agreement on which activities should be transferred to a new service provider as a priority if applicable

Asset managers should consider adopting the guiding principles on exit planning proposed by the OWG where appropriate. This should improve an asset manager's ability to exit an outsourcing contract in an orderly and efficient manner not only when there has been a failure of the incumbent service provider.

As the majority of service providers are part of G-SIFIs[13], they will have recovery and resolution plans (RRPs) or 'living wills' in place. RRPs are designed to help regulatory authorities develop plans to resolve failing G-SIFIs in an orderly manner. We found that a lot of asset managers are keen to incorporate the RRP of their service provider's group within their emergency exit plans. However, asset managers should be mindful that the existence of an RRP does not automatically mean that the current service they receive will continue uninterrupted if the group experiences severe financial distress. We continue to keep in close contact with the PRA on the development of G-SIFI's RRPs.

We have found that some asset managers are improving their surveillance of their service providers' financial position. Information gathered as part of this oversight could, for example, potentially act as a forewarning of deteriorating credit-worthiness. The guiding principles for oversight models proposed by the OWG include ongoing surveillance.

13 Global systemically important financial institutions

5. *Oversight risk* detailed findings

This section of the report sets out what we found during our review of asset managers arrangements to deal with *oversight risk*. This section is divided into two parts. Section A outlines our findings and observations on the overall oversight framework of those asset managers within the sample. Section B outlines our findings and observations on the oversight of the four specific areas of outsourced investment operations, namely: reconciliations with the custodian; pricing and valuations; corporate actions; and trade processing.

A. General observations on oversight frameworks

Responsibility for outsourced activities

We found that asset managers within the sample accepted responsibility for critical activities that had been outsourced where their brand name was on the funds. This was the case even where the governing body of the fund was the party contracting with the service provider. Asset managers were acutely aware of the reputational risk to their brand of a service provider failing to deliver to the required standard and this acted as a strong incentive to put in place effective oversight.

Oversight expertise

The standard of expertise and capacity of the staff employed by the asset manager to oversee the service provider are crucial factors in meeting our outsourcing rules, in particular SYSC 8.1.8R (5).

The asset managers in the sample retained some operational staff to act as a 'first line of defence' carrying out the day-to-day oversight of the firm's service provider. However, in a minority of asset managers the number of oversight staff was inadequate and/or they did not have the relevant depth of expertise necessary to supervise the outsourced activities effectively and to manage the risks associated with outsourcing. Where asset managers were not maintaining adequate in-house expertise to check the service provider, we found that in most cases the firms were placing undue reliance on the service provider's own expertise and controls.

Example of oversight staff with adequate expertise

At one asset manager the member of staff responsible for the outsourcing of fund accounting services, which includes responsibility for the day-to-day oversight and quality checks, was a senior employee who had substantial experience of fund accounting from when the activity was carried out in-house. This individual had a well-resourced team of staff with relevant skill-sets that he could rely upon to support him in providing effective oversight.

Example where an asset manager identified and rectified the lack of expertise to oversee their service provider

At another asset manager, at the start of an outsourcing relationship, the firm transitioned nearly its entire staff across to the service provider. However, as the outsourcing relationship progressed, the asset manager recognised that it did not have the internal expertise and capability to oversee the service provider to an acceptable standard. The asset manager subsequently built up a new team of staff who required training because they were not familiar with the activities and processes in question.

Service level agreements and MI

In accordance with SYSC 8.1.9R, all of the asset managers we met had written service level agreements (SLAs) in place with their service providers, which established the responsibilities of each party and the level of service expected.

All asset managers used management information (MI) reports to monitor whether service providers were meeting their SLAs. These MI reports often included key performance indicators (KPIs) and key risk indicators (KRIs) with the aim of providing the asset manager with an accurate picture of the service provider’s performance. We found the quality of MI reports and therefore their effectiveness as a monitoring tool, varied considerably across the sample.

Example of an asset manager using the SLA to ensure optimal service

One asset manager reviewed and updated the SLA in place with its service provider annually to ensure it achieved the optimal level of service. The firm also had effective escalation mechanisms in place to enable it to take swift action to rectify a situation where the service provider was not meeting the SLA.

Examples of asset managers reliance on MI

Several asset managers we met during our review conducted regular direct checks on the method and inputs used by the service provider to produce the performance indicators to ensure the MI received is accurate, which enabled them to provide challenge to the service provider when it was not. By contrast, some asset managers simply accepted the metrics as supplied by the service provider without performing any independent verification. This carries the risk that they may not be receiving an accurate picture of the level of service.

Operational risk management

SYSC 8.1.1R requires a firm to take reasonable steps to avoid undue additional operational risk when relying on a third party for the performance of operational functions which are critical for the performance of regulated activities. Most asset managers within our sample had identified and assessed the operational risks associated with outsourcing as part of their operational risk framework, albeit with varying degrees of rigour.

Example of an asset manager understanding its exposure to outsourcing risks

One asset manager carried out a thorough review of its operational chain to ensure the firm had the appropriate knowledge to identify areas where the firm is exposed to the greatest risk from outsourcing. The asset manager used this knowledge to assist in resource planning, thereby allocating expertise to oversee higher risk outsourced services.

Example of an asset manager that did not identify the operational risks associated with outsourcing

One asset manager had not established methods for identifying and mitigating the risks relating to outsourcing so these were not incorporated into its operational risk framework. Therefore, the firm was unable to identify and mitigate the operational risk following the outsourcing of critical activities.

Compliance and internal audit

All asset managers used their compliance and internal audit functions as layers of control within their oversight framework, but with varying degrees of effectiveness.

Examples of compliance's involvement in oversight of outsourced activities

The compliance function at one asset manager took a leading role in the oversight of the service provider by carrying out extensive, in depth on-site visits and reviews at the service provider and produced detailed six monthly reports. These reports formed the basis for instigating improvements in service levels.

At another asset manager where the compliance department's involvement in oversight was less effective, we observed that the compliance function simply checked that control processes were being followed by the service provider, with no verification that the inputs and outputs of those processes were accurate.

Examples of internal audit's involvement in oversight of outsourced services

One independent asset manager used its internal audit function to carry out periodic reviews of its own oversight of the outsourced functions in addition to undertaking on-site visits at the service provider itself, which made an effective contribution to the overall oversight framework.

By contrast, we found that asset managers that were part of banking or insurance groups were less likely to be able to influence group internal audit planning to ensure that an audit of the oversight of outsourced services was included regularly. We also observed examples of group internal audit functions lacking sufficient understanding of the asset manager's business to be able to carry out detailed reviews that went beyond relatively simple process audits.

Offshored outsourced activities

Some of the asset managers in our sample used service providers that off-shore[14] part of the service they provide. In these situations, we found that most asset managers maintained a reduced level of oversight of the offshored activity. Where the operational chain gets longer with a greater number of parties involved, the asset manager's oversight is diluted, but our requirements remain the same. This results in additional challenges for the asset manager.

14 Offshoring is the relocation of a business process done at a company in one country to the same or another company in another country.

B. Four specific areas of outsourced investment operations

Reconciliations with custodians

We found the relationship between asset managers and their respective custodians was subject to varying practices, with firms taking quite different approaches to outsourcing and the corresponding oversight arrangements.

We found that where asset managers outsourced reconciliations to a service provider the asset managers could not always verify that the reconciliations with those of the custodians were accurate. A key differentiating factor as to the effectiveness of oversight in this area was the ability of the asset manager to maintain internal client account books from which to accurately reconcile against the custodian's records.

If reconciliations are not performed and overseen appropriately, asset managers expose investors to risks such as a trade being omitted from the records; the fund suffering a loss caused by a trade error; and fraud not being detected and corrected promptly.

Record keeping and data management was another area investigated during the review and we observed a trend in the industry for further outsourcing of such activities. We recognise the merits of specialisation, scale and automation in data processing, yet asset managers should remain alert to the risks of surrendering too much control over key data and mitigate these accordingly.

Example of effective reconciliations oversight

Some asset managers retained an internal fund accounting capacity capable of overseeing its service provider. These firms maintained direct links with their respective custodians in order to conduct regular three-way reconciliations between the service provider, the custodian and their own records.

Example of over reliance on a service provider carrying out reconciliations

Other asset managers, who had transferred their internal accounting capacity to their service provider, would have to rely wholly on their service provider to inform them of reconciliation discrepancies with the custodians. These asset managers had no method of independently verifying the accuracy or completeness of the accounting of the service provider.

Pricing and valuations

We found that asset managers typically outsource the daily valuation of funds to a service provider. Mainstream asset managers with a lot of funds that require a daily valuation chose not to carry out detailed checks, such as a re-computation, on all valuations prior to them being published. The main reason for firms taking this approach is the need to provide distributor platforms with daily Net Asset Values by a certain time leaving most asset managers[15] with only between 30 and 90 minutes to check valuations before they are published. We understand this time constraint results in almost all of the oversight checks on the valuation of funds, however detailed, being completed retrospectively.

We identified considerable variations within the sample as to the extent of the valuation checking and testing of potential pricing anomalies, which reflected the differing risk appetites of the respective asset managers. There were also variations in the size and expertise of the internal team retained to carry out such checking. It is not acceptable for firms to fail to retain the necessary in-house valuation expertise post outsourcing. In the absence of adequate oversight, valuation errors could occur and investors in the fund could miss out on returns they should have received.

Due to the distinct business operations of hedge fund managers, including fewer funds and valuation requirements, the hedge fund managers in the sample generally retained most of their ability to price and value. This means that they are in a better position to recompute NAVs internally enabling them to have better oversight of their service providers.

Example of an asset manager with a high risk appetite for testing price anomalies

One asset manager applied price investigation triggers on equities and bond movements away from the chosen pricing data sources of 10% and 3% respectively which was higher than other asset managers in the sample. This asset manager's high-risk appetite means that it faces a greater risk of pricing errors going unidentified.

Corporate actions

From our review, it was clear that asset managers adopted a range of different oversight practices for dealing with corporate actions with no particular approach prevailing. Irrespective of whether asset managers outsourced or not, our review found that a degree of human intervention or manual processing is required to administer corporate actions, specifically voluntary rather than mandatory corporate actions.[16] As such, the processes used for voluntary corporate actions are more susceptible to errors that could potentially lead to a financial loss for the asset managers' customers if adequate controls and oversight are not in place.

15 This is an issue that primarily affects the managers of retail funds.

16 A mandatory corporate action, such as a cash dividend, affects all shareholders as participation is mandatory.

Examples of mandatory corporate action oversight

In the case of mandatory corporate actions, most asset managers relied on a monitoring and tracking system provided by their service provider for automated capture of cash dividends and bonus issues. Firms applying more effective oversight retained capacity to confirm that no actions had been missed by the provider, despite it being an automated process, by either using off-the-shelf systems or liaising directly with custodians.

Examples of voluntary corporate action oversight

One asset manager had no system in place for checking voluntary corporate actions, instead relying on the instructions from its portfolio managers to match up with the requests from its service provider. By contrast, another asset manager with effective oversight had in place a 'six eyes' process to ensure that no voluntary corporate actions are overlooked by the service provider and that instructions from the portfolio managers are received in a timely manner so the fund's investors do not miss out on any entitlement.

Trade processing

We identified a trend for asset managers to streamline trade processing operations, thereby reducing internal staffing levels. Indeed, some asset managers almost entirely outsource their trade processing and matching capabilities. This is being driven mainly by increased automation, with the degree of straight through processing exceeding 90% of trades at most asset managers in the sample. Asset managers now also have more confidence in outsourced services offered by service providers.

Hedge fund managers in the sample retained an in-house capability to replicate the trade processing undertaken by their service providers to assure themselves it is robust. As explained above in section 5.8, hedge fund managers' ability to do this is due to their distinct business operations. The mainstream asset managers in the sample did not fully replicate the trade processing undertaken by their service providers, instead relying on a range of metrics to monitor the providers.

Following the implementation of the UCITS III regime, asset managers have increased their use of derivatives in some retail focussed funds. Asset managers using derivatives within their funds should retain oversight staff with the relevant technical capability to effectively challenge service providers, particularly when non-standard and non-automated trades fail.

Example of over reliance on a service provider carrying out trade processing

Several asset managers relied solely on the service provider to identify trade processing errors and report these back (for example, mismatches with market counterparties and custodians), with insufficient means to verify whether all of the errors have been properly identified. In doing so, these asset managers face a heightened risk of trade processing errors going undetected.

6.
Next steps for asset managers

In light of our findings in this report, asset managers should review their own outsourcing arrangements and where appropriate:

- enhance their contingency plans for the failure of a service provider providing critical activities, taking into account industry-led guiding principles where applicable and
- assess the effectiveness of their oversight arrangements to oversee critical activities outsourced to a service provider, making sure the required expertise is in place

Further work by the FCA

Over the course of the year we have been encouraged to see that asset managers in conjunction with their service providers are able to make improvements in the absence of regulatory intervention. We will continue to monitor this progress and asset managers' compliance with their outsourcing obligations. We will also consider undertaking follow-up supervisory work in the future to test whether it has led to an acceptable increase in the level of preparedness for a service provider failure and effective oversight of all outsourced activities. If we find that the progress has not been sufficient to mitigate the risks relating to outsourcing, we will then also consider further policy action.

Financial Conduct Authority

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