

MAS PROPOSED GUIDELINES ON OUTSOURCING

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Category: [CNPupdates](#)

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The Monetary Authority of Singapore (“**MAS**”) first issued the Guidelines on Outsourcing (“**Guidelines**”), about ten years ago. Since then, outsourcing arrangements have become more prevalent and increasingly complex. To deal with the new challenges, MAS proposed revisions to the Guidelines in September 2014 to raise the standards of institutions' risk management practices.

The proposed revisions to the Guidelines provide guidance on sound practices that relate to a wide range of issues, including responsibilities of boards and senior management and monitoring and control of outsourcing arrangements. These changes underscore the need for financial institutions to adopt an institution-wide, responsive and rigorous approach towards management of outsourcing arrangements. In addition to these, the proposed revisions include significant changes made in the following areas:

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Current Guidelines last updated 1 July 2005	Proposed Guidelines September 2014
Definition of "institutions"	
Institutions refers to licenced banks, finance companies, insurance companies, approved holding companies, approved exchange, designated clearing house or CMS licensee	Expanded to include money-changers and remitters; insurance intermediaries; financial advisers; recognised market operators, licensed trade repositories, and licensed foreign trade repositories; trustee-managers of business trusts; trust companies; and holders of stored value facilities
Definition of "Material Outsourcing Arrangement"	
Refers to an outsourcing plan which, if disrupted, has the potential to significantly impact an institution's business operations, reputation or profitability	Expanded to include outsourcing arrangements impact on customers (e.g. loss or theft of customer information) and impact on institutions' ability to manage risk and comply with applicable laws and regulations
Notification of Adverse Developments	
Notify MAS of adverse developments which could significantly affect the institution including events leading to termination and early exit arrangements	Expanded to include event potentially leading to prolonged service failure or disruption in the outsourcing arrangement, and any significant unauthorised access or breach of security and confidentiality that affect the institution or its customers Also applies to adverse developments within the institution's group
Fit and Proper Criteria	
-	Employees of institution's service provider and its sub-contractors undertaking any part of the outsourcing arrangement have been assessed to be fit and proper, consistent with the criteria applicable to its own employees
Register of Outsourcing Arrangements	
Maintain a central record of all material outsourcing	Maintain an updated register of all existing outsourcing arrangements in the format prescribed by the guidelines
Audit Frequency and Scope	
Periodic independent audits and expert assessments on service providers	Time period between periodic independent audits and expert assessments not to exceed 3 years on service providers and sub-contractors of the service providers
Drafting outsourcing agreement	
<p>Contractual terms and conditions governing relationships, functions, obligations and responsibilities of the contracting parties in the outsourcing and at least have provisions pertaining to:</p> <ul style="list-style-type: none"> · Scope of outsourcing service · Performance standards · Confidentiality and security · Business continuity management · Monitoring and control · Audit and inspection · Dispute resolution · Default termination and early exit · Sub-contracting 	<p>In addition to the existing terms, introducing new terms, including:</p> <ul style="list-style-type: none"> · Institution should be allowed to conduct audits on the service providers and the sub-contractors · MAS should be allowed when necessary to exercise contractual rights of the institution to access and inspect service providers and the sub-contractors · Institution shall have a right to terminate the outsourcing contact when it is prevented from carrying out audits or obtaining any report and findings made on service provider, when it is prevented from assessing service provider's compliance with the outsourcing contract or when it is directed by the MAS to terminate the contract due to the failure by the service provider to comply with all applicable laws and regulations

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Notice on Outsourcing

Further, MAS proposes that all institutions looking to enter into Material Outsourcing Arrangements have to issue a Notice (“**Notice**”) that defines a set of minimum standards for outsourcing management. The Notice sets out requirements for the assessment of service providers, protection of customer data, termination of and exiting from an outsourcing arrangement and outsourcing to overseas regulated financial institutions. The expectation is for an institution to manage outsourcing arrangements as if the services continue to be conducted by the institution. Most importantly, the Notice, unlike the guidelines is legally-binding and that the institutions must abide by it.

Click here to view:

[Guidelines on Outsourcing](#); and [Notice on Outsourcing](#)

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