

Summary Table of Consultation Feedback for Outsourcing

THEME	SUMMARY OF ISSUE/COMMENT	BCFSA RESPONSE
Other Third-Party Risks	<p>There are concerns around what is and isn't outsourcing – for example, whether banking services or storing data with cloud service providers is outsourcing.</p>	<p>An outsourcing arrangement is an agreement between a PRFI and a service provider whereby the service provider performs an activity, function, or process that is, or could be, undertaken by the PRFI.</p> <p>A PRFI may discuss with BCFSA when they are uncertain whether a particular arrangement falls within the definition of outsourcing.</p>
Audit Rights	<p>There are questions why BCFSA requires an audit right clause in outsourcing contracts.</p> <p>Comments expressed concern that PRFIs may not be able to secure audit rights for outsourcing arrangements, including subcontracted outsourcing arrangements.</p> <p>Small service providers may not have the internal capacity to provide audits and very large service providers may not be willing to modify existing contracts to include audit rights.</p>	<p>The Outsourcing guideline indicates that PRFIs should have access to a third party's audit rights based on the principle that a PRFI's senior management should be regularly assessing the performance of all of its outsourcing arrangements.</p> <p>Audit right clauses require that the service provider keep accurate records about their performance of the service and provide that information upon request.</p> <p>BCFSA will apply the principle of proportionality when looking at the ability of PRFIs to secure audit rights in their contracts.</p> <p>Where PRFIs cannot secure audit rights, they should develop an alternative method to assess performance.</p>
Oversight of Outsourcing Technical Expertise	<p>There is concern that where a PRFI outsources a material function (such as information security) because it lacks internal expertise, that it would</p>	<p>A PRFI cannot outsource accountability but outsourcing an activity to acquire technical expertise is valid. In cases where a PRFI</p>

	<p>be onerous (or difficult) to provide the oversight the Outsourcing guideline establishes.</p>	<p>outsources a material function where BCFSAs has established specific expectations, the PRFI should communicate BCFSAs expectations established in the guideline and a PRFI should establish a strategy to understand how the service provider has met expectations.</p>
<p>Concentration Risk</p>	<p>There are questions what actions BCFSAs would take if BCFSAs identifies a systemic risk where multiple PRFIs are using a single service provider.</p> <p>It was suggested that outsourcing arrangements with other entities that are regulated by BCFSAs, such as Central 1 Credit Union, do not pose the same risk as non-regulated entities, and that these arrangements should be exempted from consideration of concentration risk.</p>	<p>BCFSAs recognizes that there may be instances where there are no reasonable alternatives or effective methods of mitigating concentration risk. There may in fact be cases where it is either required or advantageous to PRFIs to use a single service provider. However, in all cases PRFIs should ensure they are aware of potential concentration risk and, where possible, take reasonable efforts to mitigate it.</p> <p>BCFSAs considers outsourcing arrangements with regulated entities such as Central 1 to carry risk that should still be assessed and potentially deemed material, as with other outsourcing arrangements. However, in performing a risk assessment, the PRFI may take into consideration the entity's oversight by BCFSAs and, where applicable, the nature of its role in the sector (e.g. Central 1's role as the central credit union).</p>