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Delegation and Outsourcing: Two sides of the same coin

Introduction

Board governance and delegate oversight frameworks have been highlighted as a key risk for regulated entities in 2023. Whilst the Central Bank of Ireland acknowledges that outsourcing presents significant and wideranging benefits to regulated firms ("Firms"), it also poses risks if not effectively managed. Furthermore, the Central Bank of Ireland has confirmed that delegation and outsourcing are to be treated as one and the same, with Firms to apply the same level of assessment for intragroup arrangements as for third party outsourced service providers.

The investment management sector is of particular focus and there is an expectation that resourcing and expertise will continue to increase as the nature, scale and complexity of Firms continues to grow. There are a variety of Firms providing different types of services in this space who operate an outsourced business model and for those Firms, existing delegation arrangements, as well as any other outsourcing arrangements, will need to satisfy the Central Bank of Ireland's requirements on outsourcing.

In particular, there is the need for a Firm's board and its senior management team to thoroughly challenge the information they receive to demonstrate their effective governance and management over the organisation.

Regulatory Expectations



Knowledge | Clearly map delegation relationships along with associated oversight arrangements and relevant rules



Regularity | Delegation oversight should be carried out when the delegation arrangement is initiated and on an ongoing basis.



Substance | Ensure appropriate resourcing and expertise is retained within the entity delegating to ensure rigorous oversight of the delegate.



Risk Management | Apply a risk based and proportionate approach to overseeing delegates.



Equality | Oversight of internal and external delegation arrangements should be equally robust.

Checklist for Firms



Has the firm assessed the current framework against relevant 'Cross-Industry Guidance; CP138" to ensure compliance with all legislative requirements on outsourcing and third-party oversight of delegates?



Is a periodic review carried out of the firms operating model to ensure its governance structure clearly outlines the responsibilities for operational, reporting and control processes, as well as the individuals responsible for key decisions?



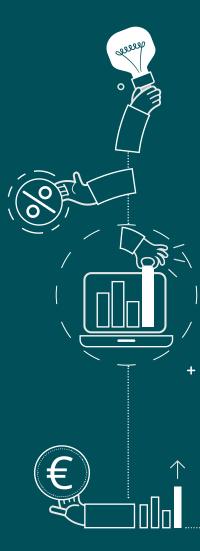
Has a recent assessment of the business model been performed to ascertain if the resourcing and operational capacity is sufficient for expansion of product offering or increased complexity of fund products?



Is the management team able to fully demonstrate their oversight and challenge of all reporting received periodically?



Has scenario testing been carried out to assess the effectiveness of the firm's governance and escalation framework for management, delegates and the board?



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We can assist you throughout every stage of your journey; from establishing a new entity in a jurisdiction to conducting precontractual due diligence. We can also support the ongoing due diligence of intra group entities ensuring independence is observed and maintained for effective oversight in addition to external third parties.

We can also assist with the review and assessment of the current operating model, considering retained tasks and ensuring that oversight of all important functions follows a risk based approach.

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