Cayman Islands Monetary Authority

SUMMARY OF PRIVATE SECTOR CONSULTATION AND FEEDBACK STATEMENT

Statement of Guidance: Outsourcing for regulated entities

Section	Industry Comments	CIMA responses	Consequent amendments to the draft SOG
GENERAL COMMENTS			
	Most respondents sought clarification on whether the SOG applied to Excluded Persons (EPs), Private Trust Companies (PTCs), Class B, C & D, insurance managers and controlled subsidiaries.	In addition to mutual funds, the SOG will not apply to EPs and PTCs, however it will apply to controlled subsidiaries. **Amended to confirm that the SOG does not apply to the above entities.**	Amended
	Consideration should be given in respect of low risk outsourcing arrangements which meet "Regulatory Equivalency" as with the list of Schedule 3 countries.	The Authority has decided not to develop a list of "regulatory equivalency" due to the resource requirements of maintaining and updating the list and the previous challenges in relying on such a list.	None
	Most respondents sought to have reduced requirements in respect of intra-group outsourcing arrangements relating to material functions.	Noted. CIMA has amended the SOG to provide further guidance on intra-group outsourcing. However, CIMA is aware of instances whereby	Amended

		entities outsourcing functions to affiliated/related parties have resulted in failure or sanctions due to inappropriate supervision. The Authority is concerned that in respect of intra-group outsourcing arrangements, there is little or no oversight by the regulated entity and no real accountability on the part of the related service provider. Generally there appears to be a somewhat unrealistic reliance on the related entity to complete the outsourced function(s) in accordance with applicable laws, regulations and measures. Also, due consideration may sometimes not be given to the regulated entity's and its clients' best interests (e.g. cost cutting/mergers could result in less resources to an outsourced function that the regulated entity may not be immediately made aware of – that can significantly negatively impact the outsourced function). **Minimum requirements inserted under a new section 6**.	
1. Statement of Objectives			

General comments	Clarify that CIMA's ultimate goal is to:- (i) ensure that the Authority has the appropriate supervisory framework in place for the particular type of business conducted by a Cayman Islands licensee; (ii) alleviate concerns in respect of the provision of timely and accurate information to the Authority from licensees which are part of a larger global group or have a head office in another jurisdiction; and (iii) ensure that licensees are fully appraised and knowledgeable with respect to the requirements to gain access to information kept outside of the Cayman Islands.	The Authority wants to ensure that all regulated entities properly assess, manage, monitor and mitigate risks posed as a result of outsourcing arrangements with both related and unrelated service providers locally and cross jurisdictionally given the risks attached to outsourcing as identified by The Joint Forum on Outsourcing In Financial Services (*Basel Committee on Banking Supervision, International Organization of Securities Commissions, International Association of Insurance Supervisors*).	None
	Clarify why mutual funds as a class are exempt from the SOG. If final SOG is issued, would suggest that it details why theis exemption exists.	Oversight of service providers relating to regulated mutual funds is provided for within the SOG on Corporate Governance for regulated mutual funds.	None
	CIMA to consider exemption from SOG with respect to Class B, C and D insurers as by their very nature, the investment to incorporate and dedicate capital said licensed entities is from sources outside of the Cayman Islands.	The Authority is of the view that all insurers should apply the SOG as it is not unreasonable to expect that these entities should have proper oversight in respect of outsourced functions because the outsourcing practice is a large part of their business model. In most cases such insurers insure risks of third parties as well as unrelated party risks.	None

	Cayman competes in a global economy and adding unnecessary constraints will cause undue hardship i.e. the cost vis a vis the benefit is not supportable.	Leaving such a practice unchecked with no expected oversight would result in potential reputational damage to the jurisdiction should the risks attached not be properly assessed, managed and mitigated. The SOG generally aligns with international standards and good practice globally.	None
	Cayman is already an expensive jurisdiction having to compete on the world stage.	The Cayman Islands as a financial services center is regarded for its robust regime and this SOG aligns with international standards and best practice globally.	None
	By its very nature a Class B i.e. a captive is an "outsourced" vehicle not writing local Cayman business as per the Insurance Law unless so approved by the Authority anyway. The parent/owner pays a premium either directly or indirectly via a front to the Cayman Licensed captive. Investment advisors or managers are usually an outsource function as is the custodian. The audit process is conducted by an outside entity and in some instance the owner may stipulate the onshore audit practice to conduct the audit in conjunction with the local affiliate. TPA's who handle claims are typically outsourced. Captive owners have been attracted to the Cayman Islands due to its sensible regulatory approach. Adding this as a requirement will unnecessarily increase costs.	See previous comment.	None

	Affiliated entities of the insurance manager are connected electronically to the same database, therefore the Cayman Manager is able to monitor transactions on a real time basis. If there is a technological issue it will be resolved from within the affiliated entity most likely by technical experts located outside of the Cayman Islands. Having duties bifurcated and supported outside of Cayman Islands enhances internal controls and provides redundancy. It also supports business resiliency which serves Cayman's interest as this mitigates risk. The Cayman Manager serving as the Principal Representative is already accountable to CIMA for all filings et al.	Agree that more guidance is needed in relation to outsourcing arrangements with affiliated entities. The Authority notes that even outsourcing with related parties presents some risks. **New section (6) inserted regarding intra-group arrangements.**	Amended
1.2 -- This Guidance is not intended to be prescriptive or exhaustive; rather this Guidance sets out the Cayman Islands Monetary Authority's ("the Authority") minimum expectations on the outsourcing of material functions or activities and outsourcing arrangements.	1.2 refers to a set of "minimum expectations", then later that they might "impose additional requirements" (Section 5.3), so clarification on how they'll apply/monitor these minimum expectations and impose additional ones would be good.	Minimum expectations do not preclude other requirements being added in respect of a regulated entity as the need arises whether it be on a case by case basis if the situation warrants or generally. Such additional requirements would be imposed by means of the Authority's powers under the Regulatory Laws.	None

1.3 This Guidance is provided on the basis that regulated entities, including their Governing Body and Senior Management, remain ultimately responsible for all outsourced functions or activities, regulatory requirements and any other requirements of the Authority.	Senior Management is undefined. A definition would give greater certainty around CIMA's expectation.	The Authority has been using this term for a long time and it should continue to be interpreted according to each regulated entity's structure.	None
1.4 -- The Authority expects that regulated entities would not generally outsource material functions; however, where material functions are outsourced, regulated entities should follow this Guidance.	The direction that the Entity would "not generally outsource material functions…" and why is that.	As noted the expectation is a general one based on the wide array of risks attached to the outsourcing of material functions. However, the SOG was developed bearing in mind the global trends and common practices thus the reason for issuing this guidance.	None
	This is contrary to the captive model, and the requirement within the Insurance Law for Class B and C insurers to appoint a licensed Insurance Manager.	See comment above.	None
2. Scope			
	CIMA to confirm that the definition of "Outsourcing" does not contemplate internal service level arrangements between Cayman branches of regulated entities and their head office or other branches. This would be the natural interpretation, as the definition of "Outsourcing" includes "use of a third party" and a branch is part of the same legal entity as the head office and other branches.	Noted. **The SOG has been amended to provide additional guidance for branches, recognizing that the branch is not a separate legal entity.** It is important however to note that even internal service level arrangements may pose risks and that the management of a branch must be aware of such risks. It is also expected that the branch will have basic information about the outsourcing arrangements that relate to its activities.	Amended

	More direct reference to risk based approach vs just in 7.7.	Noted. **Amended to insert paragraph under section 5 that reads:** Regulated entities should implement this Guidance in proportion to the risks, size, nature and complexity of their business.	Amended
2.1 This Statement of Guidance applies to all entities regulated by the Authority (except for regulated mutual funds as defined in the Mutual Funds Law). For the purpose of this Guidance, a regulated entity is an entity that is regulated under the: a) Banks and Trust Companies Law b) Insurance Law c) Mutual Funds Law d) Securities Investment Business Law e) Building Societies Law f) Cooperative Societies Law g) Development Bank Law h) Money Services Law i) Companies Management Law	…a regulated entity is an entity that is regulated [insert] "**as opposed to merely registered**"…	The SOG has been amended to clarify which entities the SOG applies to.	Amended
	Confirmation that the Statement of Guidance will not apply to any company, unit trust or partnership which is a Cayman licensed; registered or administered fund but will apply to mutual fund administrators licenced under the Mutual Funds Law.	SOG will not apply to mutual funds but will apply to mutual fund administrators.	None

2.3 This Guidance should be applied to sub-contractors, where applicable.	It may prove to be unfeasible or difficult as a practical matter, to apply most (if not all) of the expected procedures to a sub-contractor or sub-delegate by the Cayman regulated entity, as the Cayman entity will not have the contractual nexus with the sub-contractor and, in most cases, may not even be aware that certain services have been sub-contracted. In most situations, sub-contracting will involve confirmation by the primary delegate to be responsible for any services regardless of engaging sub-contractors.	Noted.	To delete
2.4 In instances where the requirements of this Guidance apply or can be applied with respect to the delegation or sub-delegation of functions or activities, a regulated entity should do so.	CIMA introduced a concept of "delegation or sub-delegation of functions…", and it's not clear how this differs from Outsourcing/sub-contracting.	Noted. **For clarity, paragraphs 2.3 and 2.4 have been deleted.**	Amended
	This paragraph could be improved from a drafting perspective and is currently somewhat unclear. If it is intended to mean essentially the same as paragraph 5.10, then perhaps it should be deleted.	**See previous comment.**	None
3. Definitions			
General comments	The consideration of "materiality" is clearly a matter of professional judgment however; the Authority also uses the terms (i) "material outsourced function" and (ii) "outsourced function". These are interchangeable throughout the Statement of Guidance and for clarity we suggest that the definition be consistent or provide a definition of both terms.	Noted. SOG reviewed and revised to ensure consistent use of the term/phrase "material outsourced function"	Amended

	CIMA flip between the use of "MATERIAL Outsourcer" and just "Outsourcer"….and that makes a big difference to how the processes need to be designed and implemented. (See 7.1, 8.1, 8.2-8.8, then 8.9 starts with "Material" again.)	Noted. See comment directly above.	None
	Definition of "risky practice"	Term not used in SOG.	None
3.1 (a) Outsourcing: a regulated entity's use of a third party (either an affiliated entity within a group or an entity that is external to the corporate group) to perform functions or activities on a continuing basis that would normally be undertaken by the regulated entity, now or in the future.	We would suggest that the definition of outsourcing be further refined to exclude affiliated entities physically co-resident with the regulated entity itself. In some smaller firms, where affiliated entities have been established for purposes such as providing the same set of activities across a group of related entities, the requirement for outsourcing contracts to be established appears to add a level of unnecessary bureaucracy.	This definition is consistent with international standards. It is not unusual for affiliated entities to have internal service level agreements in place notwithstanding that they are related. **See earlier comment re new insertion regarding intra-group outsourcing arrangements in respect of material functions.**	None
	For consistency – to insert "material" before "functions".	Generally, outsourcing covers both material and non-material functions. The term "material" is also defined for the purpose of the SOG and should be read together with the outsourcing definition.	None

3.1 (b) Outsourcing agreement: a written agreement outlining the contractual terms and conditions governing relationships, functions, obligations, responsibilities, rights and expectations of the contracting parties.	Does outsourcing agreement need to be written? Requirement to have written agreement to also be included in S. 5 of the SOG	Yes, the outsourcing agreement should be in writing to ensure that it is legally binding. This aligns with international standards (Joint Forum on Outsourcing in Financial Services). Requirement is already noted in paragraph 8.1 (now 9.1).	None
3.1 (c) Material function or activity: a function or activity that, if disrupted (e.g. service failure or security breach), could potentially impact an institution's business operations, reputation or profitability in a significant way (e.g. prolonged failure of information technology system impacting customers' ability to conduct transactions) or could adversely affect an institution's ability to manage risk and comply with applicable laws and regulations.	[Insert] "**materially**" potentially impact… and [insert] "**materially**" adversely affect	The language used sufficiently captures the desired effect. The Authority is of the view that "significant way" has the same meaning as "materially" and that "adversely" in the context written has the same meaning as "materially".	None
	This definition of "Material function or activity" should be amended to narrow the scope of the SOG and make it clear that the outsourcing of routine and commonly delegated functions, for example, information technology support and anti-money laundering functions, are not "Material". The current definition is too wide and would lead to unnecessary burdens on regulated entities.	The Authority considers that information technology and AML functions are in fact material and therefore it does not agree that the definition is too broad (see paragraph 4.2 and relevant footnote). This view is not inconsistent with other jurisdictions and at least one case can be cited evidencing that IT is a material function.	None
3.1 (d) Related Party: a natural person or a group of entities related financially or by common ownership, management or any combination thereof.	The undefined expression, "related financially" is ambiguous and would benefit from a definition or alternative drafting.	Noted. **To amend definition to read:** "an entity under common ownership directly (i.e. at the parent level) or indirectly (i.e. ultimate parent)"	Amended
3.1 (f) Governing Body: in the case of a company, the Board of Directors. In the case	Clarify that Governing Body in respect of a Branch should be outside the islands.	Governing body in respect of a branch can sometimes be in the Cayman Islands.	None

of a branch or of an entity incorporated or established outside of the Cayman Islands, a management committee or body (beyond local management) empowered with oversight and supervision responsibilities for the entity in the Cayman Islands.	This paragraph only refers to the board of directors of a corporate entity that is regulated. Consideration should be given to other types of regulated entities and their governing body (e.g. trustees of a trust, partners of a partnership, management of an LLC et cetera).	Noted.	Amended
3.1 (g) Service Provider: a third party (whether related or unrelated) that supplies goods, services or facilities pursuant to an outsourcing arrangement.	For the sake of clarity, it may be beneficial to differentiate between the following classes of service provider later in the document: **Outsourcer:** performance of portions of work (i.e. a process or processes) by other entities rather than completing it internally **Vendor:** one who supplies goods & services but does not supply an associated process **Contractor/Subcontractor**: individual/entity that adds specialized input to goods, services or a process It should probably also state that the proposals relate only to the prudential aspects of outsourcing as opposed to the legal or contractual elements	The definitions provided appear sufficient for the needs of the SOG. For the sake of clarity, the "outsourcing" definition was amended to confirm that outsourcing does not cover purchasing contracts (see footnote also).	Amended
	The definition of "Service Provider" should be amended to remove references to affiliated and related parties.	See previous comments relating to related parties.	None

	This paragraph defines Service Provider as including those that supply "goods" and "facilities". We would submit this is too broad and outside the scope of what the SOG should be looking at as it could capture the provision of things that are irrelevant to the clients of a regulated entity (i.e. does a lease over an office space qualify as the provision of facilities?). References to "goods" and "facilities" should be deleted and the obligation should be narrowed to the provision of critical services that the regulated entity is obligated to provide to its clients.	This is consistent with other jurisdictions (Bahamas, Committee of European Banking Supervisors), and international standards. A data storage facility or disaster recovery site are examples of facilities a service provider may provide to a regulated entity and that would require access and some sort of agreement in place on how, when etc. it will have access. **Amended to omit "goods" and to exclude lease of business premises.**	Amended
4. Materiality Assessment of Outsourcing Arrangements			
General comment	It should be clear to the reader that the content of this document is not to be interpreted as advocating that businesses (re)locate key functions here.	The Authority is not advocating the relocation of outsourced business to Cayman; the SOG is drafted to provide guidance on what is normally expected in instances where material functions or activities are outsourced.	None
	While "impact" may be high for certain functions, "difficulty and time required to find an alternative" will be low for most functions. It is not so much the loss of service that represents risk but the potential loss, temporarily or permanently, of access to important data. This is particularly true of exposure and claims data.	The SOG applies across various sectors and the risk of attached to "loss of service" can be significant in other sectors with respect to impact to clients. **Amended to add under paragraph 4.1:** "the risk of potential loss, temporarily or permanently, of access to important data".	Amended

5. General Guidance			
5.2 The Authority's supervisory functions and legal obligations should not be hindered by the outsourcing of any function or activity by a regulated entity.	The authority's supervisory functions and legal obligations should not be [insert] "**materially**" hindered	It should not be acceptable for CIMA's supervisory functions and legal obligations to be hindered in any way.	None
	Cayman already has a sound framework in place for the provision of mutual assistance though domestic law, and international treaties, memorandums of understanding etc. which provide the framework for exchange of information and cooperation between the Authority and overseas regulatory authorities. Clarification on the exact concerns of the Authority as it is unclear whether the concerns are logistical, timing or exchange of information related.	The Authority's supervisory obligations should not have to solely rely on requests for information under treaties, MOUs. CIMA's supervisory divisions have experienced undue delays in receiving information/documents as a result of outsourcing even in the case of intra-group outsourcing – this has affected CIMA's level of supervision.	None
5.3 The Authority may, on a case-by-case basis, impose additional requirements on a regulated entity depending on the potential impact of the outsourcing threat to the entity or its investors/clients.	This paragraph refers to CIMA's power to impose additional requirements on a regulated entity. We would submit this is not the correct place to provide for this power given this is a guidance note rather than an instrument that gives CIMA enforcement powers.	Minimum requirements do not preclude other requirements from being added as the need arises pursuant to Regulatory Laws.	None
5.4 A regulated entity should maintain the same level of oversight and accountability with respect to the outsourcing of any material function or	Amend to instead read "A regulated entity should maintain at **least overall** oversight and accountability with respect to the outsourcing of any material function or activity."	Aligns with Insurance core principles (ICP 8.7).	None

activity as it would apply to its non-outsourced material functions or activities.	… maintaining oversight on a function that has been outsourced due to lack of in-house expertise in the first place seems to put the licensee in a complete juxtaposition. How does the Authority envisage that this requirement will be adequately met?	A regulated entity's directors and senior management should have appropriate policies, procedures and service level agreement(s) in place and should therefore be able to assess whether the outsourced functions is being carried out in accordance with its SLA and policies and procedures. It is also reasonably expected that directors and senior managers be able to determine whether or not an outsourced function is being effectively carried out to help ensure that any potential adverse impacts are kept to a minimum or are appropriately mitigated.	None
5.6 A regulated entity's relationship and obligations towards its clients must not be altered as a result of the outsourcing of any function or activity.	Add at the end of sentence "…**save to the degree agreed with the clients**"	If the client so agrees then the entity can do so in writing with the client on an exception basis – this paragraph should apply generally to all clients. Essentially, the regulated entity should not be able to use the outsourced arrangement as an excuse in the event that the service provided to its clients is negatively affected.	None

	We query if the purpose of this paragraph is to prohibit an exculpation clause in a contract between a client and the regulated entity in circumstances where the regulated entity has exercised reasonable skill and care in selecting the Service Provider. If that is the intention, we would submit such an important point should be made very clear to regulated entities as this would be an expectation entirely contradictory to market practice.	This paragraph is included to ensure that the entity's obligations toward a client in terms of expected service to be provided are not adversely affected as a result of an outsourcing arrangement.	None
5.7 A regulated entity's level of net risk should not materially increase as a result of outsourcing compared to if it carried out the function or activity itself.	A regulated entity's level of "net risk" should not materially increase as a result of the outsourcing. We submit that "material" and "net risk" may need to be further defined (if this section is included) as any form of outsourcing or delegation could be seen as involving risk, by divesting functional responsibility on another party. Another respondent stated that this paragraph is unnecessary as there is always an inherent counterparty risk in any contract/outsourcing arrangement such that there is always some risk in entering into a contractual relationship and assessing materiality is difficult if not impossible (e.g. consider what might have been thought to have been the risk of an outsourcing arrangement with a Lehman Brothers entity in 2007).	This paragraph generally aligns with Insurance Core Principle 8.7.1. The Authority added "net" as it was recognized that there will naturally be risks with respect to the outsourcing of material functions and therefore the idea is that the assessment of risk would be net of any mitigation strategies in place for the outsourced function(s). Essentially, net risk refers to any residual risk net of any mitigation strategies in place for the outsourced function.	None

5.8 When a regulated entity is required to have sufficient staff and to maintain books and records in the Cayman Islands, the outsourcing of functions or activities should not cause a regulated entity to be a 'shell' or 'letter-box' entity.	We note, under section 5.8, that outsourcing should not render a regulated entity a "shell" or "letter box" entity where required to have staff or books and records in the Cayman Islands. We assume that this section would only apply to those regulated entities that are currently required (which we read as obligated) to maintain staff and books and records in the Cayman Islands; e.g. private banks and certain Class A bank licensees. We would be grateful if CIMA could confirm this.	It is confirmed that this paragraph applies where staff or books and records are **required** to be maintained in the Cayman Islands. In addition to private banks and certain Class A Bank licensees, other examples would include Class A and D insurers, brokers and managers.	None
5.9 A regulated entity should ensure that all books and records pertaining to the activities of the regulated entity, including any record of transaction activities for clients are readily accessible to the Authority.	**Readily Accessible** - further guidance from the Authority on its expectations of the provision of records, books and transactions would be beneficial – for example is the expectation 2 working days or 5 working days ?	The Authority, generally expects that the timeframe would be one that is reasonable to ensure that its level of supervision is not unduly hindered and would of course be dependent on the request and purpose of the request. Regulated entities should also be guided by the Statement of Guidance on the Nature, accessibility and retention of records.	None
5.10 Regulated entities should consider this Guidance at the first opportunity, either at the time of the initial outsourcing agreement or contract or at such time that the agreement or contract is substantially	Suggests guidance to be considered at first opportunity (when first outsourced or when existing O/S arrangement is renewed/amended/extended). Effectiveness…go forward or retroactive?	Effectiveness to be considered going forward.	None

amended, renewed or extended, whichever is earliest.	There needs to be more clarity or consistency around paragraphs 2.4, 5.10 and also 13.1 to ensure regulated entities are very clear on what they need to do and when.	Noted. The Authority has clarified when regulated entities must take the SOG into account.	Amend
5.11 Regulated entities should give due consideration to all relevant laws, regulations and measures issued by the Authority when assessing an outsourcing arrangement.	With regard to due consideration being given to all relevant laws and regulations maybe include both local and overseas if the function is to be outsourced to an entity in another jurisdiction.	Noted. It is reasonably expected that a regulated entity would give consideration to laws in other jurisdictions if an off island service provider is used in order to ensure that there is no conflict that would prevent the regulated entity from complying with relevant Cayman laws and measures. A regulated entity should consider including such a condition in its agreement with an overseas service provider. **Amended to include:** …"and any other jurisdiction's regulator, where applicable.	Amended
	This paragraph refers to regulated entities giving due consideration to other laws, regulations and measures issued by CIMA. We would respectfully ask whether CIMA intends to withdraw all other current guidance around outsourcing once this SOG is finalised and issued in final form.	The Authority does not consider that the guidance in respect of outsourcing provided in other measures contradicts what is provided for within this measure; however this should be the main measure considered in respect of outsourcing guidance. Other guidance on outsourcing will be withdrawn as and when the respective measures are amended if deemed necessary by the Authority.	None

6. Risk Management			
General comments (re S. 6, 7 & 8)	We would suggest that any specification of terms be required from a particular date forward and grand-fathering in existing terms. For example, in the context of trustees, much of the investment management activity (and, in the case of unit trust funds, the administration) shall be delegated to service providers. The cost burdens imposed on these sections will significantly increase the cost of providing trustee services by a Cayman trust company.	The SOG advised that regulated entities should consider the SOG at the first opportunity, either at the time of the initial outsourcing agreement or contract or at such time that the agreement or contract is substantially amended, renewed or extended, whichever is earliest. **Clarification provided in paragraphs 5.11 and 5.12.**	Amended
	The recommendations under each of these paragraphs will be very expensive and time consuming for regulated entities. We note that this is acknowledged in the CIMA cost benefit analysis, however we ask that a more detailed enquiry be made of regulated entities as to how much they delegate and how many sets of terms would need to be reviewed and amended to bring them into alignment with these requirements. This point is founded on the requirement under the Monetary Authority Law (2013 Revision) that, in carrying out its regulatory functions, CIMA shall "recognise the principle that a burden or restriction which is imposed on a person, or on the carrying on of an activity, should be proportionate to the benefits, considered in general terms, which are expected to result from the imposition of that burden or restriction".	The Authority is of the view that the reputation risk and other risks attached to outsourcing (operational, country, contractual, access risk, etc.) are significant enough to warrant guidance requiring proper oversight and policies and procedures. The Authority expects that such policies and procedures would be commensurate with the size, scope and nature of the regulated entity's business as well as the risks, size and complexity of the outsourced function itself. **See new insertion under section 5 of the SOG regarding proportionality.**	None

General comment	Advice given to Class B & C insurers and Insurance Managers would be to address outsourcing risks within their Risk Management Framework. CIMA to clarify that this will be acceptable and that they will not look for a separate document when they conduct inspections. I do not think we can assume this, in light of Section 6. Similarly Sections 9 and 10 indicate that CIMA will expect various due considerations by licensees to be documented.	Noted. Outsourcing risks must be assessed and appropriate policies and procedures be in place whether it be as a separate document or as part of a more comprehensive document that covers the regulated entity's overall risk management framework.	None
6.1 (f) ***A regulated entity should, at a minimum:*** establish proper approving authorities and limits for material outsourcing arrangements.	**Approvals and Limits** – there are several factors that could apply to the approval of outsourcing limits, e.g. (i) level of outsourced activities arising from outsourcing multiple activities to the same service provider or (ii) monetary value of outsourcing arrangement. **Could the Authority please expand on what it means by "limits"?**	Noted. **Amended to instead read (now 7.1(f)):** A regulated entity should at a minimum: (f) ensure that any limits regarding the level or authority that enables the approval of the outsourcing of material functions or activities be governed by appropriate policies and procedures (as approved by the regulated entity's governing body) giving regard to the level of risk surrounding the outsourcing arrangement.	Amended

6.2	Section 6.2 is slightly confusing in that it is unclear if the Authority expects Cayman licensees to:- (i) risk assess in accordance with the laws and guidance of the jurisdiction in which the service provider is located; clearly this is an unrealistic expectation; or (ii) take into consideration the jurisdictional or country risk of the location of the service provider e.g. is it a high risk jurisdiction?, in which case what criteria would the Authority expect a licensee to use and will Regulatory Equivalency be considered (see Section 2.1)?	See earlier comment on regulatory equivalence. The Authority expects that regulated entities will assess the usual risks that are attached to the practice of outsourcing – the Authority understands that not all the identified risks will apply in every given circumstance, however the Authority reasonably expects that an assessment of all risks will be done with applicable risks being suitably managed and mitigated. **Amended to insert "…as applicable." (now 7.2)**	Amended
6.3 A regulated entity's risk assessment should be completed prior to initiation of the outsourcing arrangement and regularly thereafter; frequency to be determined by level of associated risk and materiality of the outsourcing arrangement.	Is the Authority considering a time limit by which its licensees should complete an assessment of its existing outsourcing arrangements?	**Clarification provided in paragraphs 5.11 and 5.12.**	Amended
7. Assessing Service Providers			
General comment (7.5, 7.6 & 7.7)	As a drafting comment only we would submit these requirements should be moved to section 6 which deals with Risk Management.	Noted.	Amended

General comments	It would not seem unreasonable for a Class B Insurer to assume that outsourcing to an entity that is licensed, regulated and in good standing with CIMA reflects sufficient risk assessment and due diligence on the Class B Insurer's part.	A regulated entity should not assume that because a service provider is either a regulated entity (either by CIMA or by another regulator) or an intra-group entity that such a provider will be able to meet the needs of the regulated entity with respect to the function to be outsourced or to eliminate all operational risk involved in the outsourcing arrangement.	None
7.1 A regulated entity should perform in writing and maintain as part of its records a due diligence assessment of a service provider before entering into the initial outsourcing agreement and on a regular basis thereafter (at least annually) in order to ensure that the service provider is fit and proper and can effectively perform the outsourced function or activity and to ensure high ethical and professional standards.	Most agreements make provisions for extension/roll over; this should be considered sufficient for the purpose of an assessment of the service provider; an annual review could be too onerous when realistically it should be at the end of the life of each contract. The regulated entity could be allowed to take a risk based approach to the frequency of due diligence reviews.	Noted, however an annual review to assess the performance of a service provider is not considered onerous in light of the risks attached to such arrangements. **Amended to include (now 8.1):** **"at least annually *or in keeping with the level of perceived risk*)"**	Amended
	Frequency of Due Diligence/ Risk Assessments – in accordance with our previous comments we should be grateful if the Authority can give some clarity on those outsourcing arrangements with service providers that either (i) fall into Regulatory Equivalency or (ii) are regulated service providers in their own right.	See earlier comments regarding regulatory equivalence and proportionality. If a regulated entity, in assessing its outsourcing arrangement and the attached risks, determines that annually is too frequent to assess risk and conduct due diligence then it is expected that it will be so noted and explained in its assessment.	None

	This section is very prescriptive on the Re-Assessment timeframe…."(at least annually)"….we might want to ask….if this is for MATERIAL Outsourced functions only (although it doesn't say that in the paragraph), or if a risk-based approach can be taken and a not-as-frequent cycle be used.	The SOG relates to material functions (to be changed in SOG to ensure consistency) – the Authority is of the view that if an outsourced function is a material one, the regulated entity should want to assess regularly and annually, and is therefore not considered disproportionate to a function that is considered to be material.	None
	The annual due diligence assessments expected by CIMA are not market practice. Licensees may consider this Section somewhat dictatorial in a Statement of Guidance. Perhaps CIMA could rephrase it as a list of items a licensee should consider when conducting due diligence.	See above comments.	None
7.2 A regulated entity's due diligence process should include, but not be limited to, the assessment of the service provider's: (a-i)	**Add:** - Experience in General/Years in business and practical experience in field. - Attitude to Data Protection/Information Security - Materiality or Immateriality of the Regulated Entity's business to the Service Provider.	The current wording provides for these concerns. Any risks associated with the immateriality of the regulated entity's business to the service provider should be considered in the regulated entity's due diligence (including assessment of the service provider's capacity).	None
	Having to maintain a log with an affiliated entity is onerous and unduly burdensome	The Authority does not consider the use of a simple log (e.g. spreadsheet) of a regulated entity's outsourced functions or activities to be onerous and unduly burdensome, given the expected frequency with which the log would be updated.	None

7.3 A regulated entity should satisfy itself that the service provider has in place and maintains during the course of the outsourcing arrangement comprehensive insurance coverage.	Replace "satisfy itself" with "**seek confirmation**"	The current wording is deemed sufficient. To satisfy oneself could include "seeking confirmation" or any other means of for a regulated entity to gain assurance that the service provider has insurance coverage.	None
7.3	**Insurance** – it is not clear what type of comprehensive insurance coverage is expected and this should be specifically defined.	This SOG applies across the various sectors and insurance coverage should be in accordance with the relevant laws and identified risks.	None
7.4 A regulated entity should satisfy itself that the service provider is carrying out its functions in compliance with its strategic goals, applicable laws, regulations, and relevant regulatory measures, where applicable. **7.4**	Replace "satisfy itself" with "**seek confirmation**"	See comment relating to 7.3 above.	None
	The reference to "strategic goals" should be removed as it can be interpreted so broadly that a company can fit anything it wants into its' strategic goals.	Agreed.	Amended
7.6 A regulated entity should maintain a centralized log of all its material outsourcing arrangements, which log should be updated on an ongoing basis. The Authority should have access to the log at any time upon request.	Could also add if the regulated entity is unclear whether an activity is material then they are to consult CIMA.	This was already noted in paragraph 13.2 (now 14.2) of the SOG.	None
	This paragraph refers to a centralized log of all its material outsourcing arrangements. This expression lacks certainty – is "material" at the discretion of the regulated entity or is it intended that the test be the defined term of "Material function or activity".	This log should be in respect of material functions as guided by the definition provided within the SOG. See earlier comment on proportionality.	None

8. Outsourcing Agreement			
General comment	Will licensees need to adopt multiple outsourcing agreements for a considerable number of support functions i.e. finance, HR, IT etc.	The Authority would not be opposed to one agreement with one entity that covers various support functions. The entity should also consider which functions are material and therefore covered by the SoG and the expectation that a written agreement will be signed.	None
	Section 8 should be rephrased as items a licensee should consider whether it is necessary or not to include in outsourcing agreements. There are items listed here that may not be market standard for particular relationships. See 8.8 in particular.	The SOG applies proportionally to an entity's nature, risk and complexity. It also applies across all regulated sectors. As such, each regulated entity must make a determination about the sections of the SOG that apply to it.	None
8.2 (d) An outsourcing agreement should contain a clear allocation of responsibilities between the regulated entity and the service provider, as well as all other material information, including details regarding: **e)** ***d) remuneration terms under the agreement, ensuring consistency with the regulated entity's remuneration policy;***	Suggest substituting: 'tendering, evaluation and award process' for "remuneration"	For the purpose of the SOG, remuneration refers to the fees paid to the service provider. The current wording is deemed broad enough to capture the suggested change.	None
8.2 (f) ***insurance coverage to be maintained by the service provider;***	Amend sentence to instead read "**obligation to have insurance coverage**"	Noted. **Amended to instead read:** **"obligation of the service provider to maintain appropriate insurance coverage;"**	Amended

8.2(h) ***notification of any changes with the service provider's business including, at a minimum, the size or volume of business and its capacity that may adversely impact the service provider's ability to effectively perform the outsourced function or activity;***	[Insert] "…notification of any "**material**" changes …"	Noted.	Amended
8.2 (i) ***nature of the relationship; and***	This sub-paragraph requires the outsourcing agreement to contain a clear allocation relating to the "nature of the relationship". We would respectfully this repeats the requirements under paragraph 8.2(a) to 8.2(c) inclusive re "scope", "services" and "rights, responsibilities and expectations" unless it is intended to mean the agreement should make it clear it is an independent contractor relationship and no other relationship?	(b) and (c) deleted and (a) re-worded to say "…***scope, including but not limited to services to be supplied, rights, responsibilities and expectations of all parties, reporting requirements etc.***". (now 9.2)	Amended
8.2 [*k*]	**Add:** k) requirement to notify if any breaches in Data Protection/Information Security. There should be a dispute and remedy process outlined in the contract.	Noted. **Amended current wording to capture the suggestions.**	Amended
8.3 A regulated entity should ensure that the outsourcing arrangement does not diminish its ultimate responsibility for effectively overseeing and supervising its activities and	[Insert] the outsourcing arrangement does not, "**save as agreed with the relevant clients**," diminish its ultimate responsibility…"	Clients should not be able agree to an outsourcing arrangement diminishing the entity's ultimate responsibility for ensuring it can meet its legal and regulatory obligations.	None

affairs and for ensuring that it can meet its legal and regulatory obligations, thus minimizing any outsourcing related risks to its clients.	In relation to paragraph 5.6 this paragraph seems to deal with the same point – same comment applies.	Paragraph 5.6 is simply noted as a general requirement. This paragraph (i.e. 8.3 (now 9.3)) deals with those elements that should be captured within an outsourcing agreement.	None
8.5 Outsourcing agreements should make provisions for the service provider to disclose to the regulated entity any developments that may have a material impact on its ability to carry out the outsourced function or activity effectively and in compliance with applicable legal and regulatory requirements.	This paragraph seems to repeat paragraph 8.2(h) in slightly different terms. We would submit one of these paragraphs should be deleted to ensure regulated entities have certainty.	Noted. **8.2(h) deleted.**	Amended
8.6 & 8.8 A regulated entity should include a stipulation in its outsourcing agreement that the service provider cooperates with respect to access to relevant systems (and documents) maintained by the service provider relating to the outsourced function or activity. Outsourcing agreements should allow for ready access to data that relates to the outsourced function or activity, as well as to the service provider's business premise to allow for onsite inspections by the Authority.	How will this work in practice? Cayman licensees may experience some resistance from its outsourcing service providers from having what is in essence, a foreign regulator being granted access to their records e.g. would the Authority arrange an actual inspection to be conducted in coordination with the regulator in the service providers jurisdiction. It may be more efficient and cost-effective for the Authority to partner with a reputable provider in another country to inspect a service provider's premises (where required) rather than receive a visit from the Authority. Following its own logic for outsourcing, outsourcing such a task to a reputable provider appears to be in line with good governance and effective use of resources.	This paragraph aligns with international standards (Joint Forum). If an inspection is deemed necessary, the decision on how best this would be accomplished would be determined on a case by case basis and more than likely discussed with the respective regulator of the service provider, if there is one. The Authority would make a decision on whether or not it is more practicable to utilize an independent and reputable company that conducts audits or inspections on a case by case basis.	None

8.7 Outsourcing agreements should allow the regulated entity to conduct audits on the service provider and its sub-contractors with respect to the material outsourced function or activity, whether by its internal and external auditors or by agents appointed by it.	**Audits** – whilst Outsourcing agreements should allow the licensee to conduct audits on the service provider and its sub-contractors, again we would welcome clarity on outsourcing arrangements with service providers that either (i) fall into Regulatory Equivalency or (ii) are regulated service providers in their own right.	See earlier comments regarding regulatory equivalence and regulated service providers.	None
	In relation to section 8.7, we would submit that the requirement to allow "audits" of the delegate in relation to the outsourced functions, gives an incorrect perception that a formal audit process is required. We do not see the need to unnecessarily increase costs by involving a third party arbiter of a standard contractual obligation or divestment of functions. Such costs will undoubtedly be passed down to the customer by virtue of an increase in fees. This again could be viewed as a cost burden that is not imposed by other jurisdictions and would cause certain service providers to consider other jurisdictions. This comment may also relate to section 10.3, if they are intended to be read in conjunction.	The paragraph does not indicate the need for a formal audit process but simply that the agreement allow for audits if it should ever be deemed necessary by the regulated entity. A regulated entity is free to use a third party auditor or an internal auditor if it deems sufficient should it require an audit of the service provider and once to do so complies with relevant legislation, regulations and measures.	None

8.8 Outsourcing agreements should allow for ready access to data that relates to the outsourced function or activity, as well as to the service provider's business premise to allow for onsite inspections by the Authority.	There may be impediments to allowing access to the Authority especially if the function is outsourced overseas. We would suggest replacing with wording along the lines of the entity agreeing to make available to the Authority any data that relates to an outsourced process or activity. Also, if the Authority is allowed to carry out inspection who will be responsible for the associated cost viz. The Authority, regulated entity or service provider?	The Authority's view on associated expenses for such inspections is noted in the related footnote within the document. This paragraph already states that the agreements should allow for ready access to data that relates to the outsourced function or activity.	None
	This paragraph refers to CIMA's ability to travel outside the Islands for on-site inspections. There will be a question of what constitutes "reasonable out of pocket expenses" - does include airfares and accommodation. We also see this as an opportunity for criticism of CIMA for spending time travelling internationally instead of focusing (it will be said) on domestic regulation of their regulated entities. Finally, is it realistic to expect CIMA will carry-out overseas site visits and inspections?	Aligns with international standards (Joint Forum - Outsourcing in Financial Services (Part VIII)) and with other CIMA measures (Banking Licensing Policy). The Authority already conducts onsite inspections of regulated entities that are not located in the jurisdiction. Therefore if a material function or activity is outsourced by a regulated entity it is reasonable that the Authority would treat the arrangement with a similar level of supervision, which includes onsite inspection, given the risks posed to the jurisdiction.	None

8.9 The sub-contracting of a material function or activity should not hinder the Authority's ability to execute its supervisory functions including its ability to effectively conduct inspections and access to information or data at any given time.	This paragraph appears to restate paragraphs 5.2 and 8.8. We would submit it could be deleted without affecting the SOG.	5.2 (now 5.3) refers to the general expectation that the Authority's supervisory and legal obligations not be hindered by the outsourcing of a function or activity. 8.8 (now 9.8) is specific to the outsourcing agreement allowing for inspections and access to books and records etc. 8.9 (now 9.9) refers to the sub-contracting or sub-outsourcing of an outsourced function.	None
8.11 Outsourcing agreements should require the approval of the regulated entity for any sub-contracting of an outsourced service.	For the sake of clarity grandfathering provisions for any long term agreements that exist already.	**See earlier comment regarding paragraphs 5.11 and 5.12.**	None
9. Confidentiality			
9.1 A regulated entity should be satisfied that a service provider has in place policies, procedures and physical and technological measures to protect information that a customer of a regulated entity might reasonably expect to be confidential.	Replace "be satisfied" with "**seek confirmation**"	It is important that a regulated entity visits facilities where applicable and read through data protection policies and procedure with an aim to confirm this. There are different means that a regulated entity can use to "satisfy itself".	None
9.2 A regulated entity should be satisfied that the service provider has proper safeguards in place for the collection, storage and processing of customers' confidential information and to prevent unauthorized access, misuse or misappropriation.	Replace "be satisfied" with "**seek confirmation**"	See comment directly above.	None

9.4 Any disclosure to a sub-contracted provider by the contracted service provider should only be with the prior consent of the regulated entity.	[Insert] "…should provide "**specific or general**" prior notification…"	Prior notification can be interpreted as either specific or general – the important thing is that an entity must ensure that its customers are made aware (not simply "fine print" disclosure).	None
	Disclosure to a subcontracted provider - does disclosure mean (i) notification in general terms that information is going to be passed on to a subcontracted provider or (ii) does it require that detailed disclosure of every piece of information (for example with respect to fund information each time a single investor name) is passed on ? Moreover the ability of a service provider to notify the Cayman Islands regulated entity may be subject to local law. We suggest "subject to applicable law" be added.	Disclosure is expected to be as determined by the regulated entity in keeping with confidentiality obligations imposed on it, the nature of the information disclosed as well as its own policies and procedures. It should also consider what information that a client would not expect to be disclosed without his/her consent. **Amended to include -- "and subject to applicable law" added.**	Amended
	This paragraph appears to repeat the requirement under paragraph 8.11 that sub-contracting by the Service Provider requires the approval of the regulated entity. We would submit that one of these paragraphs could be deleted without affecting the SOG. If paragraph 9.4 remains in the current form it should be made clear that standing consent may be given in advance.	**Noted -- Added to 8.11 (now 9.11) and 9.4 (now 10.4) that standing consent may be given in advance.**	Amended

9.6 When a regulated entity decides to outsource a material function or activity, it should provide prior notification to customers that data or information pertaining to them is to be transmitted to a service provider or a sub-contracted provider.	[Insert] "…should provide "**specific or general**" prior notification…"	See earlier comment.	None
9.6	Add: …'unless terms and conditions of the agreement between the client and regulated entity allow for outsourcing.'	Noted. Once client is aware of the associated risks and the possibility of disclosure even to sub-contractors.	Amended
9.6	Suggests that customers be notified when outsourcing a material function or activity when customer data is involved. We haven't seen this in any other guidance documents.	The Authority considers that a client's expectation to know if his/her information is to be disclosed to a third party is a reasonable one. It is also consistent with other CIMA issued measures (e.g. SOG on market conduct relating to Insurers, Agents and Brokers).	None
9.7 Where a service provider or its sub-contractor is required by law (including by legal or judicial authorities) to disclose customer information, it should notify the regulated entity as soon as practicable prior to disclosure.	Provided disclosure is allowed in accordance with the laws of the jurisdiction to which the function is outsourced.	Noted.	Amended

10. Conflicts of Interest			
General comment	In relation to section 10, we would submit that the reference to "conflicts of interest" may require further explanation. There may be many situations (which have been, and continue to be, completely acceptable practice) where a member of senior management (or equivalent) performs roles for both the delegator and the delegate. By itself, this should not raise a question of conflict of interest, as it will be in the interests of both parties that the delegation works properly.	A regulated entity should ensure that conflicts of interests are identified, monitored and properly managed to prevent adverse effects on the company or to its clients. Conflicts of interest can be with respect to the service provider and the regulated entity or conflicts of interest with respect to individuals working within the same group of companies. CIMA's experience has shown that conflicts arise even within intra-group arrangements and that being related does not necessarily preclude a problem arising as a result of a conflict.	None
10.1 A regulated entity should properly assess the service provider to identify conflicts of interest and ensure that preventative measures are taken to manage any such conflicts.	Replace "properly assess" with "**seek confirmation that**" and [insert] "…service provider "**is able**" to identify…"	The language used is deemed to be appropriate for the purpose of the SOG.	None
10.2 A regulated entity should ensure that the service provider periodically reviews, identifies, discloses, monitors and manages all its conflicts of interest with respect to the outsourced activity it is charged with carrying out.	Replace "ensure" with "**seek confirmation**"	The language used is deemed to be appropriate for the purpose of the SOG.	None
	Should be included in the Outsourcing Agreement.	Noted. **Amended to include conflicts of interest in 8.2 (now 9.2).**	Amended

10.3 Where a regulated entity engages an auditor for non-audit services, it should ensure that there is independence from any audit service, if such service is provided by the same auditor or firm.	**Independent audit** -- we would welcome clarity on outsourcing arrangements with service providers that either (i) falls into Regulatory Equivalency or (ii) are regulated service providers in their own right. In addition, does the Authority consider the appointment of an external auditor to be of sufficient independence or is the aim to prohibit an external audit service from auditing the licensee and its outsourcing service provider? Would the appointment of a different partner for the audit of the outsourcing service provider be acceptable?	See earlier comments regarding regulatory equivalence and related service providers. The aim is to avoid conflicts of interest where an auditor is used to provide material functions on behalf of a regulated entity. Auditor independence should be in keeping with the requirements issued by the International Federation of Accountants (IFAC) and/or any other relevant accounting standard setters. **Appointment of a different partner:** This would be dependent on the relevant requirements issued by IFAC and/or any other relevant accounting standard setters. **To reword to say:** Where regulated entity outsources a material function to its auditor, it must obtain written confirmation that it has satisfied all independence requirements issued by the International Federation of Accountants (IFAC) and/or any other relevant accounting standard setters.	Amended

	It is not clear to us how this paragraph, which refers to a regulated entity engaging an auditor for non-audit services, is relevant to outsourcing generally.	There may be instances whereby a regulated entity wishes to use its usual auditor/audit company for "non-audit" type services (e.g. HR functions). Therefore, there should be some level of independence in order to avoid any possible conflict of interest. See above comment.	None
11. Accountability			
11.1 The Governing Body and Senior Management of the regulated entity are ultimately responsible for the effective management of risks arising from the outsourcing of material functions or activities.	[Insert] "**Save as otherwise agreed with all relevant clients**" at beginning of sentence.	This section is not about clients but instead deals with good governance therefore it is not something for clients to agree to.	None
11.2 The Governing Body is, at a minimum, responsible for: (a-i)	[Insert] "**Save as otherwise agreed with all relevant clients**" at beginning of sentence.	See comment directly above.	None
11.2 (b) providing clear guidance in the outsourcing policy to Senior Management on contractual risks and other relevant risks as well as appropriate limits on the level of outsourced activities, and the number of activities that can be outsourced to a single service provider. The policies should detail an appropriate internal review process and required approvals for the outsourcing of material functions or activities.	The terms used: "clear guidance" then "The policies" may create misunderstanding as to precisely what type of Governing Body edict is required.	Reworded to avoid possible misunderstanding. Inserted (Now 12.2(b)): **"This guidance should result in the implementation of policies that…"**	Amended

11.2 (b)	Appropriate Limits - there are several factors that could apply to the approval of outsourcing limits, e.g. level of outsourced activities arising from outsourcing multiple activities to the same service provider or monetary value of outsourcing arrangement (also see Section 6.1 (f)). Could the Authority please expand on what is meant by "limits"?	**Amended (now 12.2(b) to read:** **"… as well as appropriate limits regarding the level or authority that enables the approval of outsourcing material functions on the level of outsourced or activities, and the number of functions or activities that can be outsourced to a single service provider."**	Amended
11.2 (e) (iv) approving the outsourcing of any material function or activity, including: ***(iv) satisfying itself, before approving an outsourcing arrangement and on an ongoing basis, regarding the expertise and experience of the service provider;*** **11.2 (e) (iv)**	11.2 (e) (iv) – Outsourcing Expertise – technical functions are quite often outsourced due to a lack of Cayman based expertise and capacity; often oversight will be met by specific service agreements which are monitored by a risk, compliance or internal audit function. However, maintaining oversight on a function that has been outsourced due to lack of in-house expertise in the first place seems to put the licensee in a complete juxtaposition (also see Section 5.4). Q – How does the Authority envisage that this requirement will be adequately met?	It is reasonably expected that a Governing Body should be able to assess the expertise and experience of a service provider otherwise it is unclear how it can be assured that that service provider is best fit for function being outsourced and the regulated entity generally.	None

11.2 (e) approving the outsourcing of any material function or activity, including: (i) verifying, before approving, that there was an appropriate assessment of the risks related to the outsourcing; (ii) satisfying itself that the service provider is performing the outsourced function or activity in accordance with the terms of the agreement; (iii) regularly reviewing reports provided by Senior Management and the service provider with respect to the outsourced functions or activities; (iv) satisfying itself, before approving an outsourcing arrangement and on an ongoing basis, regarding the expertise and experience of the service provider; (v) ensuring that roles and responsibilities are clearly defined within the signed outsourcing agreements and that the responsibilities are clearly identified; and (vi) ensuring that clear communications procedures (regular calls, meetings or written communications) are in place to deal with the service provider.	This paragraph requires the board of directors of a regulated entity to take responsibility for routine matters that properly may be delegated to management. The board of directors should be permitted to delegate such day to day responsibilities such as decisions around service providers to senior management.	Approving and verifying/confirming that an appropriate assessment was done is not considered to be a day-to-day responsibility – a governing body has the ultimate responsibility for the success of an entity over which it has charge. Aligns with international standards.	None

11.2 (f) regularly assessing and documenting the suitability and capability of its service providers during the life of the agreement.	It is not clear to us how the obligation to regularly assess and document the "suitability and capability" of its "service providers" (which as a drafting point should be capitalised for greater certainty) is any different to the obligation under paragraph 11.2(e)(iv) which requires the regulated entity to be satisfied with the "expertise and experience of the service provider" (again, not capitalised). If CIMA intends these to be the same, then one of these paragraphs could be deleted. If CIMA has two separate expectations, then this will need to be clarified and the points clearly distinguished.	Noted. **11.2(e)(iv) deleted and the term service provider capitalised throughout document.**	Amended
11.3 Senior Management is, at a minimum, responsible for:	[Insert] "**Save as otherwise agreed with all relevant clients**" at beginning of sentence.	This section pertains to duties of senior management and the internal functioning of the regulated entity. There is nothing there for clients to agree about.	None
11.3 (b) developing and implementing sound and prudent outsourcing policies, procedures and effective controls commensurate with the nature scope and complexity of the outsourcing arrangement to ensure investor/client protection and adequate management of associated risks;	Suggest Senior management should create the "policies, procedures and effective controls". Consistency needed between 11.2b and 11.3b.	11.2 (b) (now 12.2(b)) is with respect to <u>guidance</u> that should be provided by Directors with respect to the policies developed (and to be implemented) by senior management. 11.3(b) (now 12.3(b)) deals with the <u>development</u> and <u>implementation</u> of relevant policies.	None

11.3 (e) ensuring contingency plans, based on realistic and probable scenarios, are in place and properly tested; and	**Testing** – can the Authority give some practical guidance as to the extent it expects its licensees to test its outsource service providers e.g. certain outsourcing contingency plans may not actually be testable, others might pose enormous logistical and economical business impact issues for the service provider. Does the Authority agree that in certain circumstances, ensuring that the licensee's service provider has conducted and documented its own testing is sufficient?	Aligns with international standards. The Authority does not deem testing to be an unreasonable expectation in respect of outsourcing and contingency plans. It is expected that an entity would test according to the level of perceived risks. If a regulated entity is satisfied that no testing is required or that it is satisfied with the testing completed by the service provider, there is nothing preventing it from making that determination and documenting the rationale for the purpose of the Authority should a request for such testing be made. It is suggested that the service provider should provide evidence of said testing.	None
11.3 (f) ensuring that there are independent reviews and audits for compliance with set policies. 11.3 (f)	**Independent Review** – in instances where the outsourced service provider and the Cayman Islands regulated entity is part of the same group, does the authority agree that group audit is acceptable to carry out independent reviews and audit?	This paragraph indicates that this is with respect to set policies therefore if the audit is in keeping with the regulated entity's policies and all conflicts of interests are properly identified and managed then it can make that determination.	None

	What does CIMA mean by "independent reviews"? CIMA doesn't describe a three line of defense approach anywhere (i.e., they don't say that there needs to be a "contract owner", nor do they describe any challenge role; but this concept of "independent review" is mentioned as well as audit.	The purpose of this measure is to provide guidance -- CIMA expects that each regulated entity will a devise an appropriate review process to meet its needs and in keeping with its perceived risks. This SOG does not preclude regulated entities from adopting the three lines of defense approach.	None
12. Termination and Exit Strategy			
12.1-12.2 No comment		N/A	N/A
13. Relations with the Authority			
General comment	Can CIMA please clarify whether any new outsourcing arrangements would also be considered a change in business plan (and thus requiring formal notification and a fee)?	Regulated entities should ensure compliance with their sector specific laws and regulations with respect to changes in business plans and any notification or fee requirements.	None
	We would submit that CIMA should make it clear in this paragraph the point in time that it expects regulated entities to be in a position to meet the standards/requirements of the SOG.	See clarification provided in paragraphs 5.11 and 5.12 of the SOG.	Amended
	In view of paragraph 7.6, it is not felt necessary to include section 13, Relations With The Authority.	This paragraph speaks to general relations with the Authority including notification while 7.6 refers to requests by the Authority to review log of outsourcing arrangements "upon request".	None
13.1 A regulated entity should notify the Authority when a material function or activity is being outsourced.	**Notifications** - we should be grateful if the Authority could provide the following:- a. Additional clarity as to the definition of "material" outsourcing. b. Confirmation on whether there will be any consideration given for those	a. See amended definition of material function. b. See earlier comment on regulatory equivalency jurisdiction. c. Yes, save in the case of branches and such entities would still be	a. Amended b. None c. None

	arrangements which fall within a Regulatory Equivalency jurisdiction or on outsourcing service providers that are regulated in their own right. c. If internally outsourced arrangements are in scope in respect of Authority notification requirements? d. What format the reporting will take i.e. frequency and format ? e. The deadline for the reporting of existing outsourced arrangements? f. Will the notification be an "approval" process or a notification only?	expected to maintain a log confirming outsourcing arrangements of material functions/services that apply to their operations and clients. d. A written notification providing a brief overview of the outsourced activity and the rationale would be sufficient. e. The Authority would expect notification within a reasonable timeframe of the agreement being concluded. f. Signed letter notification only – to include such details as… service provider name, date of commencement, expiry date, location of service provider, outsourced function, main reason for outsourcing specific function, related or unrelated?	 d. Amended e. Amended f. Amended
	This paragraph requires a regulated entity to notify CIMA of the outsourcing of any material function or activity. There should be an exception such that outsourcing to affiliates is not required and it should be made clear that notification may be on an annual basis or some other reasonable regular period, rather than "when", in order to reduce the compliance burden.	Please see comment above.	None