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Central Bank Outsourcing – Findings and Issues for Discussion

Supervisory Risk Division

Central Bank of Ireland

PO Box 556

Dublin 1

31 January 2019

Re: Outsourcing* - Findings and Issues for Discussion *(the "Discussion Paper")

Dear Sir/Madam,

State Street Corporation (NYSE: STT) is one of the world's leading providers of financial services to institutional investors, including investment servicing, investment management and investment research and trading. With $33.99 trillion in assets under custody and administration and $2.81* trillion in assets under management as of 30 September 2018, State Street operate in more than 100 geographic markets worldwide, including the US, Canada, Europe, the Middle East and Asia. For more information, please visit State Street's website at www.statestreet.com.

State Street welcomes the publication of the Central Bank of Ireland's (CBI) Discussion Paper "Outsourcing – Findings and Issues for Discussion" and the opportunity to provide constructive and relevant feedback as the Central Bank considers the appropriateness and effectiveness of the current approach across the sector in meeting the evolving challenge.

Global operating models relying on outsourcing have become the standard for asset servicing companies operating across multiple jurisdictions. Such models have been developing over the last two decades and are now a cornerstone of servicing clients and their investors' demand. State Street Corporation operates a common operating model and infrastructure across multiple legal entities in various jurisdictions within EMEA, North America and APAC. Many clients of State Street in Ireland, as with other locations globally, depend upon the global nature of State Street's operations to receive services for their investment strategies worldwide benefitting from the quality and flexibility that it offers. Intragroup servicing arrangements are an important element of the State Street global operating model as it allows the operation of multi-location processing hubs and the development of centres of expertise which can be leveraged to enhance the operating model, meet investor requirements, harness efficiencies and economies of scale. A cross-jurisdictional approach, which is reflective of practice in other European jurisdictions, should govern the standards to which such global operating models must adhere. Among other things this will ensure the emergence of "best in class" regulatory requirements across the European region.

As a leading jurisdiction for the domiciliation and servicing of investment funds it is important that the benefits of a global operating model are available to Irish-domiciled funds and their investors while ensuring such activity takes place within a well-controlled and regulated environment.

A global operating model allows firms to deliver a 24/7 cross-jurisdictional standardised servicing model so that for example NAV delivery times correlate to investor and client requirements. The continued development of deep centres of operational expertise can be facilitated and language skills that might not otherwise be available to investors can be delivered. The benefits of a global operating model and the related intragroup outsourcing reduce operational risk Regulated Financial Service Providers (RFSPs) would otherwise face. For example, the centres of operational excellence in pricing, derivatives, NAV calculation that have been established in a global location neutral servicing model in practice result in lower operational risk for the RFSP than if the activity were undertaken by the RFSP itself. The development of Centres of Excellence (COEs) has resulted in the centralisation of data capture which enhances the integrity of such data, standardised operational processes and controls with a corresponding reduction in local bespoke processes which have more inherent operational risk, the development of operational expertise and enhanced resiliency of operations, all of which result in a material reduction of operational risk for RFSPs

We fully understand the position of regulators regarding outsourcing risk, and the need for robust management oversight and controls. We are in agreement on the importance of effective internal governance arrangements over outsourcing arrangements across the various sectors we operate in, including investment management, investment servicing, and investment research and trading and the need for robust management oversight and controls across all sectors. Industry outsourcing programmes are built with these oversight and controls in mind, and are in a constant state of improvement and refinement. The Discussion Paper is helpful to us in understanding the CBI's expectations and their consideration of key evolving risks. As well as responding to the questions posed for discussion with the CBI, we have taken this opportunity to highlight certain areas where, in our view, the Central Bank's approach could be further developed. In summary we believe the Central Bank should give consideration to the following:

1. Await conclusion of work on outsourcing governance currently underway in EBA and ESMA before finalising local requirements.
2. Align requirements in relation to the governance of outsourcing with those in other European jurisdictions as far as possible.
3. Apply a principles-based approach for all sectors, where appropriate, within a guidance framework to accompany it which is sector specific.
4. Limit the scope of any outsourcing requirements within the investment funds sector to RFSP governed by the Investment Firms Regulations 2017 (IFR), with delegation by UCITS and AIF managers being subject only to the relevant delegation requirements of AIFMD and UCITS and related supervisory requirements.
5. Require RFSPs to notify the CBI of proposed material new arrangements on core activities, with notifications on non-material, non-core arrangements being captured as part of a periodic return or other mechanism as deemed appropriate. This process would be reflective of adopting a more risk-based approach which recognises the nature, scale complexity and criticality of each outsourcing arrangement. RFSP could then implement a proportionate / tiered level of oversight that corresponds to the materiality, criticality and the risk posed by each arrangement.
6. Permit RFSPs to take account of the aspects of group global operating models which reduce operational risk. This is particularly noteworthy in the provision of utility services, COEs and technology services.

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Each of the above matters is considered in further detail in the following pages together with our responses to the "Questions for discussion with the Central Bank". Thank you again for the opportunity to comment on the important matters raised within this Discussion Paper.

We would also like to state our support for the Irish Funds response to the Discussion Paper, to which we contributed.

Please feel free to contact me should you wish to discuss our submission in greater detail.

Yours sincerely

Tadhg Young
Senior Vice President
Country Head Ireland

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1. International and European Supervisory Authorities

Currently, the European Banking Authority (EBA) and the European Securities and Markets Authority (ESMA) are both undertaking work in the area of outsourcing governance. We believe it important that the CBI does not conclude on its considerations in this area until such time as the ongoing European work concludes. This should ensure a more harmonised approach across jurisdictions, support supervisory convergence and support the continued utilisation of global / regional operating models which are to the benefit of clients and their investors.

2. Regulatory Practice in other Jurisdictions

Financial services and the funds industry in particular are international in nature. The fund products domiciled in Ireland operate under a European passport and it is therefore important that regulatory practice in relation to these products remains more aligned across European jurisdictions. The fund administration services provided to these products such as NAV calculation and pricing are not subject to European regulation and are regulated locally within the relevant jurisdiction. However, given that they are providing services to European regulated product the standards to which such entities are held accountable should be more aligned. In considering this matter we have reviewed the approach of regulators in the United Kingdom, Luxembourg and Germany.

While there are many commonalities between the key elements of the governance requirements in the named jurisdictions and the approach of the CBI, there are also a number of notable differences

- The CBI requirements as contained in the IFR, and listed as the minimum supervisory expectations in the Discussion Paper, are significantly more detailed that those of the regulators in other jurisdictions.
- These jurisdictions incorporate a greater emphasis on materiality in their requirements, with non-material outsourced activities subject to an adjusted standard of outsourcing oversight and governance.
- While some jurisdictions require prior regulatory approval of the outsourcing of a material activity only, other regulators do not approve any outsourcing arrangements, or require only notification. The regulatory focus is directed to the supervision of the RFSPs outsourcing oversight and governance arrangements.
- Nature, scale and complexity of the outsourcing arrangement is an important concept articulated by other regulators when considering the assessment of the risk attaching to particular arrangements and the resulting outsourcing oversight and governance requirements.
- Other regulators differentiate between the requirements in relation to intra group outsourcing arrangements versus 3rd party outsourcing (particularly in the areas of exit strategies and reliance on corporate level risk management for outsourcing risk analysis).

These jurisdictions have been guided by the existing European and international guidelines on outsourcing in developing their local requirements and that their requirements will evolve in line with the EBA Guidelines on Outsourcing once finalised.

3. Sectoral Approach

State Street's business in Ireland operates across a number of industry sectors, primarily fund service providers and asset management. These sectors are currently subject to varying regulatory requirements and supervisory expectations with respect to outsourcing, reflecting the differing nature of the sectors. We believe this is the appropriate approach for the CBI to adopt and would request that the CBI maintain this distinction going forward.

While there may be common themes across sectors there will also be sector-specific nuances and therefore we believe the CBI should give consideration to a principles based approach for all sectors with a guidance framework to accompany it which is sector specific if the CBI considers this necessary for a particular sector.

4. Delegation vs Outsourcing vs Acquisition of Services

In the context of the Irish funds industry, the clear distinction between practices of outsourcing, delegation and acquisition of services and the related regulatory requirements in relation to each of these should be retained to ensure UCITS and AIFs across Europe are subject to harmonised EU requirements with the changes to the requirements in relation to the delegation requirements for such products emanating from European regulations. The scope of the CBI requirements on outsourcing should be those RFSPs (Fund Administrators) governed by IFR.

Delegation by managers of UCITS and AIFs is expressly recognised and governed by specific frameworks within the UCITS and the AIFM Directive respectively. If there is concern in relation to the effectiveness of existing requirements this should preferably be addressed at EU level.

Where a local authorised depository delegates safekeeping of assets under the UCITs or the AIFM Directive to a global sub-custodian is an example of such a delegation. This global subcustody model complies with European requirements and allows the global due diligence and oversight of each of sub-custody appointment to be undertaken by the Network Management team of the appointed Global sub-custodian thereby utilising deeply experienced function within the global custody organisation. The work of the global sub-custodian, including the work of the network management group in the due diligence and oversight of subcustodians is monitored and overseen by the Irish depositary.

Similarly, regarding UCITS Management Companies and AIFM, the delegation requirements emanate from European regulation governing these products. Any changes to the delegation requirements in relation to such products should be made within the original EU regulations. The imposition of additional requirements locally would be at odds with the aim of supervisory convergence.

The CBI definition of outsourcing refers to outsourcing being the arrangement service provider performs an activity which would otherwise be performed by the regulated firm itself and this would clearly exclude the acquisition of services such as utilities and professional advice. The EBA draft guidelines are very clear on this point also and state the acquisition of services (e.g. advice of an architect regarding the premises, legal representation in front of the court and administrative bodies, servicing of company cars, catering), goods (e.g. purchase of office supplies, or furniture) or utilities (e.g. electricity, gas, water, telephone line) that are not normally performed by the institutions or payment institutions are not considered outsourcing.

For the purchase of services that fall within the definition of outsourcing we agree on the need for such activity to be captured by the outsourcing governance framework including the appropriate resiliency planning of a RFSP. We further agree that any significant dependencies on third party vendor relationships in respect of the purchase of services such as telecommunications and power, where such dependencies pose a potential risk to the regulated firm they should be considered as part of the firm's business continuity plans and strategies however this should not form part of the CBI requirements in relation to outsourcing and any Central Bank requirements / Guidance should be clear in this regard.

5. A proportionate risk-based approach

It is necessary that there is an appropriate level of oversight across all outsourcing arrangements. However, we would recommend recognising that RFSPs should be permitted to adopt a proportionate risk-based approach to the implementation of their outsourcing oversight governance framework to ensure the nature, scale, complexity and criticality of individual arrangements is reflected in the oversight model implemented. Such an approach would recognise that not all outsourcing arrangements pose the same level of risk while ensuring there is an enhanced level of oversight for arrangements which present the most risk. This would be in line with the draft EBA Guidelines on Outsourcing which advocates the adoption of the principle of proportionality in relation to the oversight and governance of outsourcing arrangements.

- **Nature, Scale and Complexity**

The key factors which a RFSP would take into account when assessing the nature, scale and complexity include:

- Nature of the outsourcing arrangement:

  Take account whether the outsourcing arrangement is to another firm regulated by the CBI, to another entity within the same group or to a third party provider, location of the outsourcing service provider ("OSP"), regulatory status. For example, firms authorised by the CBI are subject to the CBI's authorisation requirements as well as their ongoing regulatory requirements which ensure such firms are operated in an appropriate manner and in line with Irish regulatory standards and should therefore be considered to present less risk. The type of activity being outsourced, e.g. regulated or non-regulated activity would also be relevant in assessing the nature of the arrangement.

- Scale:

  Take into account the size of the outsourcing arrangement; currently the FTE metric is used however a more sophisticated measure should be possible as technology and automation continue to develop.

- Complexity:

  Take account of the complexity of the activity being outsourced, including the nature of the data, the level of straight-through-processing, the nature of manual intervention, the level of judgement required, as well as the expertise of the Outsourcing Service Provider (OSP).

The risk assessment model to be utilised by a RFSP to implement such a risk-based approach should be made available to the CBI upon request.

- **Assessment of criticality / importance**

The draft EBA Guidelines contain criteria against which an outsourcing arrangement should be assessed for criticality or importance which ensures a harmonised approach to the assessment while allowing RFSPs to make their own determination of the criticality / importance of each outsourced arrangement. The CBI should give consideration to the adoption of a similar approach.

6. Important Considerations in the context of Global Operating Models

All outsourcing arrangements should be subject to a core level of oversight and governance, however the outsourcing requirements should take account of the inherent risk presented by the particular arrangement. There are features of the outsourcing arrangement which need to be considered when assessing the risks presented by such arrangements. We have set out below some of the features which are relevant.

- **Intragroup Outsourcing**

When outsourcing within the same group, RFSPs have a higher level of control over the outsourced function which they should take into account in their risk assessment. Intragroup arrangements are typically subject to the same enterprise-wide corporate standards and policies overlaid with local jurisdictional requirements as necessary. Enterprise-wide corporate standards, policies and requirements are developed in light of international standards and regulations as well as best practice.

The degree of integration, consistency and standardisation of approach and process together with the multi-jurisdictional coverage offered by a global operating model should be reflected in the risk profile of the arrangement and requirements in relation to resiliency planning.

- **Centres of operational expertise**

Centres of operational excellence in pricing, derivatives, NAV calculation, among other things have been developed by global organisations to support a global operating model which services multiple sites. These operational hubs have developed best in class processes and control frameworks for their area of operational expertise which results in the delivery of a refined and standardised process and in practice results in lower operational risk for the RFSP than if the activity were undertaken within the RFSP itself. These centres of operational expertise which are operated from multiple locations typically form part of the outsourcing arrangements of a global operating model which is overseen by an outsourcing oversight framework thereby increasing resiliency and reducing operational risk. RFSPs should be permitted to consider the presence of multiple operational hubs for the same activity within the global operating model to load balance as well as shift work to maintain resiliency in the context of a concentration risk assessment for a particular servicing location.

- **Technical subject matter expertise**

Each RFSP must retain senior level experience such that where global expertise is utilised, the RFSP is in a position to influence the enterprise wide approach and challenge in a constructive manner when standards or service do not meet the requirements. Each RFSP must also have the requisite knowledge to understand in detail the service being delivered. In the same way that a RFSP can appoint, a 3rd party advisory firm the RFSP should be able to make use of the expertise within the group.

As technology and fintech continue to develop and evolve, there is a need to have deep expertise available in these areas as well as related areas such as corporate information security, data governance and privacy, for example. These are global developments and trends and RFSPs should be able to utilise this existing expertise within their organisation.

The EBA Guidelines recognise the ability of RFSPs to utilise a centralised function for the operational oversight of outsourcing arrangements provided independent monitoring and appropriate oversight of the service provider is in place. We would advocate the CBI consider doing the same to facilitate some centralised outsourcing oversight which supports efficiency, consistency and utilisation of expertise.

To meet this challenge global organisations build their corporate level infrastructure in such a way as to establish corporate level SME groups.

This approach ensures there is the appropriate depth of expertise within the global organisation to manage the risks relating to similar activities across multiple locations both at an enterprise level and also at the local legal entities. The structure allows the global organisation to build out deep pools of expertise in specialist areas that can support multiple local legal entities across the jurisdictions in a consistent manner where they face common challenges and risks. This makes sense when the risks being managed are enterprise wide and location neutral.

- **Unregulated Activity**

The outsourcing of certain unregulated activity allows firms to leverage global expertise in relation to functions and activities such as HR, Finance, utilities, trade processing and other ancillary activities, which yield significant benefits for regulated firms in terms of efficiency, standardisation, best practice, access to leading edge technologies and international thinking in a given discipline. The establishment of centralised functions either at a global or an EMEA level to undertake certain standard non-regulated activities allows firms to gain efficiencies as well as manage the risk arising in relation to these activities centrally thereby deploying risk mitigants in a consistent and timely manner which ultimately reduces the risk for the regulated firm in relation to these activities due to the implementation of standardised processes and control frameworks.

- **Technology**

Within global operating models the technology utilised is typically a common global technology platform which is delivered centrally by a global technology group to entities and jurisdictions across the organisation. A common technology platform is subject to enterprise level technology standards and controls and enhances the resiliency of the RFSP from a technology perspective.
Technology is a core pillar of service provision by RFSP to clients and their investors. In a global operating model the applications and technology infrastructure are delivered and supported by the global technology group who has the requisite expertise across IT disciplines such as network, programming, hardware, engineering, software & cloud. We agree it is necessary for a RFSP to have strong oversight of the technology services being delivered by the global technology group.

This oversight can be achieved by having RFSP owned monitoring and oversight of the Technology Services provided, the adoption of relevant Global Technology policies by the RFSP and a technology team on the ground which will support the RFSP receiving technology services being delivered from the global technology group. The team should have the appropriate level of technology literacy and experience to be able to support the RFSP.

In relation to emerging technologies the development of a control framework to understand and mitigate the risk presented by such technologies is more appropriately and efficiently done within a centralised function of the global organisation. This results in risks in relation to such technologies being detected earlier with risk mitigants developed and deployed more effectively and with a shorter lead time. Pooling global resources in developing such expertise ensures consistency, avoids duplication, ensures shorter lead time in the delivery of the expertise and control framework and is appropriate given that the risks presented by emerging technologies, including cloud technology, are common across jurisdictions

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Questions for discussion with the Central Bank

Sensitive Data Risk

- ***How are regulated firms ensuring that they have sufficient knowledge/ expertise within their own organisation to effectively challenge and gain assurance that their data is being managed securely by OSPs, including CSPs (how and where it is being stored, processed, used, located etc.)?***

  The organisation has dedicated functions established to support the business lines in assessing, reviewing and revising the contractual and control framework throughout the life cycle of both 3rd party and intragroup outsourcing arrangements to ensure data is being managed securely by OSPs. These include data privacy, data governance, corporate information security, technology and specialised legal functions in relation to 3rd party and intragroup arrangements.

  At a corporate level, State Street's Global Technology division has issued a Cloud Security Framework along with a Technology Data Principles Framework which takes account of industry standards and regulatory requirements. The data principles, which include data access, hosting and processing (data lineage) principles, provide the assessment and assurance framework to review data being managed and processed. The Cloud Security Framework also considers chain outsourcing / fourth party risk. In addition to this, State Street has a Global Third Party Risk Management Program in place.

- ***What issues/ challenges are regulated firms encountering in gaining assurance that their sensitive business and customer data is being managed securely in outsourcing scenarios?***

  - Legacy arrangements involving contractual terms that were agreed under superceded regulatory frameworks. It can be practically and commercially challenging to repaper these types of agreements, particularly where the revised terms are likely to be more onerous for the service provider
  - This is particularly the case where the service provider is not itself a regulated entity, is located outside of the EU, or does not have many regulated entities as clients.
  - Visibility of fourth party / chain outsourcing risk. There are challenges with cloud providers, and in particular with software as a service [SaaS] providers, to enable financial institutions to meet policy and regulatory obligations due to their limitations or restrictions e.g. chain / fourth parties governance etc
  - Securing a contractual right to access and validate the service provider's controls, as opposed to receiving copies of external auditor assessments from the service provider.
  - Ensuring regional guidance and requirements are captured and global services operating models align with regional regulatory demands e.g. balancing the regional control process requirements against specific locational requirements for global systems.
  - Multiple requests for similar information being issued to third party and intragroup OSPs

Concentration Risk

- ***How are regulated firms seeking to reduce their exposure to concentration risk both from the perspective of providers and geographical locations?***

  State Street operates a common operating model and infrastructure across multiple legal entities in several jurisdictions within its group. State Street primarily outsources to affiliated legal entities which are either wholly owned or joint ventures.

State Street manages its concentration risk by establishing tolerance limits on outsourcing across certain criteria and monitoring its exposure against those tolerance limits across all entities and locations in the global operating model. These tolerance levels are approved by the board of the legal entity. On an ongoing basis the concentration risk is assessed as part of the outsourcing oversight framework including due diligence, service monitoring, resiliency planning and BCP testing.

In order to manage concentration risk appropriately State Street has an extended enterprise operating model with automated processes and established multiple operational Centres of Excellence (COEs), in which deep expertise in common client servicing requirements is established. Having several COEs is a key factor in managing concentration and substitutability risk. These COEs are made available across our client servicing platforms. The benefits of a global operating model include continuous coverage and overlapping hours globally to ensure comprehensive transition between servicing sites and improved resiliency of our operations through the benefit of multiple locations to service clients at faster processing speeds. The presence of multiple operational hubs for the same activity within the global operating model allow State Street to load balance as well as move work between sites to maintain resiliency and manage concentration where appropriate

On an ongoing basis State Street is monitoring concentration risk and assessing this against the operational and resiliency risk mitigations provided by global COEs.

- ***How are regulated firms addressing concentration risk whereby they are outsourcing to OSPs who provide services for a large proportion of their sector?***

  State Street performs initial and ongoing due diligence monitoring on each of its outsourcing service providers. In line with all outsourcing arrangements put in place, State Street ensures there is a legal agreement and service level agreement put in place that clearly documents the role and responsibilities of each party throughout the outsourcing arrangement.

  Within this oversight framework, State Street identifies instances where an OSP is providing services to other RFSPs within the same sector and ensures both the operational resilience and business continuity plans are robust and are tested on a regular basis with the findings shared with State Street firm in Ireland.

  The extended intragroup enterprise operating model with automated processes and established multiple operational Centres of Excellence (COEs), in which deep expertise in common client servicing requirements is established is a key factor in managing concentration and substitutability risk. These COEs are made available across our client servicing platforms. The benefits of a global operating model include continuous coverage and overlapping hours globally to ensure comprehensive transition between servicing sites and improved resiliency of our operations through the benefit of multiple locations to service clients at faster processing speeds. The presence of multiple operational hubs for the same activity within the global operating model allow State Street to load balance as well as move work between sites to maintain resiliency and manage concentration where appropriate.

- ***Of particular interest is how regulated firms are dealing with concentration risk where there are limited numbers of providers of niche services such as CSPs?***

  The State Street Cloud Security Framework has a control domain for 'Interoperability & Portability'. This focuses on a standard set of controls that stipulate that the vendor will use industry standards at all layers of the Open Systems Interconnection (OSI) stack wherever possible, such that it is easy for the State Street to use multiple vendors (to reduce business continuity risk) or move vendors in the event of vendor failure / contract termination etc. This applies particularly to Software as a Service [SaaS] projects where the risk of a vendor not meeting these requirements is higher.

- ***Do regulated firms have views, as to how systemic concentration risk related to outsourcing, can be effectively monitored and managed by both regulated firms in all sectors and the Central Bank?***

  RFSPs should ensure that systemic concentration risk is identified and assessed both in the initial due diligence and as part of its on-going outsourcing oversight framework.

Offshoring / Chain Outsourcing Risk

- ***Given the significant volume of offshoring to the UK what preparations are regulated firms undertaking to prepare for Brexit and what related challenges are envisaged in terms of their outsourcing arrangements?***

  State Street has considered its existing outsourcing arrangements carefully in preparation for Brexit. Our planning leverages off the existing

  (1) outsourcing governance structures and frameworks,

  (2) resources

  (3) expertise in place within State Street in Ireland and within the broader global organisation.

  For our asset management business specifically we have identified that Brexit will impact the outsourcing risk profile for the business as the book of business in the Irish asset management entities as a result of Brexit will increase, leading to increases outsourced activity. As a result, this will also increase State Street's

  (1) reliance on existing outsourcing arrangements including intragroup arrangements

  (2) associated concentration and location risks.

  To help manage and mitigate these risks State Street has sought to add additional subject matter expertise and first line oversight resource to its organisation in Ireland to support the oversight and management of the associated outsourced activity.

- ***What steps are regulated firms taking to ensure they have full sight of any chain outsourcing which may be occurring within their outsourcing arrangements and how are they managing risks associated with this?***

  State Street has multiple measures in place to ensure it has full sight of and manages the risk associated with chain outsourcing arrangements including:

  - Legal agreement put in place with all OSPs to include a requirement for the OSP to seek prior consent for any proposed sub-delegation of tasks,
  - OSPs are required to comply with the outsourcing oversight policy of the RFSP,
  - Service Review meetings to include reporting of all relevant sub-delegate arrangements in place,
  - Regular reporting and confirmations from the OSPs to address various aspects of the sub-delegate arrangements in place.
  - Outsourcing inventory to include a complete inventory of activities delegated to all OSP's inclusive of any chain outsourcing.

- Relevant training of Irish outsourcing oversight obligations to be provided to relevant staff in all OSP locations inclusive of any chain outsourcing locations.

- ***How are firms ensuring that contractual rights of access are the same with all parties to a chain-outsourcing arrangement, as those granted by the primary third party OSP?***

  The principles that govern State Street's intercompany arrangements include right of access provisions to facilities, records and personnel to State Street affiliates, State Street customers and their auditors, compliance personnel, regulators and other professional advisors as reasonably required to examine an affiliate's performance of services, internal controls, security and disaster recovery plans.

  State Street's template master services agreement for use with third party vendors contains similar rights of access provisions and it requires vendors to enter into materially consistent terms with its sub-contractors.

Substitutability Risk

- ***What issues/ challenges are regulated firms encountering when assessing substitutability and exit strategies? How are these being addressed?***

  State Street Corporation has an extended enterprise operating model meaning it operates a common operating model and operational infrastructure across many legal entities in many jurisdictions across EMEA, North America and APAC.

  As a result, State Street entities in Ireland outsource almost exclusively to other intragroup entities. As noted by the EBA in their 2018 consultation paper, intragroup outsourcing can represent less risk to third party outsourcing because intragroup entities are subject to the same corporate wide policies, procedures, culture and operating standards. The EBA also noted that firms are deemed to have a higher level of control over an outsourced function if outsourced to an intragroup entity.

  In this context, the challenges when assessing substitutability and exit strategies include:

  (a) Entities in Ireland must be able to leverage the knowledge and expertise of the Corporation when assessing alternate servicing solutions;

  (b) The Group should be able to focus on ensuring it has extensive and robust operational resilience solutions in place to facilitate the migration of activity between existing intragroup legal entity locations to ensure continuity of service.

  (c) Retaining the ability to take back an outsourced activity in-house is not viable in many instances for a number of reasons, primarily due to lack of availability of sufficient resource and lack of operational scalability.

  The above challenges are addressed within the respective Outsourcing Oversight Policy and Governance Framework that exists for the State Street legal entities in Ireland along with a close collaboration with the wider group. State Street has robust planning and governance in place to oversee the migration of activities between intragroup legal entity locations.

- ***What are the risks / challenges where there is no substitutability or it is not possible to bring the service back in house? How are these being addressed?***

  We note that in certain circumstances, such as the outsourcing of investment management services the option to take back in-house may not be suitable or indeed in the best interest of the underlying clients / investors whereby if suitable alternative arrangements are not available the relevant strategies may be discontinued and the associated mandates / contracts terminated in line with the relevant contract provisions.

State Street Corporation recognises that it is best practice when entering into an outsourcing arrangement (intragroup or third party) to retain the ability to exit the arrangement or take back the activity in-house in an orderly and timely manner if required. State Street ensures it has an exit strategy and migration plan in place in the event of an exit scenario.

While State Street may have the ability to take back an outsourced activity in-house in limited instances, it ensures that all arrangements are in scope of a robust resilience planning initiative to ensure continuity of service in the event of exit scenario.

In instances where there is no substitutability or it is not possible to bring the service in-house then State Street would implement an enhanced outsourcing oversight model to ensure appropriate early warning signals are detected and appropriate action is taken to mitigate potential concerns. While such an arrangement would be assessed on a case-by-case basis, an enhanced oversight model might consist of but not be limited to additional and KPI reporting along with more frequent service review meetings and due diligence inspections taking place.