

Conduct Rules Scenarios

Lack of Controls Over Outsourcing

Scenario

You are the incoming Chief Operating Officer of Trusty Asset Management Ltd. Trusty Asset Management Ltd is a Core Firm and you are the SMF3. You have been allocated responsibility for the firm's outsourcing arrangements.

As part of an efficiency drive a couple of years ago, before your arrival, the firm outsourced its middle office and custodial functions to a third party ("Best Administrators Ltd").

A service level agreement was put in place at the time at which the outsourcing contract was signed, but KPIs have never really been clear. In practice, service levels have been deteriorating. An internal audit has highlighted a number of problems that could constitute a breach of regulation.

What conduct rules may have been breached? Why?

How should the firm respond?

What controls could have been implemented?