

Dear FSB

I have had an opportunity to read through your discussion paper covering these timely issues.

I have advised and negotiated on behalf of American, British, French and German investment banks that are included in the current FSB list of global systemically important banks (G-SIBs), so the following observations are made based on these in-house experiences.

1. What do you consider the key challenges in identifying, managing and mitigating the risks relating to outsourcing and third-party relationships, including risks in sub-contractors and the broader supply chain?

Senior manager decisions on global group-wide third-party provider risk needs to be documented and visually mapped. That way there is clarity on senior management awareness and decision making.

2. What are possible ways to address these challenges and mitigate related risks? Are there any concerns with potential approaches that might increase risks, complexity or costs?

Concentration risk on the choice of third party outsourcing providers. To answer the second question first, risk managing third party outsourcing will certainly increase short term complexity and costs. But given G-SIBs are in effect anchors to a whole system they have to be absorbed.

One approach is for a global regulatory consensus on risk mitigation the use of outsourcing. For example, agreeing on a clear rule of thumb that CTOs, CFOs and heads of Procurement and Risk can all apply. The rule of thumb might be along the following lines.

The use of outsourcing for critical advanced analytics, cloud computing and data protection requires contractual relationships based on:

- (a) One third (33.3%) of total annual expenditure is made with companies in the jurisdiction in which the headquarters of the G-SIB is located;
- (b) One third (33.3%) of total annual expenditure is made based on intra-group outsourcing which can be in the same jurisdiction as the headquarters of the G-SIB or distributed globally;
- (c) One third (33.3%) of total annual expenditure is made with companies globally excluding the jurisdiction in which the headquarters of the G-SIB is located.

3. What are possible ways in which financial institutions, third-party service providers and supervisory authorities could collaborate to address these challenges on a cross-border basis?

Regular conferences where all actors attend to confidentially discuss their concerns and experiences.

4. What lessons have been learned from the COVID-19 pandemic regarding managing and mitigating risks relating to outsourcing and third-party service providers?

To not wait for a real catastrophe to act as a catalyst for action, but to accept that outsourcing has immense benefits but dependence on it requires extensive thought and risk mitigation investment.

Kind regards,

Iain Sheridan

Solicitor/Barrister

[isheridan@bigbenlaw.com](mailto:isheridan@bigbenlaw.com)

[www.bigbenlaw.com](http://www.bigbenlaw.com)

<https://www.linkedin.com/in/iain-sheridan>

One Pancras Square London N1C 4AG