Notes to the Board of Directors

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# Introduction

The notes below may be approved by the board of directors or a committee delegated by it. In case the board of directors delegates responsibility regarding outsourcing to a committee, this delegation must be properly documented. In case of small companies, delegation would be rather uncommon.

Approval of Outsourcing Framework

# Subject

Approval of Documentation for the implementation of the amendments to the Guidelines on Outsourcing dated 27 July 2016 issue by Monetary Authority of Singapore.

# Background

On 27 July 2016, the Monetary Authority of Singapore (‘MAS’) has issued amended Guidelines on Outsourcing (the ‘Outsourcing Guidelines’) to financial institutions(‘FIs’) outlining the framework and procedures that FIs are required to implement in respect of all their outsourcing decisions. The Outsourcing Guidelines provide detailed requirements to be complied with by the FIs on evaluating each outsourcing arrangement with reference to criteria indicated by MAS and for identifying, measuring, analysing, monitoring and reporting outsourcing risks to Senior Management, the board of directors and the MAS. The Outsourcing Guidelines also provide governance responsibilities in the FI in setting the strategy and framework for outsourcing, articulating the business risk appetite in respect of outsourcing activities and ensuring arrangements for a continuous evaluation and upgrading of systems and controls to mitigate emerging risks.

MAS expects is that every FI that has entered into or intends to enter into an outsourcing arrangement with a service provider should evaluate the said arrangements in light of the Outsourcing Guidelines and take appropriate actions for effective outsourcing risk management, commensurate to the nature, scale and complexity of the FI’s business, keeping in view the requirements as stated in the Outsourcing Guidelines.

[Name] (the ‘Company’) is a [holder of a capital markets services license for fund management / registered fund management company]. It is thus subject to the Outsourcing Guidelines.

# Outsourcing at [name]

## Strategy regarding Outsourcing

[name] is an independent asset management company, managing assets of high net worth individuals on [a discretionary and/or advisory] basis. We are a boutique business providing our clients highest-standard, bespoke services from a small group of person that he/she is familiar with and trusts in.

As a small company, our Company has limited resources, in finance as well as in workforce. We focus our resources on the core tasks as suiting the capabilities of our individual employees. In order to carry out other tasks proficiently, our Company needs additional capacities and capabilities to meet our clients’ demands and regulatory requirements. Where the workload at our Company does not justify the hiring of the in-house staff required for the task, we thus engage external parties. This applies most of all in two scenarios.

* Labour intensive processes: In particular, where the workload peaks for short intervals, the hiring of permanent staff may not be economical. Even in these cases, where the additional resources are the primary goal, the Company must not neglect to consider the quality and reliability of the service obtained.
* Processes that require specialist skills: The skills of the external specialists shall complement the skills of our own staff to enhance our services and operations.

Currently, the Company namely engages assistance in the following areas:

* [Please list the activities currently outsourced by our Company; for example
* Payroll;]
* [Accounting;]
* [Internal audit: The Company does not have staff to independently review its processes.]

## Risk Appetite: General Outsourcing Requirements

Our Company shall only engage outsourced services, where the following criteria are met.

1. The outsourced service is in line with our business strategy. The outsourced service must therefore support and/or enhance our services to manage assets of high net worth individuals, including their wealth management structures. [Please specify the business strategy as applicable to your company further, as applicable].
2. The service provider must have the required skills for the outsourced service. Preferably, we rely on respective recommendations and references from sources in the financial industry that we are familiar with. Alternatively, we may rely on other reliable sources.
3. The privacy of our clients is of high priority to our business. To the extent possible, our Company shall therefore not share customer information with any external party. Where necessary, customer information shall be shared on a need-to-know basis, to the extent possible on an anonymised basis.
4. The benefits of the outsourcing outweigh the option to carry out the activity in house.
5. The benefits of the outsourcing outweigh the risks of the outsourcing arrangement
6. The actual and potential risks arising out of any single outsourcing arrangement should not put the existence of our business as a whole or all of our clients’ assets at risk.

For the assessment regarding benefits and risks of outsourcing, the following should be considered.

* The benefits may include financial benefits as well as business opportunities. Hereby, it is important to ensure the fit of the outsourced activity with our business strategy and to also consider the likelihood of our business strategy not to be adversely impacted due to potential risks that may arise consequent to outsourcing.
* Risks include confidentiality, security, regulatory and reputation concerns. At the same time, our Company’s capability to effectively oversee the outsourcing arrangement and our Company’s expertise within business to manage outsourcing risks must be considered. Hereby, the risks must not only be considered for the individual outsourcing arrangement, but for the Company and all its engagements overall. Furthermore, the challenges of integrating the activity in house or of handing it over to another external party, when the need arises, must be considered.

# Action Taken

In light of the amended Outsourcing Guidelines, the Association of Independent Asset Managers (‘AIAM’) procured a template framework for outsourcing by independent asset managers from a specialist compliance consultancy, Ingenia Consultants Pte Ltd, and distributed it to all its ordinary members, including our Company. This template framework was thus produced by experts and may be considered an industry standard in the independent asset management sector.

We have reviewed this template framework and amended it to fit our Company specifically; including our need for outsourcing, our outsourcing strategy, our outsourcing risk appetite and our risk management and control environment.

The key elements of the proposed framework include implementation of a robust internal assessment of each outsourcing arrangement before entering into it and on an ongoing basis, analysis and monitoring of outsourcing risks with a view to managing them effectively and governance requirements underlining the responsibility of the board of directors and Senior Management for overseeing and managing outsourcing risk.

## Outsourcing Framework

The proposed framework consists of the following documents:

* Outsourcing Policy: The Outsourcing Policy outlines the robust procedures for the assessment, approval and monitoring of outsourcing and designates the responsible bodies and officers.
* Outsourcing Checklist: The Outsourcing Checklist provides for the assessment of our outsourcing.
  + User Guide: General guidelines regarding the management of outsourcing arrangements;
  + Application of Guidelines: Analysis, if and to what extent the Outsourcing Guidelines apply for our Company;
  + Outsourcing Arrangement: A robust assessment of our various outsourcing arrangements and substantive engagements with third parties in general, including assessment of the outsourced service provider and the outsourcing arrangement;
  + Framework: Assessment of our outsourcing framework;
  + Internal reporting: An overview of our outsourcing risks;
  + Regulatory reporting: A list of our regulatory reporting obligations;
  + Instructions: The cover page of the outsourcing register by MAS (Annex 3 of the Outsourcing Guidelines);
  + Outsourcing Register: The outsourcing register by MAS (Annex 3 of the Outsourcing Guidelines).

## Review

The Board of Directors should periodically, and in case of substantial changes in our business, review our outsourcing strategy, our risk appetite regarding outsourcing as well as our outsourcing risk framework.

# Decision Required

The board of directors is requested to approve the draft outsourcing framework for adoption by our Company taking into consideration the competencies of the parties involved in the production of the framework and the modifications to tailor it to our Company; including

1. the delegation of specified responsibilities to Senior Management, the COO, the Compliance Officer and other persons;
2. the approval of the assessment of every outsourcing arrangement by the board of Directors or Senior management;

reports on our Company’s outsourcing risks to Senior Management and, for information, to the board at least on an annual basis.

Signature of the proposer of this note, designation and date

Acknowledgement of Outsourcing Risk Assessment

Under the Guidelines on Outsourcing (‘Outsourcing Guidelines’) by the Monetary Authority of Singapore and our Outsourcing Policy, the reports on our monitoring and control activities of our outsourcing arrangements should be submitted to the board of directors for information (para. 5.8.2(e) Outsourcing Guidelines, “Internal Review of Outsourcing Arrangements” respectively). In the appendix, you receive the overview of our outsourcing risks, the “Internal reporting” section of our Outsourcing Checklist.

# Assessment of Outsourcing and its Risks

## Overall Outsourcing

[Please provide short comment regarding the number of outsourced activities, the number of material and non-material outsourcing arrangements, the nature of primary risks in the outsourcing arrangements.]

## Concentration of Outsourcing Arrangements

[Please provide a short comment regarding the concentration of outsourcing arrangements among the service providers.]

## Outsourcing Arrangements

[Please provide a short comment regarding the risks in the individual Outsourcing Arrangements.]

## Outsourcing Framework

[Please provide a short comment regarding the robustness of the Outsourcing Framework.]

# Decision Required

This outsourcing risk assessment is submitted to the board of directors for information. The board of directors is therefore simply requested to take notice of this assessment.

Signature of the proposer of this note, designation and date