



PRUDENTIAL STANDARDS

OUTSOURCING OF BUSINESS ACTIVITIES, FUNCTIONS AND PROCESSES

SASKCENTRAL COMMUNICATION NUMBER
Prudential Standard 2017-04

ISSUE DATE
JANUARY 2017

TABLE OF CONTENTS

1. Introduction	1
2. Definitions.....	2
2.1 Outsourcing Arrangement	2
2.2 SaskCentral Group	2
3. Application of The Standard.....	2
3.1 Material Intra-Group Outsourcing Arrangements	2
3.2 Outsourcing Arrangements With The External Auditor.....	3
4. Accountability And Control	3
4.1 SaskCentral Board of Directors Responsibilities	3
4.2 SaskCentral Management Responsibilities	3
5. Materiality Assessment For Outsourcing Arrangements	4
6. Risk Management Program for Material Outsourcing Arrangements	6
6.1 Due Diligence Processes	6
6.2 Policies and Procedures to Manage Risks Associated With Material Outsourcing Arrangements	6
6.3 Monitoring and Oversight of Material Outsourcing Arrangements.....	10
Appendix 1 - Examples of Outsourcing Arrangements	12
Appendix 2 - Sample Questions to Assess the Materiality of Outsourcing Arrangements	13
Appendix 3 - Due Diligence of Service Providers.....	14
Appendix 4 – Template Centralized List.....	15

1. INTRODUCTION

Pursuant to Part XIII of *The Credit Union Central of Saskatchewan Act, 2016* (the Act), Credit Union Deposit Guarantee Corporation (the Corporation) may make Prudential Standards that apply to SaskCentral. The Prudential Standard (Standard) contained herein must be adhered to by SaskCentral.

Financial institutions outsource business activities, functions, and processes to meet the challenges of technological innovation, increased specialization, cost control, and heightened competition. However, outsourcing can increase an institution's dependence on third parties, which may increase its risk profile. Many financial sector regulators have responded by introducing guidance related to the management of outsourcing risks.

This Standard sets out the Corporation's expectations for SaskCentral pertaining to outsourcing one or more of its business activities to a service provider. These expectations should be considered prudent practices, procedures or standards that should be applied according to the characteristics of the outsourcing arrangement and the circumstances of SaskCentral.

SaskCentral has the flexibility to configure its operations in the way most suited to achieving its corporate objectives. However, this Standard operates on the premise that SaskCentral retains ultimate accountability for all outsourced activities. Furthermore, the Corporation's supervisory powers should not be constrained, irrespective of whether an activity is conducted in-house, outsourced, or otherwise obtained from a third party.

Under this Standard, SaskCentral is expected to:

- evaluate the risks associated with all existing and proposed outsourcing arrangements;
- develop a process for determining the materiality of arrangements;
- implement a program for managing and monitoring risks, commensurate with the materiality of the arrangements;
- ensure that the board of directors receives information sufficient to enable them to discharge their duties under this Standard; and
- refrain from outsourcing certain business activities to the external auditor (see section 3.2).

The Corporation's specific expectations may vary, depending on the nature of the outsourcing arrangement being contemplated and the relationship between SaskCentral and the service provider. As outlined in the Supervisory Framework, the Corporation applies a risk-based approach to assessing SaskCentral's safety and soundness on a consolidated basis. Resources are focused on areas of higher risk and information from other regulators is used as appropriate. For each activity that the Corporation identifies as significant¹, the Corporation assesses the level of risk, including regulatory risk, and considers the impact of risk mitigation by evaluating the quality of risk management. As part of the Corporation's risk-focused supervisory process, SaskCentral's policies and procedures for assessing the materiality of outsourcing arrangements and managing the risks associated with outsourcing arrangements may be evaluated against the expectations of this Standard. In addition, individual outsourcing arrangements may be subject to supervisory review.

¹ "Significant" as used by the Corporation in "Significant Activities" is defined in the Supervisory Framework. Qualitative and quantitative factors are used to assess the significance of an activity to the achievement of the institution's business objectives and strategies.

2. DEFINITIONS

2.1 OUTSOURCING ARRANGEMENT

For the purposes of this Standard, an outsourcing arrangement is an agreement between SaskCentral and a service provider, whereby the service provider performs a business activity, function or process² that is, or could be, undertaken by SaskCentral itself. SaskCentral may consult with the Corporation when they are uncertain whether a particular arrangement falls within this definition. Examples are provided in Appendix 1.

2.2 SASKCENTRAL GROUP

For the purposes of this Standard, the SaskCentral group includes SaskCentral and any of its subsidiaries.

3. APPLICATION OF THE STANDARD

This Standard applies to all the outsourcing arrangements of SaskCentral and any members of the SaskCentral group. In addition, in applying this Standard, SaskCentral is expected to consider the impact on SaskCentral and on its consolidated operations, of outsourcing arrangements entered into by all its subsidiaries and business operations. The Corporation expects SaskCentral to ensure that members of the SaskCentral group follow the Standard when entering into material outsourcing arrangements.

All outsourcing arrangements should be subjected to the materiality assessment set out in section 5 of the Standard. The Corporation recognizes that outsourcing arrangements will exhibit varying degrees of materiality and expects that the robustness of SaskCentral's management of outsourcing risks would be commensurate with the materiality of the arrangement.

With respect to outsourcing arrangements that are deemed material, SaskCentral is expected to follow the full risk management program detailed in section 6. However, reduced expectations may be applied, in a manner consistent with section 3.1, where the material outsourcing arrangement is between SaskCentral and a member of the SaskCentral group. SaskCentral may consult with the Corporation when they are uncertain how to assess a particular combination of intra-group arrangements.

With respect to outsourcing arrangements that are deemed clearly immaterial, SaskCentral is not expected to follow the risk management program outlined in this Standard. SaskCentral should not outsource certain activities to its external auditor (see section 3.2).

3.1 MATERIAL INTRA-GROUP OUTSOURCING ARRANGEMENTS

At a minimum, the Corporation expects the following to be addressed when SaskCentral or a member of the SaskCentral group enters into a material outsourcing arrangement with another entity that is a member of the same SaskCentral group:

- a) an outsourcing agreement that details, among other things, the scope of the arrangement, the services to be supplied, the nature of the relationship between

² In this Standard, "activity" refers to activity, function or process.

SaskCentral and the service provider, and procedures governing the subcontracting of services;

- b) an appropriate business continuity plan;
- c) a process for monitoring and oversight; and
- d) legislative requirements relating to location of records (see section 6.2.2).

As appropriate, SaskCentral may address these expectations within enterprise-wide processes or plans, so long as any specific risks to each subsidiary are dealt with, and the board of directors is able to fulfill its accountabilities. As well, SaskCentral may establish the program, approve the policies, and develop and maintain the reporting on behalf of its subsidiaries.

Consistent with the risk-based Supervisory Framework, the Corporation may have additional expectations for group arrangements, depending on the risks related to the outsourcing arrangement and the conclusions of the Corporation's supervisory review.

3.2 OUTSOURCING ARRANGEMENTS WITH THE EXTERNAL AUDITOR

Prior to obtaining non-audit services from its external auditor, SaskCentral should assure itself that its external auditor would be in compliance with the relevant auditor independence standards of the Canadian accounting profession, as well as any other applicable auditor independence requirements.

In addition, SaskCentral should not outsource the following activities to its external auditor:

- Any internal audit service related to the internal accounting controls, financial systems, or financial statements of SaskCentral, unless it is reasonable to conclude that the results of the service will not be subject to audit procedures during an audit of SaskCentral's financial statements. This does not prohibit the external auditor from providing a non-recurring service to evaluate a discrete item or program, if the service is not, in substance, the outsourcing of an internal audit function.

4. ACCOUNTABILITY AND CONTROL

4.1 SASKCENTRAL BOARD OF DIRECTORS RESPONSIBILITIES

As set out in the Corporation's Corporate Governance Standard, the board, or a committee of the board, is expected to ensure that SaskCentral has appropriate risk management policies and practices, and that these are regularly reviewed. In terms of the specific risks arising from outsourcing, it is expected that, in carrying out this duty, the board would periodically:

- approve or reaffirm the policies that apply to outsourcing arrangements (e.g., risk philosophy, materiality criteria, risk management program and approval limits); and
- review a list of all SaskCentral's material outsourcing arrangements (see section 6.3.1) and other relevant reports, when appropriate.

4.2 SASKCENTRAL MANAGEMENT RESPONSIBILITIES

Management is responsible for:

- developing outsourcing policies for board approval;
- implementing the policies and any associated procedures;
- periodically reviewing their effectiveness; and

- communicating information pertaining to significant outsourcing risks to the board in a timely manner.

The policies and procedures are expected to include:

1) An outsourcing risk philosophy

SaskCentral's outsourcing risk philosophy would generally comprise a statement of principles, the basis for decision making, and the parameters for controlling outsourcing risks. Outsourcing risk philosophies should address the following:

- Integration of outsourcing arrangements, both individually and in aggregate, with overall business and strategic objectives. This could include an identification of any functions that, for strategic or internal control reasons, SaskCentral would not contemplate outsourcing.
- Importance and adequacy of internal expertise and management frameworks to oversee and manage the outsourced activity and the relationship with the service provider.
- Business case for outsourcing a significant business activity. The business case should consider the short- and long-term cost implications and all relevant prudential matters. When the service is being supplied from a foreign jurisdiction, SaskCentral should identify the issues that may arise as a result of the differing and potentially conflicting requirements among jurisdictions. The business case should also consider the cumulative impacts of all outsourcing arrangements on the overall safety and soundness of SaskCentral.

2) A materiality assessment for outsourcing arrangements

This assessment is expected to identify both the processes for determining the materiality of individual outsourcing arrangements and the underlying materiality factors such as those set out in section 5.

3) An outsourcing risk management program that, at a minimum, includes the expectations contained in section 6 and is applied consistently throughout SaskCentral. The Corporation expects management to pay particular attention to business continuity planning on an enterprise-wide basis.

4) Limits regarding the level or authority that enables SaskCentral's officers to approve outsourcing arrangements of varying magnitudes, either individually or in aggregate. This system should be consistent with the outsourcing risk philosophy and materiality criteria.

5. MATERIALITY ASSESSMENT FOR OUTSOURCING ARRANGEMENTS

As outlined in section 3, the Corporation recognizes that the outsourcing arrangements undertaken by SaskCentral will have differing degrees of materiality and may not be readily classified as either material or immaterial. In general, the Corporation expects that SaskCentral will design a risk management program that applies to all its outsourcing arrangements, except those that are clearly immaterial, and that the risk mitigants employed under this program will be appropriate to the particular outsourcing arrangement. As such, the risk management program could be scaled to apply different requirements depending on the type of outsourcing arrangement. Those arrangements deemed material

should be subject to the full expectations set out in section 6, unless it is reasonable to conclude that a particular expectation is not appropriate for the outsourcing arrangement in question. The Corporation may review SaskCentral's materiality assessment on a case-by-case basis as part of the supervisory review process.

The materiality of an outsourcing arrangement will depend on the extent to which it has the potential to have an important influence – whether quantitative or qualitative – on a significant line of business of the consolidated operations of SaskCentral.

The assessment of the materiality of an outsourcing arrangement is often subjective and depends on the circumstances faced by SaskCentral. Without limiting the scope of the materiality assessment, factors that SaskCentral should consider include:

- a) the impact of the outsourcing arrangement on the finances, reputation and operations of SaskCentral, or a significant business line, particularly if the service provider, or group of affiliated service providers, should fail to perform over a given period of time;
- b) the ability of SaskCentral to maintain appropriate internal controls and meet regulatory requirements, particularly if the service provider were to experience problems;
- c) the cost of the outsourcing arrangement;
- d) the degree of difficulty and time required to find an alternative service provider or to bring the business activity 'in-house'; and
- e) the potential that multiple outsourcing arrangements provided by the same service provider can have an important influence – in aggregate – on SaskCentral³.

Specific questions SaskCentral might consider in assessing the materiality of outsourcing arrangements are set out in Appendix 2.

Outsourcing all or substantially all of a management oversight function should always be considered material. For the purpose of this Standard, management oversight functions include:

- financial analysis;
- compliance;
- any internal audit services related to the internal accounting controls, financial systems, or financial statements;
- senior management; and
- risk management.

For example, a material arrangement could relate to the outsourcing of a significant part of SaskCentral's information technology function or investment management. Arrangements that likely do not represent material outsourcing include those where there are numerous similar providers in the marketplace and the cost and inconvenience of switching between providers is low.

Significant changes in the volume or the nature of business conducted should cause SaskCentral to reassess an outsourcing arrangement's materiality. In cases where an arrangement is reassessed as material, it should come into compliance with all aspects of this Standard at the first opportunity, such as when the outsourcing contract, agreement or statement of work (where applicable) is substantively amended, renewed or extended.

³ In respect of multiple outsourcing arrangements provided by the same service provider that, albeit individually immaterial, have an important influence - in aggregate - on SaskCentral, the Corporation expects SaskCentral to consider the relevant risk management expectations set out under section 6 to the extent feasible and reasonable given the circumstances.

6. RISK MANAGEMENT PROGRAM FOR MATERIAL OUTSOURCING ARRANGEMENTS

In general, the Corporation expects that SaskCentral will design a risk management program that applies to all outsourcing arrangements of the SaskCentral group, except those that are clearly immaterial, and that the risk mitigants employed will be commensurate with SaskCentral's assessment of the risks associated with the particular outsourcing arrangement.

6.1 DUE DILIGENCE PROCESSES

The Corporation expects SaskCentral to conduct an internal due diligence to determine the nature and scope of the business activity to be outsourced, its relationship to the rest of SaskCentral's activities, and how the activity is managed.

In selecting a service provider, or substantially amending or renewing a contract or outsourcing agreement, SaskCentral is expected to undertake a due diligence process that fully assesses the risks associated with the outsourcing arrangement, and addresses all relevant aspects of the service provider, including qualitative (i.e., operational) and quantitative (i.e., financial) factors (see Appendix 3 for a list of factors that could be included when performing due diligence of a service provider). When out-of-Canada outsourcing is being contemplated, SaskCentral should pay particular attention to the legal requirements of that jurisdiction, as well as the potential foreign political, economic and social conditions, and events that may conspire to reduce the foreign service provider's ability to provide the service, as well as any additional risk factors that may require adjustment to the risk management program.

Due diligence processes will vary depending on the nature of the outsourcing arrangement being contemplated. For example, in the case of renewals where no material change has occurred that would affect the viability of the outsourcing relationship, it may be appropriate to conduct more streamlined due diligence.

SaskCentral may rely on a due diligence review of the service provider that has been performed within the previous 15 months, provided the review addresses the above-noted requirements as well as the risks particular to SaskCentral.

6.2 POLICIES AND PROCEDURES TO MANAGE RISKS ASSOCIATED WITH MATERIAL OUTSOURCING ARRANGEMENTS

6.2.1 Contract for Services

The Corporation expects material outsourcing arrangements to be documented by a written contract that addresses all elements of the arrangement and has been reviewed by SaskCentral's legal counsel. Some of the items identified below may not be applicable in all circumstances; however, SaskCentral is expected to address all issues relevant to managing the risks associated with each outsourcing arrangement to the extent feasible and reasonable given the circumstances, and having regard to the interests of SaskCentral. Outsourcing arrangements can be documented by an outsourcing agreement that meets the expectations set out in section 3.1.

a) Nature and Scope of the Service Being Provided

The contract or outsourcing agreement is expected to specify the scope of the relationship, which may include provisions that address the frequency, content and format of the service being provided. The contract or outsourcing agreement is expected to detail the physical location where the service provider will provide the service.

b) Performance Measures

Performance measures should be established that allow each party to determine whether the commitments contained in the contract are being fulfilled.

c) Reporting Requirements

The contract or outsourcing agreement is expected to specify the type and frequency of information SaskCentral receives from the service provider. This would include reports that allow SaskCentral to assess whether the performance measures are being met and any other information required for its monitoring program (see section 6.3). In addition, the contract or outsourcing agreement is expected to include procedures and requirements for the service provider to report events to SaskCentral that may have the potential to materially affect the delivery of the service.

d) Resolution of Differences

The Corporation expects the contract or outsourcing agreement to incorporate a protocol for resolving disputes. The contract or outsourcing agreement should specify whether the service provider must continue providing the service during a dispute and the resolution period, as well as the jurisdiction and rules under which the dispute will be settled.

e) Defaults and Termination

The contract or outsourcing agreement is expected to specify what constitutes a default, identify remedies, and allow for opportunities to cure defaults or terminate the agreement. SaskCentral is expected to ensure that it can reasonably continue to process information and sustain operations in the event that the outsourcing arrangement is terminated or the service provider is unable to supply the service. Appropriate notice should be required for termination of service and SaskCentral's assets should be returned in a timely fashion. In particular, data and records relating to data processing outsourcing arrangements should be returned to SaskCentral in a format that would allow SaskCentral to sustain business operations without prohibitive expense.

The contract or outsourcing agreement should not contain wording that precludes the service from being continued in situations where the Corporation takes control of SaskCentral, or where SaskCentral is in liquidation.

f) Ownership and Access

Identification and ownership of all assets (intellectual and physical) related to the outsourcing arrangement should be clearly established, including assets generated or purchased pursuant to the outsourcing arrangement. The contract or outsourcing agreement should state whether and how the service provider has the right to use SaskCentral's assets (e.g., data, hardware and software, system documentation or intellectual property) and SaskCentral's right of access to those assets.

g) Contingency Planning

The contract or outsourcing agreement should outline the service provider's measures for ensuring the continuation of the outsourced business activity in the event of problems and events that may affect the service provider's operation, including systems breakdown and natural disaster, and other reasonably foreseeable events. SaskCentral should ensure that the service provider regularly tests its business recovery system as it pertains to the outsourced activity, notifies SaskCentral of the test results, and addresses any material deficiencies. SaskCentral is expected to provide a summary of the test results to the Corporation upon reasonable notice. In addition, SaskCentral should be notified in the event that the service provider makes significant changes to its business resumption and contingency plans, or encounters other circumstances that might have a serious impact on the service.

h) Audit Rights

The contract or outsourcing agreement is expected to clearly stipulate the audit requirements and rights of both the service provider and SaskCentral. At a minimum, it should give SaskCentral the right to evaluate the service provided or, alternatively to cause an independent auditor to evaluate, on its behalf, the service provided. This includes a review of the service provider's internal control environment as it relates to the service being provided⁴.

In addition, in all situations, irrespective of whether an activity is conducted in-house, outsourced, or otherwise obtained from a third party, the Corporation retains its supervisory powers⁵. Accordingly, an undertaking from the service provider or a provision in the outsourcing contract, should give the Corporation the right to:

- exercise the contractual rights of SaskCentral relating to audit;
- accompany SaskCentral (or its independent auditor) when it exercises its contractual audit rights;
- access and make copies of any internal audit reports (and associated working papers and recommendations) prepared by or for the service provider in respect of the service being performed for SaskCentral, subject to the Corporation agreeing to sign appropriate confidentiality documentation in form and content satisfactory to the service provider; and
- access findings in the external audit of the service provider (and associated working papers and recommendations) that address the service being performed for SaskCentral, subject to the consent of the service provider's external auditor and the Corporation agreeing to sign appropriate confidentiality documentation in form and content satisfactory to the service provider and the external auditor.

The Corporation would provide SaskCentral with reasonable notice of its intent to exercise its audit rights and would share its findings with SaskCentral where appropriate. In the normal course, the Corporation would seek to obtain information it requires through SaskCentral itself.

⁴ A CSAE 3416 report (Auditor's Report on Controls at a Service Organization) or equivalent may be sufficient. Note that a CSAE 3416 report focuses on financial reporting controls and does not intend to provide an audit of operations and other controls (such as business continuity planning).

⁵ Under subsection 16-2(1) of the Act, the Corporation has a right to access any records of SaskCentral.

i) Subcontracting

The contract or outsourcing agreement is expected to set out any rules or limitations to subcontracting by the service provider. In particular, security and confidentiality standards should apply to subcontracting or outsourcing arrangements by the primary service provider. Consistent with the principles of this Standard, the audit and inspection rights of SaskCentral and the Corporation should continue to apply to all significant subcontracting arrangements.

j) Confidentiality, Security and Separation of Property

At a minimum, the contract or outsourcing agreement is expected to set out SaskCentral's requirements for confidentiality and security. Ideally, the security and confidentiality policies adopted by the service provider would be commensurate with those of SaskCentral and should meet a reasonable standard in the circumstances. The contract or outsourcing agreement should address which party has responsibility for protection mechanisms, the scope of the information to be protected, the powers of each party to change security procedures and requirements, which party may be liable for any losses that might result from a security breach, and notification requirements if there is a breach of security.

The Corporation expects appropriate security and data confidentiality protections to be in place. The service provider is expected to be able to logically isolate SaskCentral's data, records, and items in process from those of other clients at all times, including under adverse conditions.

k) Pricing

The contract or outsourcing agreement should fully describe the basis for calculating fees and compensation relating to the service being provided.

l) Insurance

The service provider should be required to notify SaskCentral about significant changes in insurance coverage and disclose general terms and conditions of the insurance coverage.

6.2.2 Location of Records

In accordance with the provincial legislation, certain records⁶ of entities carrying on business in Canada should be maintained in Canada. In addition, SaskCentral is expected to ensure that the Corporation can access in Canada any records necessary to enable it to fulfill its mandate.

6.2.3 Business Continuity Plan

SaskCentral's business continuity plan should address reasonably foreseeable situations (either temporary or permanent) where the service provider fails to continue providing service. The business continuity plan and back-up systems should be commensurate with the risk of a service disruption. In particular, SaskCentral's business continuity plan should ensure that SaskCentral has in its possession, or can readily access, all records necessary to allow it to sustain business operations, meet its statutory obligations, and provide all

⁶ Sections 235, 236 of the *Cooperative Credit Associations Act*, which applies pursuant to section 9-1 of the Act.

information as may be required by the Corporation to meet its mandate, in the event the service provider is unable to provide the service.

6.2.4 Outsourcing in Foreign Jurisdictions

When the material outsourcing arrangement results in services being provided in a foreign jurisdiction, SaskCentral's risk management program should be enhanced to address any additional concerns linked to the economic and political environment, technological sophistication, and the legal and regulatory risk profile of the foreign jurisdiction(s).

6.3 MONITORING AND OVERSIGHT OF MATERIAL OUTSOURCING ARRANGEMENTS

SaskCentral should develop, implement and oversee procedures to monitor and control outsourcing risks in accordance with its outsourcing risk-management policies. The sophistication of the procedures should be commensurate with the size and complexity of the outsourcing arrangement(s) and with the expectations of this Standard. Management is expected to prepare reports based on SaskCentral's monitoring and oversight activities. These reports may outline the success of the outsourcing arrangement and the effectiveness of the risk management program and may be reflected in the documentation delivered to SaskCentral's board of directors.

6.3.1 Centralized List of All Material Outsourcing Arrangements

SaskCentral should maintain a centralized list of all its material outsourcing arrangements, including those of the corporate group. The list should contain information pertaining to the name of the service provider, the country where the service is provided, the expiry or renewal date of the contract or outsourcing agreement and the estimated value (dollar amount) of the contract or outsourcing agreement. A template of a centralized list that SaskCentral could use is provided in Appendix 4. The list should be updated on an ongoing basis and should form part of the documentation delivered to SaskCentral board of directors. The Corporation should have access to the list at any time upon request.

6.3.2 Monitoring the Outsourcing Arrangement

SaskCentral should monitor all material outsourcing arrangements to ensure that the service is being delivered in the manner expected and in accordance with the terms of the contract or outsourcing agreement. Monitoring may take the form of regular, formal meetings with the service provider and/or periodic reviews of the outsourcing arrangement's performance measures. Within a reasonable time, SaskCentral should advise the Corporation about any events that are likely to have a significant negative impact on the delivery of the service.

SaskCentral should review its material outsourcing arrangements to ensure compliance with its outsourcing risk policies and procedures and with the expectations of this Standard. Reviews of material outsourcing arrangements should be periodically undertaken by SaskCentral's internal audit department or another independent review function, either internal or external to SaskCentral, provided it has the appropriate knowledge and skills. SaskCentral's board of directors will always retain overall accountability for the outsourcing arrangement.

Reviews should test SaskCentral's risk-management activities for outsourcing in order to:

- ensure risk-management policies and procedures for outsourcing are being followed;
- ensure effective management controls over outsourcing activities;
- verify the adequacy and accuracy of management information reports; and
- ensure that personnel involved in risk-management for outsourcing are aware of SaskCentral's risk-management policies and have the expertise required to make effective decisions consistent with those policies.

Management should adjust the scope of the review depending on the nature of the outsourcing arrangement.

6.3.3 Monitoring the Service Provider

At least annually, SaskCentral should review the service provider to ascertain its ability to continue to deliver the service in the manner expected. This review would be commensurate with the level of risk involved and could include an assessment of the service provider's circumstances including its financial strength, prospects, technical competence, and use and performance of significant subcontractors.

APPENDIX 1 - EXAMPLES OF OUTSOURCING ARRANGEMENTS

The outsourcing domain is diverse and growing. Some examples may include:

- information system management and maintenance (e.g., data entry and processing, data centres, facilities management, end-user support, local area networks, help desks);
- document processing (e.g., cheques, credit card slips, bill payments, bank statements, other corporate payments);
- application processing (e.g., loan originations);
- loan administration (e.g., loan negotiations, loan processing, collateral management, collection of bad loans);
- investment management (e.g., portfolio management, cash management);
- marketing and research (e.g., product development, data warehousing and mining, advertising, media relations, call centres, telemarketing);
- back office management (e.g., electronic funds transfer, payroll processing, custody operations, quality control, purchasing);
- real estate administration (e.g., building maintenance, lease negotiation, property evaluation, rent collection);
- professional services related to the business activities of SaskCentral (e.g., accounting, internal audit); and
- human resources (e.g., benefits administration, recruiting).

This Standard generally would not apply to the following:

- courier services, regular mail, utilities, telephone;
- procurement of specialized training;
- discrete advisory services (e.g., legal opinions, certain investment advisory services that do not result directly in investment decisions, independent appraisals, trustees in bankruptcy);
- purchase of goods, wares, commercially available software and other commodities
- independent audit reviews;
- credit background and background investigation and information services;
- market information services (e.g., Bloomberg, Moody's);
- independent consulting;
- services SaskCentral is not legally able to provide;
- printing services;
- repair and maintenance of fixed assets;
- supply and service of leased telecommunication equipment;
- travel agency and transportation services;
- correspondent banking services;
- maintenance and support of licensed software;
- temporary help and contract personnel;
- fleet leasing services;
- specialized recruitment;
- external conferences;
- clearing and settlement arrangements between members or participants of recognized clearing and settlement systems;
- sales of insurance policies by agents or brokers;
- ceded insurance and reinsurance ceded; and
- syndication of loans.

APPENDIX 2 - SAMPLE QUESTIONS TO ASSESS THE MATERIALITY OF OUTSOURCING ARRANGEMENTS

In assessing the materiality of a specific outsourcing arrangement, SaskCentral may want to consider the following questions, among others:

- What is the relationship between the business activity and SaskCentral's core business?
- What is the outsourcing arrangement's potential impact on earnings, solvency, liquidity, funding, capital, reputation, internal expertise and capacity of SaskCentral, brand value, or system of internal controls?
- What is the outsourcing arrangement's importance to achieving and implementing business objectives, the business strategy and business plans?
- What is SaskCentral's aggregate exposure to a particular service provider? Is SaskCentral exposed to additional outsourcing risk as a result of multiple outsourcing arrangements with a service provider?
- What is the size of contractual expenditures as a share of non-interest expenses of SaskCentral or line of business?
- If the service provider is unable to perform the service over a given period of time:
 - a. What is the expected impact on SaskCentral's customers?
 - b. What is the likely impact on SaskCentral's reputation?
 - c. Would it have a material impact on SaskCentral's risk profile?
 - d. Would SaskCentral be able to engage an alternative service provider? How long would it take and what costs would be involved?

APPENDIX 3 - DUE DILIGENCE OF SERVICE PROVIDERS

The due diligence of service providers addressed in section 6.1 may include, but is not necessarily limited to, examining a service provider in light of these factors:

- experience and technical competence of the service provider to implement and support the outsourced activity (this could include a review of the experience and technical competence of significant subcontractors where feasible);
- financial strength (e.g., most recent audited financial statements and other relevant information (to the best of the service provider's ability⁷);
- business reputation, complaints, compliance and pending litigation;
- internal controls, reporting and monitoring environment;
- the service provider's business resumption and contingency measures, including recovery testing, for ensuring the continuation of the outsourced business activity in the event of problems and events that may affect the service provider's operation such as a systems breakdown, natural disaster, an inability of a significant subcontractor to provide services relevant to the outsourced activity, and situations where extraordinary demands are placed on a service provider.
- reliance on and success in dealing with sub-contractors;
- insurance coverage; and
- business objectives, human resource policies, service philosophies, business culture, and how they fit with those of SaskCentral.

⁷ The onus is on SaskCentral to ensure that it obtains the relevant information to assess a service provider's financial strength. However, the Corporation recognizes that the service provider is required to comply with other legislation (such as securities legislation) and might not be in a position to share certain information with SaskCentral.

APPENDIX 4 – TEMPLATE CENTRALIZED LIST

Name of service provider	Short description of arrangement	Type of arrangement (e.g., corporate group, third party arrangement)	The country or countries from which service(s) are provided	Expiry or renewal date of the contract or outsourcing agreement	The estimated annual spending on the arrangement in the future year	The estimated value (dollar amount) of the contract or outsourcing agreement