

By email

29 January 2026

To Senior Executive Officer (“SEO”) of FSRA Authorised Person

Cc: Compliance Officer (“CO”)

Dear SEO,

Thematic Review on Outsourcing – Overall Observations

In line with our regulatory objectives, and our 2025 supervisory priorities, FSRA Supervision undertook a detailed thematic review (“the Review”) across Authorised Persons (“APs” or “Firms”), to assess the effective implementation of Rules concerning outsourcing, as set out in applicable sections of the General Rulebook (“GEN”), the Funds Rulebook (“FUNDS”), the Anti-Money Laundering and Sanctions Rulebook (“AML”) and the Prudential – Investment, Insurance Intermediation and Banking Rulebook (“PRU”).

Outsourcing is a significant component of modern economies and a widely adopted practice by many businesses or organizations. FSRA Rules do not prohibit APs’ use of outsourcing. Instead, Rules seek to ensure that any outsourcing of functions pertinent to an AP’s Regulated Activities is undertaken appropriately, including being subject to initial due diligence, ongoing oversight, and that errors or failures by service providers are addressed, ensuring Firms and their clients are not unduly impacted. The responsibility of compliance with FSRA Rules remains with the AP and does not lie with the outsourced party.

The FSRA reviewed APs’ outsourcing practices to evaluate compliance with applicable Rules. The assessment included a survey addressed to all APs, as well as deeper reviews of a sample of Firms. The Review focused on:

- The extent of outsourcing in the jurisdiction and APs’ reasons for outsourcing key activities.
- Firms’ identification of applicable service providers and their undertaking of initial due diligence on them.
- Appropriateness of written contracts in outsourcing arrangements.
- Ongoing supervision of outsourced service providers.
- APs ability to address acts or failures by service providers and, where appropriate, undertake contingency planning.

The purpose of this letter is to share the key findings and examples of adherence and poor practice observed during the Review to promote best practice and high standards of regulatory compliance by APs, as part of FSRA’s ongoing efforts to strengthen the standards and measures within the ADGM.

The key findings and general observations noted from the review are referenced in attached appendix; all APs are requested to conduct a gap analysis on their practices and if any gaps are identified they should remediate those as necessary.

Sincerely,



Mary Anne Scicluna

Senior Executive Director - Supervision

Financial Services Regulatory Authority

FINANCIAL SERVICES REGULATORY AUTHORITY

سلطة تنظيم الخدمات المالية

Key Findings and Observations	
1	<p>Identification of outsourced service providers and ‘material’ outsourcing arrangements</p> <p>Adherence with applicable Rules on outsourcing commences with identifying an arrangement as outsourcing for the purposes of GEN 3.3.31(1). This is because APs are required to undertake due diligence on all applicable service providers to ensure their suitability, subject them to ongoing supervision, and effectively deal with any act of failure of the service provider since the responsibility for compliance remains with the AP. Additional Rules apply in the case of material outsourcing arrangements. Consequently, adhering to regulatory requirements necessitates APs first establishing whether a service provider is performing a function “directly related to [its] Regulated Activities” (GEN 3.3.31(1), and subsequently whether the outsourcing arrangement is “material” (GEN 3.3.32(1)). Guidance to GEN 3.3.31 and 3.3.32 assists Firms in identifying material outsourcing arrangements.</p> <p>The requirement in GEN 3.3.31(1) necessitates identifying <i>applicable</i> service providers and therefore merits some consideration by Firms in order to ensure its correct application. Overly narrow interpretations of GEN 3.3.31(1) risk failing to identify applicable service providers and consequently subjecting them to required scrutiny. For example, the Review observed APs often failed to identify use of IT software as outsourcing, even when delivered by a third party and performing a function or process that is a core component of an AP’s Regulated Activities. One example of this was a Fund Manager failing to identify an IT solution with a third party performing, on behalf of the AP, the pricing of Fund units as material outsourcing (which is a core component of Managing a Collective Investment Fund).</p> <p>Similarly, GEN 3.3.31(1) may be interpreted too widely. Whilst an overly broad interpretation of outsourcing Rules may not lead to significant risk, understanding the scope of outsourcing Rules is essential to their correct application. For example, GEN 3.3.31(1) relates to a firm’s outsourcing of “its functions”. However, the Review found that many Firms defined arrangements with external Auditors as outsourcing. Rules specify that an Audit must be conducted by an independent party, meaning it cannot be undertaken by an AP itself. Contracting an external Auditor is therefore <i>not</i> an example of outsourcing in the context of 3.3.31(1). In contrast, an internal audit may indeed be outsourced to a service provider under the meaning of this Rule.</p> <p>Once an arrangement has been categorized as outsourcing, adherence to GEN 3.3.32 necessitates that a Firm correctly identifies an arrangement as material or not, bearing in mind the aforementioned Guidance in the GEN Rulebook. This is important, as Rules requiring contingency plans to be in place only apply when an arrangement is deemed material.</p> <p>The Review encountered numerous examples of errors in the categorization of arrangements with service providers, and Firms should therefore consider our findings and establish whether any changes to their approach is required.</p> <p>Other areas of poor practice included:</p> <ul style="list-style-type: none"> • Failing to identify an outsourcing arrangement when the service provider was within the AP’s Group. GEN 3.3.31(1) clearly sets out that outsourcing within the Group of the AP is considered as outsourcing. • Failing to be aware of, and adhere to, oversight requirements triggered by AML 9.3.1 concerning service providers undertaking “one or more” elements of an AP’s Client Due Diligence (“CDD”) process. Use of licensed software is increasingly common in CDD, for example for sanctions

	<p>screening or eKYC. APs utilising such solutions should consider the extent to which the service providers are captured by the initial and ongoing due diligence requirements of AML 9.3.1 and adjust their processes accordingly.</p> <p>In contrast, compliance and good practice observed during the Review included Firms:</p> <ul style="list-style-type: none"> • Maintaining comprehensive lists of all applicable outsourced service providers. Where applicable, these included software solutions, custodians and functions outsourced to Group entities. • Thereafter, identifying where such outsourcing arrangements were material. • Adhering to AML 9.3.1 concerning initial review and ongoing assessment of service providers undertaking one or more elements of CDD. Examples of assessments included monitoring of failure rates, false acceptance by eKYC providers, or system outages.
2	<p>Policies and procedures and risk management programmes</p> <p>When entering into outsourcing arrangements, APs must establish and maintain policies and procedures to effectively manage the risks to which they are exposed to.</p> <p>In relation to this requirement, compliance and good practice observed during the Review included:</p> <ul style="list-style-type: none"> • Establishing in written policy the types of outsourcing arrangements that would be considered ‘material’ by the AP and why. • Articulating the role of the governance framework within written policies, such as articulating relevant committees’, senior management’s and the Board’s role in approval and subsequent monitoring of outsourced service providers. • Alignment of an AP’s policies and procedures for outsourcing with its broader risk management framework, such as its risk register or Business Risk Assessment. For example, the risk rating of a service provider being influenced by the broader risk associated with the service being outsourced, as per the firm’s risk management framework. <p>In contrast, poor practice observed included:</p> <ul style="list-style-type: none"> • Failure to establish, or failure to evidence policies and risk management programmes had been established, prior to the Review. • Risk management frameworks which significantly underestimated the risk posed by outsourcing arrangements, particularly where outsourcing was integral to the AP’s business model and errors or failures could have material consequences on the AP and its clients.
3	<p>Due diligence on outsourced service providers</p> <p>GEN 3.3.31(3)(a) requires an AP to undertake due diligence to ensure an outsourced service provider is “suitable”. Chapter 9 of the AML Rulebook places additional requirements applicable to outsourcing of components of CDD.</p> <p>In relation to this requirement, compliance and good practice observed during the Review included:</p> <ul style="list-style-type: none"> • Adopting a holistic consideration of the service provider’s suitability for the role, beyond narrow AML considerations. Best practice included considering other factors covered by outsourcing

	<p>Rules within the initial assessment, such as areas of frailty that might lead an AP to invoke its contingency plans.</p> <ul style="list-style-type: none"> Assigning a risk rating to the service provider as a result of the initial due diligence assessment and determining how frequently a service provider would be subject to periodic ongoing assessment based on that risk rating. Having a written policy determining in which circumstances the initial due diligence (and separately, periodic ongoing supervision) would include an onsite visit to the service provider's offices. Whilst not always essential, physical visits can produce information regarding a service provider's suitability and risk profile which would otherwise be difficult to discern remotely. Having such a policy was particularly relevant where service providers were located outside the UAE, as it helped ensure consistency of approach (i.e. determining in what circumstances an onsite visit abroad would be undertaken, and when it would not). <p>In contrast, poor practice observed included:</p> <ul style="list-style-type: none"> Failing to undertake the required due diligence or failing to evidence the due diligence was undertaken prior to taking on the service provider. Narrow application of Rules requiring the service provider be 'suitable'. For example, only considering AML risk. Conflicted due diligence assessments. For example, an outsourced Compliance Officer undertaking a due diligence review of the service provider they are ultimately employed by. Inheriting initial due diligence undertaken by a Group entity with no material input by the AP itself. An inconsistent approach to initial due diligence across different service providers without a requisite policy to describe why such variation in approach would occur.
4	Written agreements
	<p>APs undertaking material outsourcing arrangements must enter into an appropriate written outsourcing contract with the service provider.</p> <p>In relation to this requirement, compliance and good practice observed during the Review included:</p> <ul style="list-style-type: none"> Inclusion of factors specified under GEN 3.3.32(3), such as ensuring the Regulator had access to information and that the service provider would deal in an open and cooperative way with the Regulator. Detailing metrics (such as performance metrics) against which the service provider would be monitored and assessed. Entering into written contracts with service providers irrespective of whether the outsourcing arrangement was material or not. Including default and termination clauses, conditions to terminate, within the contract. <p>In contrast, poor practice observed included:</p> <ul style="list-style-type: none"> Written contracts pre-dating initial due diligence undertaken by the AP. Poorly defining the service provider's responsibilities and time commitment within the contract (i.e. 'compliance') making enforcement of the contract more challenging.

5	Effective ongoing supervision
	<p>Under GEN 3.3.31(3)(b) Firms must effectively supervise service providers undertaking outsourced functions or activities.</p> <p>In relation to this requirement, compliance and good practice observed during the Review included:</p> <ul style="list-style-type: none"> • Both structured regular monitoring and a periodic comprehensive assessment of the performance of the service provider. • Monitoring of performance against key performance indicators. • Periodic review of the service provider, including regular monitoring of adverse news, updating of ownership changes, identification documents and other factors relevant to the AML-TFS risks posed by the service provider and their ability to effectively fulfil the service provided. <p>In contrast, poor practice observed included:</p> <ul style="list-style-type: none"> • Failure to undertake, or be able to evidence undertaking, ongoing supervision under the GEN Rules. • Failure to undertake periodic assurance assessments of service providers involved in one or more element of CDD (as per AML 9.3.1).
6	Contingency planning and dealing effectively with failure
	<p>GEN 3.3.31(3)(c) requires APs to deal effectively with acts or failures to act by service providers. In the case of material outsourcing arrangements, an AP must establish contingency plans in preparation for such failures. Contingency plans seek to ensure a failure by a material service provider is addressed swiftly and without undue impact on the AP or its clients.</p> <p>In relation to this requirement, compliance and good practice observed during the Review included:</p> <ul style="list-style-type: none"> • Monitoring performance against key performance indicators, including reporting of errors, failures, and omissions. • Review and assessment of service providers' own contingency plans being part of initial due diligence. • Articulating a contingency plan to ensure the AP's activities and its customers would not be unduly impacted by the acts or failures of a service provider. <p>In contrast, poor practice observed included:</p> <ul style="list-style-type: none"> • Poorly defining the service provider's responsibilities within the contract (i.e. 'compliance') such that it made enforcement challenging. • Failing to systematically monitor errors, failures and omissions by the service provider. • Not having direct access to all relevant records of an individual in their capacity as outsourced Approved Person, leading to (for example) failure to immediately retrieve important records when the individual was unexpectedly unavailable.

	Specific areas of outsourcing
7	Outsourcing of staff, including Approved Persons
	<p>APs must maintain adequate resources (including human resources) to manage their affairs.</p> <p>Responses to the survey accompanying the review found that a significant portion of Firms utilised outsourced individuals to undertake Approved Persons roles. Such roles included the Compliance Officer, Money Laundering Reporting Officer, the Finance Officer and Senior Manager functions.</p> <p>The FSRA considers the appropriateness of any outsourcing of Controlled Functions during an Applicant's authorisation process taking into account the nature, scale and complexity of an Applicant's business. Subsequent to authorisation, the Regulator considers the appropriateness of a Firm's outsourcing of human resources as part of its ongoing supervisory process, including as part of onsite inspections, and when considering new applications to appoint an Approved Person. Importantly, these determinations are made in light of how an AP's business has developed after authorisation.</p> <p>The FSRA notes that many APs' businesses have grown materially since authorisation in terms of nature, scale and complexity. As a result of APs' growing footprint and complexity, Supervision is increasingly turning its attention towards the appropriateness of Firms' outsourcing arrangements, including their use of outsourced staff to fulfil Controlled Functions. This focus includes, but is not limited to, ensuring the number of hours undertaken in the role by outsourced individuals is appropriate, particularly where outsourced individuals act for other APs in ADGM or in other jurisdictions.</p> <p>Firms should ensure adequate resourcing of outsourced personnel to ensure they are able to perform their roles effectively. This may include, where appropriate, increasing the minimum contracted hours for outsourced staff and discontinuing outsourcing arrangements in favour of in-house ones when doing so would be more appropriate. Firms should review these arrangements on an ongoing basis and anticipate heightened scrutiny from the FSRA regarding the adequacy of human resources employed.</p> <p>Compliance and good practice observed during the Review included:</p> <ul style="list-style-type: none"> • Ensuring any outsourced Controlled Function, including the Compliance Officer, was allocated sufficient hours per week to fulfil their role. • Reviewing resourcing of Controlled Functions as the AP's business grew, and either increasing the resourcing of outsourced arrangements or moving to a full-time 'in house' approach. <p>In contrast, poor practice observed included:</p> <ul style="list-style-type: none"> • Inadequate resourcing of key functions, including the outsourced Compliance Officer. • Failing to increase resourcing of outsourced functions when the size, scale and complexity of the AP's business merited the change. • Failing to include outsourced individuals performing a Senior Manager function in relevant senior management meetings or the review of relevant documentation. As per the GEN Rulebook, Compliance Officers and Money Laundering Reporting Officers are also Senior Managers.

8	Delegation of Fund Administration (including AML processes)
	<p>Numerous Fund Managers in ADGM delegate many critical components to the role, such as pricing of Fund units, calculation of Fund net asset value (“NAV”) and maintenance of a unitholder register, to a Fund Administrator. Fund Managers should be aware that under applicable Rules they remain responsible for ensuring any outsourced activity is undertaken appropriately, including CDD. A specific section of the FUNDS Rulebook also applies to any delegation and outsourcing by a Fund Manager, including of fund administration (FUNDS APP 1). All Fund Managers delegating the task of Fund Administration should consider whether they too have appropriate systems, controls, policies and procedures to ensure their delegation of the role is appropriate.</p> <p>Compliance and good practice observed during the Review included:</p> <ul style="list-style-type: none"> • Subjecting the output of outsourced Fund Administrators to appropriate scrutiny, including monitoring against performance metrics. • Having contingency plans to ensure the applicable Funds, the AP’s business and unitholders were not unduly impacted in case of a failure by the Fund Administrator. <p>In contrast, poor practice observed included:</p> <ul style="list-style-type: none"> • Failing to clearly define responsibilities of the Fund Manager and Fund Administrator with regards to CDD that leads to a gap in the processes and/or a duplication of functions. Fund Managers are reminded that under FUNDS 12.14 and 7.2.4 (as applicable) a Fund Manager must consider a unitholder or prospective unitholder to be its “customer” for the purposes of the AML Rulebook and is therefore responsible for performing initial and ongoing CDD. AML 9 contains specific provisions for the outsourcing of such services. • Failing to ensure that arrangements with Fund Administrators enable the Fund Manager to comply with the requirement to maintain records of all CDD documents (AML 4.5.1(a)).
9	‘Host’ Fund Managers
	<p>‘Host’ Fund Manager is a term used to describe the arrangement where a third party contracts a Fund Manager to establish a Fund on its behalf, usually because the Fund Manager has a license in ADGM. The third party (known as a fund sponsor) will often perform the role of investment manager or investment adviser within the Fund structure, and may also be a Director of the Fund vehicle itself and feature on the investment committee.</p> <p>The FSRA has observed particular risks arising from the inherent conflict related to outsourcing within the Host Fund Manager model. For example, the Fund Manager is delegating a key part of its regulatory activities to a fund sponsor and therefore is required to ensure that the fund sponsor is undertaking its role appropriately. However, the fund sponsor is also a client and the key driver of the Fund Manager’s revenue. There is therefore an inherent conflict implicit in the business model which a Host Fund Manager must have measures in place to address.</p> <p>The Review encountered a range of findings in the Host Fund Manager included in the Review. Whilst primarily observed in the Host Fund Manager model, the practices observed in this section relate to outsourcing generally and may apply to other business models. Consequently, all APs should consider the findings in this section and adjust their own practices appropriately.</p>

Examples of compliance and good practice observed in relation to Host Fund Managers included:

- Ensuring fund sponsors who sought to issue financial promotions in or from ADGM had a Financial Services Permission (as required by the Financial Services and Markets Regulations).
- Issuing a guidance document to fund sponsors to assist their understanding of marketing and distribution in ADGM and the broader UAE. This was particularly useful given the complexities of the UAE's multijurisdictional nature.

In contrast, poor practice observed included:

- Signing a marketing and distribution agreement with an entity without a Financial Services Permission. With limited exceptions, only APs may issue a financial promotion in or from ADGM (financial promotions occurring outside ADGM fall under the requirements of the local regulator).
- Utilising a secondment agreement to allow an individual to act as investment manager for a Fund, whilst having limited-to-no oversight over the individual, including their physical location or the systems they would use. The use of any secondments to allow individuals to leverage an AP's Financial Services Permission as a Host Fund Manager may be the subject to enhanced scrutiny by the FSRA due to risks posed to the integrity of the FSRA's regulatory perimeter and wider restrictions in the UAE outside of ADGM.
- Failure to undertake ongoing supervision of fund sponsors. In particular, and given the multi-jurisdictional nature of the UAE, this included failure to review marketing issued by fund sponsors regarding the Host Fund Manager's Funds.
- Initial due diligence which failed to consider whether the Fund Manager had the required skillset and experience to manage a strategy proposed by the fund sponsor. This is particularly relevant where a fund strategy is esoteric or where AML issues were inherently more material a fund strategy.