

Press Release

Chairman SEC Presents Report on Draft Principles of Outsourcing of Financial Services by Financial Intermediaries to SC3

ISLAMABAD – 29 July, 2004: The Chairman Securities and Exchange Commission of Pakistan (SEC) Dr. Tariq Hassan has presented a report to the Standing Committee-3 (SC3) of the International Organization of Securities Commissions (IOSCO) on the draft principles of outsourcing of financial services by financial intermediaries. In addition to comments from the SEC, the report includes comments from the six member countries of Working Group-3 (WG3) of the Emerging Markets Committee (EMC) of IOSCO.

Dr. Hassan, who is also Chairman of WG3 and ex-officio member of SC3, attended the meeting of SC3, which was held in Toronto, Canada last week. The SC3 had earlier decided to refer the matter to WG3 to obtain feedback from member countries. He informed the SC3 that comments received from some of the EMC members indicated that although outsourcing should be encouraged in areas where it enhances efficiency and facilitates business of financial intermediary, however, it should be regulated with some caution.

Cross border outsourcing has been highlighted in comments on almost all the principles. Generally it has been pointed out that some guidelines to determine eligibility of service providers may need to be formulated. Secondly, it is important to address jurisdictional issues that may arise while implementing Principles 1, 2, 3 and 7. The working group has commented that mechanisms to resolve potential cross-jurisdictional disputes should be determined at the outset.

In addition to individual comments, it was also pointed out that given the lack of proper disclosure standards and small size of emerging markets, issues may arise where outsourced function of multiple intermediaries get concentrated to single or a few service providers. It has been emphasized that service providers should give adequate disclosures regarding number of outsourcing firms on their clientele list so that each outsourcing firm should be aware of concentration issue and decide accordingly before choosing the service provider. Moreover, the outsourcing firms should also give disclosures to their clients regarding number and nature of functions being outsourced to the service providers.