

A close-up photograph of a hand holding a black fountain pen with gold accents, poised to write on a document. The document features various charts and graphs, including a bar chart with blue bars and a pie chart with blue and pink segments. The background is softly blurred, showing another person's hands holding a clipboard. A vertical red bar is positioned on the left side of the image, partially overlapping the text.

THIRD PARTY ASSURANCE (TPA) REPORTS

ISAE 3402 ATTESTATION

Outsourcing within the Financial Services Industry

HOW CONFIDENT ARE YOU THAT YOU ARE TRULY RESPONDING TO THE COMPLIANCE CONCERNS OF YOUR CUSTOMERS?

CAN YOU PROVE THAT YOU ARE DELIVERING THESE SERVICES IN A CONTROLLED AND COMPLIANT WAY?

Companies are increasingly faced with complexities in their environment, which is changing at an unprecedented pace. Customers and regulators are looking for more assurance in areas such as outsourcing and expecting management to be able to provide answers in these areas. In their turn, management are recognising the increased dependence on suppliers and partners and are looking for assurance that these organisations are managing their processes and data in line with best practices and/or applicable regulations.

Following probing questions typically indicate a need for attestation:

« Our competitors have put ISAE 3402 reporting in place and are **exploiting this commercially**. We are losing tenders more often than before »

« Customers are increasingly demanding to invoke their **contractual right to audit** and send their auditors to assess our control environment. This impacts our operations »

PUTTING YOUR CUSTOMERS' MINDS AT REST

ISAE 3402, also known as System and Organisation Controls (SOC1) attestation in the USA, is the Third Party Assurance standard applicable to Financial Service Providers.

For their outsourced activities, your customers and other stakeholders want to be reassured that their business is in safe hands and that compliance with applicable regulations across the globe is assured.

ASSESS ONCE, ASSURE MANY

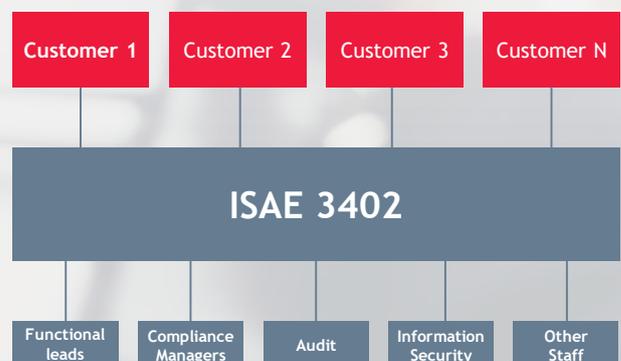
ISAE 3402 reports are designed to provide the assurance your customers are seeking. They typically report on the processing of financial transactions and on the strength and effectiveness of controls related to these financial transaction services. It is an efficient solution to meet your client's and other stakeholder's expectations with the key principle in mind: **assess once, assure many**.

Situation without ISAE 3402 report:
separate requests, leading to inefficiencies



Financial Service Provider

Situation with ISAE 3402 report:
An efficient and standardised approach



Financial Service Provider

ISAE 3402 ATTESTATION

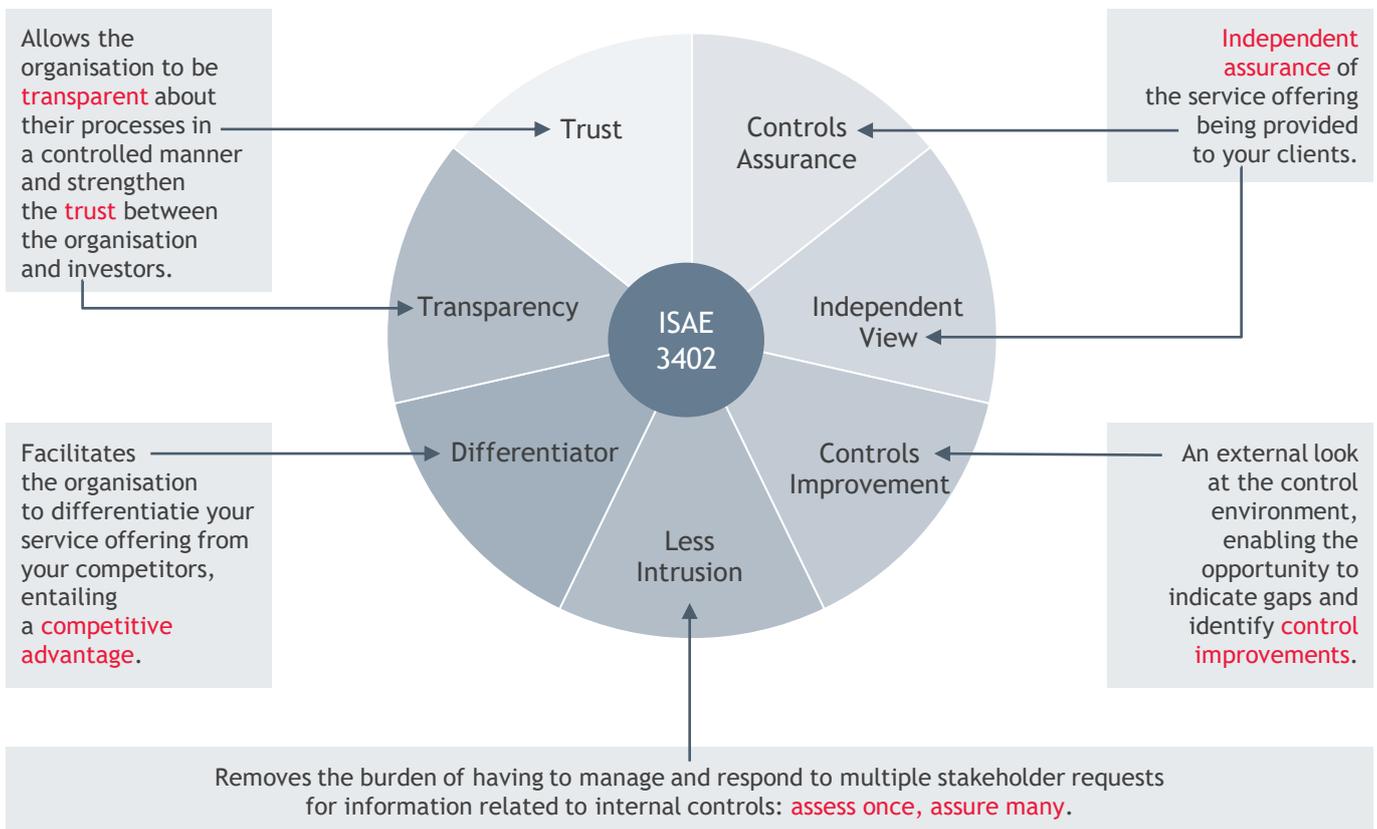
A proven standard

Across the globe financial institutions are increasingly outsourcing business activities, mostly in order to reduce costs and improve flexibility and efficiency. The current climate demands an increase in demonstrability of financial service providers on transparency and accountability of outsourced services. As the compliance requirements of organizations are systematically increasing, the market expects them to be able to demonstrate to their customers and/or other stakeholders that strong internal controls have been put in place in relation to their specific service offering.

► Specifically for the financial services industry, regulatory pressure has significantly increased in recent years. Directive 2013/36/EU (Capital Requirements Directive; CRD) strengthens the governance requirements for institutions and Article 74(3) CRD gives the EBA the mandate to develop guidelines on institutions' governance arrangements. The NBB recently fully integrated the EBA guidelines on outsourcing arrangements EBA/GL/2019/02 through issuance of the Circular NBB_2019_19. Directive 2014/65/EU (Markets in Financial Instruments Directive; MiFID II) contains explicit provisions regarding the outsourcing of functions in the field of investment services and activities.



The below overview represents some of the many benefits our customers experience when engaging in this independent assurance report attestation they can provide to their existent and prospective customers:



ASSURANCE FOR YOUR STAKEHOLDERS

The Asset Management Life Cycle

Within Financial Services, the market increasingly demands demonstrability of financial service providers on compliance related matters through Third Party Assurance (TPA) reporting. Applying this to the asset management industry - and related ecosystem - it clearly shows the strength of TPA reporting.

Within the asset management domain we distinguish 3 main service areas; the front, middle and back office. The front and middle office services are typically managed in-house, ranging from trade execution to trade validation and confirmation. The Back office services on the other hand, where trades are cleared and settled, are often outsourced.

OUTSOURCING

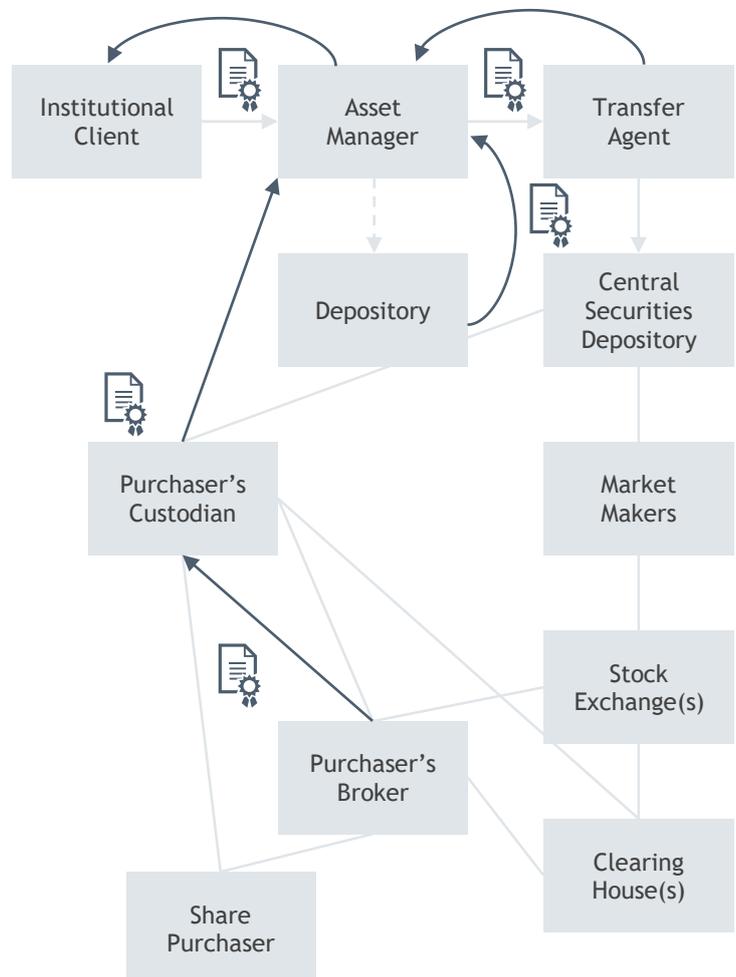
New technologies, evolving market conditions, and pressure from clients have paved the way for an increase in business process outsourcing. While the bigger incumbents may choose to develop digital capabilities internally, this is not always an option for smaller players. Their best alternative is to outsource parts of their business (processes), and team up with strategic partners to build an integrated network of services and expertise. Record keeping, custodian and broker services are some examples of processes often outsourced.

INTERCONNECTEDNESS

Non-compliance of one partner could lead to a domino-effect affecting other organisations up and downstream. For example, it is important to ensure that not only you but also your direct service providers are processing trades in a controlled manner and that the same applies for other providers downstream. Outsourcing services does not equal outsourcing risks, you remain responsible for the services you are delivering to your clients.

ISAE 3402

An ISAE 3402 report provides not only your partners but also you the assurance they are seeking. Institutional clients (for example pension funds) are actively requesting TPA reports from their asset managers as part of the invitation to tender.



HOW CAN BDO HELP YOU?

BDO has the necessary expertise and track record in advising financial service providers throughout the entire attestation process. BDO can deliver subject matter experts which have the required knowledge in both TPA reporting and the financial sector. BDO uses a pragmatic approach that enables an organization to achieve a full Type 2 certification in just 9 months. The key phases to deliver an attestation are represented below.

ILLUSTRATIVE SCOPING ASSET MANAGEMENT ISAE 3402 REPORT

As a starting point, we will determine the processes and systems in scope of the report together with you. ISAE 3402 attestations are flexible in scope, tailored to the specific service provided and related risks. The scope can range from fully outsourced asset management and fund administration services to very specific parts of the ecosystem such as operations and back office functions including record keeping, order confirmation, NAV calculation, safeguarding of assets and controls over IT systems and management.



READINESS ASSESSMENT

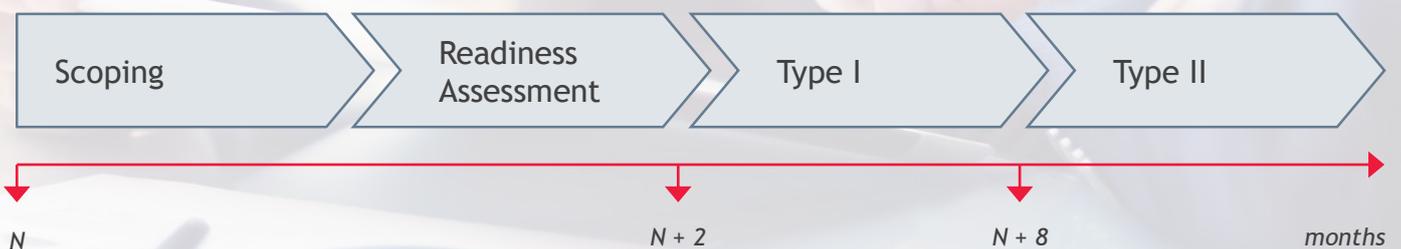
During the readiness assessment your processes, related control objectives and systems will be inspected to verify whether all related risks are adequately addressed by the organisation. Through interviews with key personnel and walkthroughs of the processes and systems in scope, our professionals set out to validate the control measures related to the control objectives in scope and recorded in your Risk & Control Matrix.

TYPE I ATTESTATION

During the Type I attestation, the design and implementation of relevant control procedures are confirmed and an ISAE3402 Type I ('point-in-time') report is issued.

TYPE II ATTESTATION

To achieve Type II compliance, a review of the operating effectiveness of the control procedures is performed and an ISAE3402 Type II ('period-of-time') report is issued.



WHY BDO?

Proven approach - In close partnership with you we aim to achieve successful attestation driven by a proven project management methodology which consists of 3 key and distinct phases: readiness assessment - Type I attestation - Type II attestation.

Subject matter expert - Our independent auditors are familiar with both business and IT processes in a financial processing context and are proficient in assessing information security and financial compliance related risks and controls. We stand for a pragmatic approach, while not losing sight of the regulatory and compliance requirements embedded within the financial sector.

Value for money - Our assurance reports are affordable, also for smaller organisations. We realise this through strong organisation, not over-complicating things and a fair pricing of our services. Benefits include the ability to provide clear answers to your customers and on top of that a continuous improvement opportunity for your processes.

Professional audit firm - BDO Belgium is a member of the global BDO network operating in over 160 countries and employee over 88.000 professionals. As professional auditors we follow and apply the latest audit standards.

OUR EXPERTISE IN ASSURANCE ATTESTATIONS

Below we provide some examples of organisations for which we already deliver assurance report services.

« Last year BDO took over our ISAE 3402 certification. All work is executed by an experienced team, respecting high quality standards and delivering at a fair price. BDO increased the overall quality and readability of the report, adding more value to the general control environment of our business »

Risk & Compliance Manager

« When BDO took over the ISAE 3402 in 2016 they invested significantly in rationalizing and aligning the report with our organization improving the quality and coverage of the report. All whilst offering a significant fee reduction compared to the previous service auditor »

Chief Operating Officer

« BDO provided us with a clear roadmap and timing of the engagement. Through regular feedback and communication we were able to reach a very efficient collaboration and minimize the overhead on our internal organization. »

Head of Internal Audit

INTERESTED? GET IN TOUCH WITH:

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