

ESMA consults on cloud outsourcing guidelines

The guidelines' purpose is to provide guidance on the outsourcing requirements applicable to financial market participants when they outsource to cloud service providers. In particular, they aim to help firms and competent authorities identify, address and monitor the risks and challenges that arise from cloud outsourcing arrangements.

Steven Maijoor, Chair, said:

“Cloud outsourcing can bring benefits to firms and their customers, for example reduced costs and enhanced operational efficiency and flexibility. It also raises important challenges and risks that need to be properly addressed, particularly in relation to data protection and information security.

“Financial markets participants should be careful that they do not become overly reliant on their cloud services providers.. They need to closely monitor the performance and the security measures of their cloud service provider and make sure that they are able to exit the cloud outsourcing arrangement as and when necessary.”

“Today's proposals will help firms understand and mitigate the risks that they are exposed to when outsourcing to cloud service providers.”

The proposed guidelines set out:

- The governance, documentation, oversight and monitoring mechanisms that firms should have in place;
- The assessment and due diligence which should be undertaken prior to outsourcing;
- The minimum elements that outsourcing and sub-outsourcing agreements should include;
- The exit strategies and the access and audit rights that should to be catered for;
- The notification to competent authorities; and
- The supervision by competent authorities.

The proposed guidelines are consistent with the [recommendations](#) on outsourcing to cloud service providers published by the European Banking Authority (EBA) in February 2017 and subsequently incorporated into revised [EBA guidelines](#) on outsourcing arrangements in February 2019, and the [guidelines](#) on cloud outsourcing published by the European Insurance and Occupational Pensions Authority (EIOPA) in February 2020.

Next steps

The consultation is open until 1 September and seeks feedback from both national competent authorities and financial market participants that use cloud services provided by third parties. The consultation is also important for cloud service providers, as the draft guidelines aim to ensure that potential risks firms may face from the use of cloud services are properly addressed. ESMA aims to publish the Final Report on the Guidelines by Q1 2021.