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Zagreb, 29 October 2020

TO ALL CREDIT INSTITUTIONS
Attention of: Management Board

Subject: Application of EBA Guidelines on outsourcing arrangements (EBA/GL/2019/02)

Dear Sir/Madam,

We hereby draw your attention to the adoption of the Decision on outsourcing (Official Gazette 118/2020, hereinafter: the Decision) transposing a part of provisions of the Guidelines on outsourcing arrangements (EBA/GL/2019/02, hereinafter: the Guidelines) of the European Banking Authority (hereinafter: EBA). The Decision shall enter into force on 5 November 2020, with the exception of the provision prescribing the mandatory conclusion of a cooperation agreement between competent authorities where a function directly connected to the provision of banking or core financial services is outsourced to a service provider located in a third country, which enters into force on 31 December 2021.

Furthermore, transitional and final provisions of the Decision prescribe the time limits for the alignment of existing outsourcing agreements with the provisions of the Decision with varying alignment dynamics, but no later than by 31 December 2021.

In accordance with Article 4, paragraph (1), item (3) of the Credit Institutions Act (Official Gazette 159/2013, 19/2015, 102/2015, 15/2018, 70/2019 and 47/2020), the Croatian National Bank (hereinafter: the CNB) shall, *inter alia*, make every effort to comply with the guidelines and recommendations issued by the European Banking Authority in accordance with Article 16 of Regulation (EU) No 1093/2010 (OJ L 24.11.2010).

The Guidelines specify internal governance mechanisms, including sound risk management, implemented when outsourcing functions, in particular critical or important functions. In addition, they lay down the criteria for determining the criticality or importance of functions and adequate outsourcing management and prescribe, in detail, the outsourcing process, which includes, among other things, the mandatory undertaking of due diligence on the prospective service provider and the assessment of fulfilment of supervisory conditions for outsourcing. The

obligation of establishing a register of all outsourcing arrangements is introduced as well. Where a function is outsourced to a service provider within a group, the Guidelines stress that the management body of the institution that outsourced the function remains responsible for the outsourced functions.

In conclusion, the Guidelines specified in this circular also represent the expectations which the CNB will take into account in the exercise of supervision. The CNB expects credit institutions to fully comply with the Guidelines in the part applicable to them. If a credit institution fails to comply with the applicable provisions of the Guidelines referred to in this circular, the CNB will consider the need to impose supervisory measures to ensure compliance with the Guidelines.

The Decision and the Guidelines are available on the following websites:

1. Decision on outsourcing (Official Gazette No 118/2020)

https://www.hnb.hr/documents/20182/527397/e-odluka-o-eksternalizaciji_118-2020.pdf/759f92a0-133f-48ef-be11-2dc56e4ccf38

2. EBA Guidelines on outsourcing arrangements (EBA/GL/2019/02)

<https://extranet.eba.europa.eu/sites/default/documents/files/documents/10180/2551996/38c80601-f5d7-4855-8ba3-702423665479/EBA%20revised%20Guidelines%20on%20outsourcing%20arrangements.pdf?retry=1>

Kind regards,

Martina Drvar
Vicegovernor