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ARTICLE

New FCA Rules on Reporting Material Outsourcings

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The article analyzes the FCA's new unified reporting regime for Material Third-Party Arrangements (MTPAs), introduced under FCA policy statement PS26/2 and the revised FCA guidance, which takes effect on March 18, 2027. From that date, the FCA, alongside the Prudential Regulation Authority (PRA) and the Bank of England, will replace legacy outsourcing frameworks with a single reporting regime, requiring regulated entities to deliver real-time notifications when they enter or significantly modify an MTPA and to submit a comprehensive annual register via the FCA's online Connect platform.

A central pillar of the new regime is the mandate to evaluate whether a vendor's failure would cast serious doubt on the firm's ability to meet the FCA's Threshold Conditions (COND), the minimum requirements a regulated firm must satisfy to maintain its FCA authorization. Where an outsourcing or non-outsourcing third-party failure jeopardizes these baseline standards, the arrangement is legally material.

An MTPA is a third-party arrangement (including intra-group and subcontracted services) of such critical importance that a disruption or failure could cause “intolerable levels of harm” to the firm's clients, pose a risk to the soundness, stability, resilience, confidence or integrity of the UK financial system, or cast serious doubt on the firm's ability to satisfy the Threshold Conditions or meet its obligations under the FCA's Principles for Businesses or SYSC 15A (Operational resilience). Materiality must be assessed on a case-by-case basis and embedded within firms' third-party risk management frameworks.

The article also examines emerging grey areas where materiality is contested, including artificial intelligence and Large Language Model APIs, specialized market data feeds and index providers, and intra-group shared service centers, each of which may shift into MTPA status depending on how the service is used and its impact on the Threshold Conditions. Notably, the FCA confirms that intra-group arrangements are fully in scope.

With just over six months before the rules commence, firms' compliance and legal functions should review their incident identification, escalation and reporting frameworks; update their materiality methodology to score vendors against individual Threshold Conditions; require critical vendors to disclose their entire subcontracting architecture, including cross-border data and operational dependencies; and ensure internal reporting teams are fully trained on the FCA Connect portal.

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