



AFB

RISK PLATFORM

OPERATIONAL RISK EXPERT PANEL OUTPUT PAPER

OPERATIONAL RESILIENCE

NOTE: This briefing note is intended as general guidance about relevant legal considerations and no action should be taken in reliance on it without specific legal advice.

A. SUMMARY

A key priority of both the PRA and FCA (“the regulators”) is to put in place a stronger regulatory framework to promote operational resilience of firms and financial market infrastructures (FMI).

In July 2018, the regulators published their joint Discussion Paper (DP) on Operational Resilience. The DP set out the regulators approach to operational resilience.

Fast forward 17 months to December 2019, the regulators have now published their Consultation Papers (CP) on Building Operational Resilience with the aim of developing and expanding the points raised in the discussion paper based on feedback received.

B. KEY POINTS

The CP proposes that organisations should take the following actions to ensure operational resilience:

- Mapping - organisations should identify important business services and document the people, processes, technology, facilities and information that support the delivery of that service. By looking at all the stages required in providing the business service, an organisation will be able to develop a clearer picture of how best to support its resilience.
- Impact Tolerances – organisations should set impact tolerances for each important business service (i.e. thresholds for maximum tolerable disruption). Once defined, organisations should test their ability to remain within impact tolerances through a range of severe but plausible scenarios whereby service provision is disrupted.
- Lessons learned – organisations should conduct lessons learned exercises to identify, prioritise and invest in the ability to respond and recover from disruptions as effectively as possible.

- Communication plans – organisations should develop internal and external communications for when important business services are disrupted.

From a governance perspective, organisations need to also ensure that:

- Boards and Senior Management are engaged in defining standards for operational resilience.
- There is clear allocation of responsibility and accountability with respect to operational resilience.
- Boards and relevant Management Committees need to have appropriate management information made available to them to inform decision making which has consequences for operational resilience.

Based on our work with clients and through our conversations with both the PRA and FCA we have made a number of additional observations:

- There is unlikely to be any further guidance issued by the regulators with respect to the mapping of important business services and impact tolerances.
- An acknowledgment by regulators that expectations will evolve during the three-year implementation period.
- The initial supervisory focus is likely to be on whether firms have taken this seriously and embraced the spirit of the regulations (and can evidence that).
- Some firms are finding the mapping of important business services difficult, especially where they potentially have a large number of ‘important’ services.
- The topic of impact tolerances for operational resilience is a new one. Firms who already have established Cyber, BCP and Disaster Recovery frameworks are typically best placed.
- Generally speaking, firms need to improve how they carry out (and evidence) testing procedures. There can be a tendency to use ‘off the shelf’ scenarios which are not always relevant.

C. ACTIONS AND NEXT STEPS

- Inform the Board and Senior Management of regulatory expectations concerning operational resilience.
- Establish a clear mandate for operational resilience at Board and Management levels.
- Assign responsibility for operational resilience to the relevant Senior Manager.
- Perform resilience maturity assessment, taking into consideration the building blocks of operational disruption (cyber security, third party management, change management, business continuity and disaster recovery, incident management, etc.).
- Identify target resilience ambition and develop operational resilience project plan, incorporating gaps identified in maturity assessment and additional proposed requirements outlined in the CP.
- Develop an operational resilience dashboard to include MI on operational resilience capabilities and status.
- Implement a project plan, provide formal updates on progress made to relevant Management Committee and Board.
- The deadline for responses to the current regulatory consultations on “Building Operational Resilience: Impact tolerances for important business services” will be extended to 1 October 2020.

D. QUERIES AND FOLLOW-UP

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