



Operational resilience: Impact tolerances for important business services

On the 5th of December 2019 the BoE, PRA and FCA coordinated publication of six consultation papers on operational resilience, setting out a series of proposed rules and policy statements which are expected to make their way into confirmed policy by the second half of 2020.

Consultation

The consultation papers are designed to cohere with each other but vary in focus based on regulatory outcomes sought:

BoE, PRA, FCA

Foreword: Building operational resilience: Impact tolerances for important business services

PRA

CP 29/19 - Operational resilience: Impact tolerances for important business services, including: Draft Rules, Draft Supervisory Statement (SS), Draft Statement of Policy (SoP)

CP 30/19 - Outsourcing and third party risk management, including Draft Supervisory Statement (SS)

FCA

CP 19/32 – Building operational resilience: impact tolerances for important business services, including Draft Handbook Text

BoE

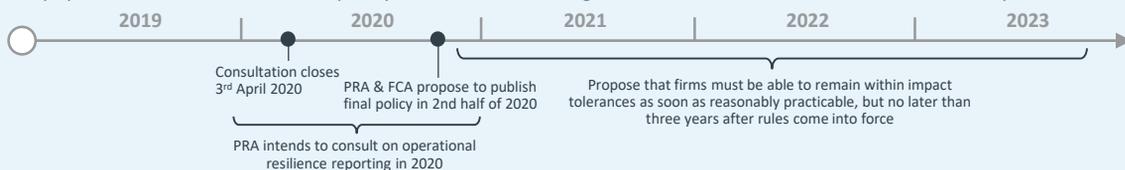
CP: Operational Resilience: Central Counterparties

CP: Operational Resilience: Recognised Payment System Operators and Specified Service Providers

CP: Operational Resilience: Central Securities Depositories

The timeline ahead

The papers include draft rules and policy statements, and regulators have set out a clear timeline for implementation:



The implementation window potentially stretches out to 2023 but the regulators have made clear they expect firms to start moving now, and many have already made significant progress in defining their Important Business Services.

Key points

The proposals in CP29/19 and CP19/32 are broadly in line with those published in the 2018 DP, with some key refinements:

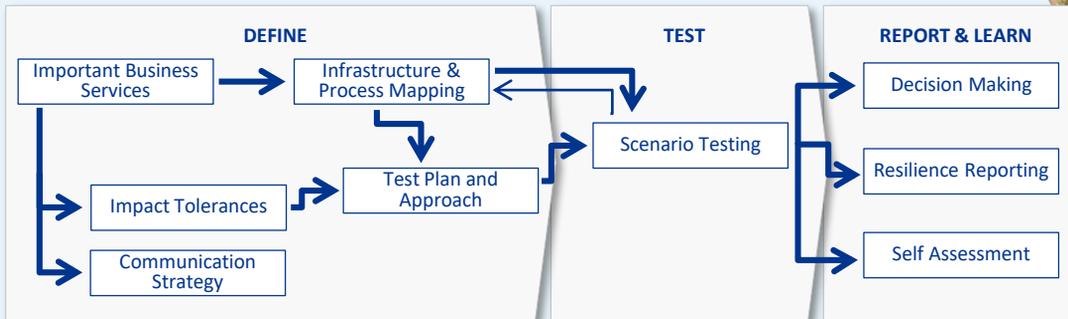
- The PRA affirms the **need for firms to take a group-level view of Operational Resilience**, with boards and senior management prioritising resilience activities
- **FCA expects firms to identify their most important business services at least once a year**, and whenever there is a material change to their business or operating environment
- From a PRA perspective, **internal services should only be identified as important business services where failure to deliver would impact on outward facing services**
- The regulators do not expect to publish detailed taxonomies, leaving it to firms to define their own Important Business Services
- Firms will only be **required to map out the resources underpinning their most important business services**
- **The definition of Impact Tolerances has been clarified.** This is now **always expected to include a maximum tolerable duration**, and a number of other factors have been offered as guidance
- **Dual-Regulated firms are expected to set up to two Impact Tolerances** for Important Business Services reflecting the separate requirements of FCA and PRA
- **Impact Tolerances** will require careful consideration from firms as these **need to be realistic but achievable**, and the FCA has warned against setting these too high
- While **firms are being deemed best placed to determine appropriate scenarios for testing**, the door has been left open to introduce specified scenarios in the future
- The regulators also accept that **there may be scenarios of such severity that it is disproportionate to expect firms to remain within their Impact Tolerances**
- **Firms are expected to have internal and external communications strategies in place** to reduce harm caused by incidents
- It is **proposed that firms create and maintain a self-assessment document**, which the board would be responsible for reviewing and approving

We will look to outline key points from CP30/19 on Outsourcing and the three BoE papers in a separate briefing paper shortly.

Where to start?

The level of impact of the proposed rules will vary largely depending on the nature of the firm's services and their current level of Operational Resilience maturity. However, the close interplay and interdependence of the concepts introduced by the rules means that firms need to start work now in order to allow sufficient time for the areas to develop, be refined, tested and calibrated.

There is a clear sequence of activities that needs to be followed:



How Baringa can help

We have worked with a number of leading firms to improve their Operational Resilience capabilities and prepare for the proposed rules, including helping firms to:

- **Develop Business Service definitions** at an appropriate level of granularity
- **Map underlying infrastructure** (people, processes, systems and premises)
- **Define impact tolerances** and associated monitoring
- **Implement enterprise governance** and ensure senior accountability for resilience, including in the context of SM&CR
- **Develop and refine scenario testing**

This has included working with the Investment Association as part of their working group to help members define their business services, the conclusions of which will be published later this week. Our work on operational resilience has also not been limited to financial services clients, but has spanned across other sectors, notably Energy and Utilities. This makes us uniquely placed to leverage insights and best practice from these industries. Indeed, our recent publication on ['Adopting cross-industry resilience practices; a guide for financial services'](#) explores some of these insights.

Tackling Operational Resilience relies on understanding the core services you offer your customers and clients and the operational and technology aspects that underpin these services, as well as having a solid operational risk management discipline, alongside scenario planning and corporate governance expertise. We have the ability to bring together small perfectly formed teams with the right combination of skills and expertise to help you kick start preparation for the proposed rules, and bring structured methods and tools to accelerate progress:

- Baringa's **Operational Resilience Framework** forms the basis for considering Operational Resilience at a firm or group-level to understand your current level of maturity and priority areas to address
- Our bespoke **Risk Assessment Tool for Outsourcing** can help determine the risk profile for outsourced activities

We would be delighted to meet with you to discuss this in more detail, and share our thoughts on the Consultation papers and how we could support you in preparing for these regulations.

To discuss how we can help develop and deliver your Operational Resilience strategy, please contact:



Ilkka Ristimäki
Partner, Banking
Ilkka.Ristimaki@baringa.com
+44 7958 760 549



Salina Ladha
Director, Finance, Risk & Compliance
Salina.Ladha@baringa.com
+44 7971 049 625