Operational resilience: Impact tolerances for important business services

March 2021

Responses to Bank CPs relating to FMIs | Bank of England (Bank)

Responses to CP29/19 | Prudential Regulation Authority (PRA)

Responses to CP19/32 | Financial Conduct Authority

Foreword

As we wrote when we published our respective consultation documents, a key priority for the Bank of England, Prudential Regulation Authority (PRA), and Financial Conduct Authority (FCA) is to put in place a stronger regulatory framework to promote the operational resilience of firms and financial market infrastructures firms (FMIs). We have again received an impressive level of engagement from industry and consumers and we have looked to address this feedback in our final policy documents.

A key message from the consultation process is that firms and FMIs support the authorities' joined-up approach. Firms regulated by both the PRA and the FCA in particular expressed a strong desire for the authorities not to diverge or create duplicative work. The final policy frameworks are designed with this in mind. Work done to meet the requirements of one regulator should be leveraged to meet those of the other. We view the design and goals of our respective policies as the same, while respecting our different objectives and legal frameworks. We plan to carry this approach through into supervision.

We recognise that the Covid-19 pandemic has had a significant impact on firms and FMIs. The disruption caused by Covid-19 has shown why it is critically important for firms to understand the services they provide and invest in their resilience to protect themselves, their consumers, and the financial system from disruption. Most firms and FMIs have been able to maintain continuity of service during this period of significant stress and have seen a good degree of resilience to the pandemic. Some operational configurations and working practices may change permanently as we emerge from the pandemic and these changes will need to be incorporated into operational resilience planning. We look forward to working with firms and FMIs as they implement our policies and continue to improve their operational resilience.

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1 Introduction

1.1 This paper is issued jointly by the Prudential Regulation Authority (PRA), the Financial Conduct Authority (FCA), and the Bank of England ('the Bank') in its capacity of supervising financial market infrastructures firms (FMIs), collectively 'the supervisory authorities'.

1.2 A key priority for the supervisory authorities is to put in place a stronger regulatory framework to promote the operational resilience of firms and FMIs. To this end, the supervisory authorities published a joint Discussion Paper on Operational Resilience in 2018 setting out an approach to operational resilience. Following this, the supervisory authorities published a suite of consultation documents ('the consultations') in December 2019 to embed this approach into policy.[1]

1.3 The proposals were designed to improve the operational resilience of firms and FMIs and protect consumers, the wider financial sector and UK economy from the impact of operational disruptions. The consultations proposed requirements and expectations for firms and FMIs to:

- identify their important business services by considering how disruption to the business services they provide can have impacts beyond their own commercial interests;
- set a tolerance for disruption for each important business service (an impact tolerance); and
- ensure they can continue to deliver their important business services and are able to remain within their impact tolerances during severe (or in the case of FMIs, extreme)[2] but plausible scenarios.

1.4 The supervisory authorities' approach to operational resilience is based on the assumption that disruptions will occur, which will prevent firms and FMIs from operating as usual, and result in them being unable to provide their services for a period. The supervisory authorities consider that many firms and FMIs currently may not sufficiently plan on the basis that disruptions will occur, and therefore would not be able to manage effectively when they do. The aim of the policy that the supervisory authorities proposed is to ensure that firms and FMIs do this planning and deliver improvements to their operational resilience to ensure they are able to respond effectively if a disruption does occur.

1.5 The supervisory authorities received an excellent level of engagement with the consultations. Overall, respondents were supportive of the approach set out in the proposals.

1.6 A major theme from the feedback was respondents asking for more detail on how they might apply the proposals and clearer definitions. Respondents suggested that such an approach would make the policy clearer to implement and enable more consistent supervision. The supervisory authorities agree that a common understanding of the key principles of the policy is important, and each authority has provided more explanation and examples of how they expect the policy to be implemented, where relevant.

1.7 However, the supervisory authorities believe that there are benefits in maintaining an outcomes-based approach. An important business service for one firm or FMI may not be appropriate for another. Firms and FMIs may arrive at different impact tolerances for similar business services due to differences in the nature and scale of their client bases. The authorities

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1 PRA CP29/19 'Operational resilience: Impact tolerances for important business services', FCA CP19/32: Building operational resilience: impact tolerances for important business services and feedback to DP18/04, Bank CP 'Operational Resilience: Central counterparties', Bank CP 'Operational Resilience: Central securities depositories', and Bank CP 'Operational Resilience: Recognised Payment Systems and Specified Service providers'.

2 Note: for FMIs the terminology 'extreme but plausible' is used to avoid confusion with other parts of their supervisory approach.

believe that encouraging boards and senior management to make judgements in the selection of their important business services and the setting of impact tolerances will facilitate better decision-making as firms and FMIs build their operational resilience.

1.8 While the final policy is not overly prescriptive in terms of defining lists of important business services and setting specific impact tolerances, the supervisory authorities expect best practice will emerge over time, and will take a close interest as it develops. The supervisory authorities encourage firms and FMIs to view the policy as a proportionate minimum standard and develop their approach based on this standard. Both firms and FMIs and the supervisory authorities will learn as firms and FMIs put the policy into practice.

1.9 In this document, the supervisory authorities summarise further common responses to the policy proposals and their policy decisions.

1.10 It should be noted that each supervisory authority received other comments which were more exclusively relevant to that supervisory authority, and these have not been addressed in this joint document. Those comments and the particular detail of each supervisory authority's approach are instead covered in the respective supervisory authorities' documents.[3]

2 Important business services

Overview

2.1 The consultations proposed that firms and FMIs would be required to identify and prioritise the services that, if disrupted, would impact the supervisory authorities' objectives and thereby the public interest as represented by those objectives. These were termed important business services. This represented a shift away from thinking about the resilience of individual systems and operational resources to considering the continuity of the services that firms and FMIs provide to their external end users, customers, or participants.

Internal Services

2.2 A number of respondents asked for clarity as to whether internal services were included within the definition of important business service. Firms suggested that, if disrupted, internal services such as human resources or payroll might have significant impact on the ultimate delivery of services to external end users, customers, or participants.

2.3 In the final policy, the supervisory authorities have set out that internal services such as human resources or payroll should not be identified as an important business service. These services constitute enablers of the important business service. The policy is focused on delivery of specific outcomes or services to external end users. The supervisory authorities are therefore requiring firms to prioritise work to build the operational resilience of those important business services. Firms should identify the most critical services and consider what is required for delivery. The supervisory authorities consider that the most critical parts of the chain should be operationally resilient. If internal services were defined as important business services on a standalone basis, this would expand the coverage of the policy, and could reduce focus on the most important external services. The supervisory authorities believe it appropriate to set minimum expectations on these external services, but firms can expand on this should they so wish.

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[3] Available at: PRA PS6/21: Operational resilience: Impact tolerances for important business services; Bank of England policy on Operational Resilience of FMIs; FCA PS21/3 'Building operational resilience'.

2.4 To provide further clarity for firms and FMIs, in some cases the supervisory authorities have included examples in the policy documents to illustrate where activities performed by internal services within a firm would need to be included in the chain of activities for the delivery of their important business services.

Definitions

Aligning definitions between supervisory authorities

2.5 The supervisory authorities set out definitions for terms including important business services and impact tolerances in their respective consultations. These definitions were intended to provide clarity in relation to the terms in line with the respective authorities' objectives.

2.6 Some respondents commented that the use of different wording within the definitions caused some confusion and that greater harmonisation between the supervisory authorities was needed.

2.7 Following the responses, the supervisory authorities have made some changes to clarify and better align the definitions where possible.

2.8 Differences in the definitions are driven by a number of reasons, including differing objectives and legal frameworks, but the PRA and the FCA consider that the respective outcomes and policies are aligned. For firms regulated by the PRA and the FCA, the supervisory authorities expect that work done to meet the requirements of one regulator should be leveraged to meet those of the other, and would encourage firms to avoid duplicative work. An example of where differences remain include where the PRA has chosen to use the word 'person' rather than 'client' in order to align with the language used in the PRA Rulebook; however, the FCA is not subject to this constraint.

2.9 To provide greater harmonisation between the supervisory authorities and to ensure third parties are captured in the policy, the PRA has added 'services provided by a firm, or by another person on behalf of the firm' to their definition of an 'important business service'.

2.10 The supervisory authorities have a shared goal of maintaining financial stability, which is reflected in their respective definitions of 'important business service'. The PRA's and FCA's objectives are defined in the Financial Services and Markets Act 2000 (FSMA). The PRA seeks to promote the safety and soundness of the firms it supervises, and contribute to securing an appropriate degree of protection for those who are or may become insurance policyholders. The PRA also has a secondary competition objective.

2.11 The FCA has a strategic objective to ensure relevant markets work well. To advance its strategic objective, the FCA has three operational objectives: to secure an appropriate degree of protection for consumers, to protect and enhance the integrity of the UK's wider financial sector, and to promote effective competition in the interests of consumers. This is reflected in part (1) of its definition of 'important business service'.

2.12 Where definitions for important business services have been updated, these are detailed in the table below. The areas which have been amended are underlined. The PRA definitions are in the Operational Resilience Parts of the PRA Rulebook, and the FCA definitions are in the Glossary of the FCA Handbook.

Term	PRA[4]	FCA
Important Business Service	a service provided by a firm, <u>or by another person on behalf of the firm,</u> to another person which, if disrupted, could pose a risk to: (1) (where the firm is an O-SII/where the firm is a relevant Solvency II firm) the stability of the UK financial system; (2) the firm's safety and soundness; or (3) (for Solvency II firms) an appropriate degree of protection for those who are or may become the firm's policyholders.	means a service provided by a firm, or by another person on behalf of the firm, to one or more clients of the firm which, if disrupted, could : (1) cause <u>intolerable levels</u> of harm to any one or more of the firm's clients; or (2) <u>pose a</u> risk to the soundness, stability or resilience of the UK financial system or the orderly operation of the financial markets.

3 Impact tolerances

Overview

3.1 The consultations proposed that firms and FMIs would be expected to set an impact tolerance for each of their important business services. The impact tolerance would measure the maximum tolerable level of disruption to an important business service.

Impact tolerances for PRA-FCA dual-regulated firms

3.2 The PRA and FCA issued a joint covering document accompanying their consultation papers. This explained that if the same business service is defined as an important business service under both PRA and FCA rules, the firm should have separate impact tolerances in consideration of the objectives of the two supervisory authorities.[5] The PRA and FCA set out that the separate impact tolerances may be the same or they may differ.

3.3 The PRA and FCA received responses that setting separate impact tolerances for dual-regulated firms would be impractical and burdensome. Respondents requested more detail on the expected action firms should take to ensure they can remain within both tolerances. Some requested that the authorities do not mandate that all important business services should have separate impact tolerances set.

3.4 The PRA and FCA would like to emphasise that, if appropriate, a firm may set its PRA impact tolerance for a given important business service at the same point as its FCA impact tolerance or vice versa. The PRA and FCA expect that work done to meet the requirements of one regulator should be leveraged to meet those of the other, and encourage firms to avoid duplicative work. The PRA and FCA view the design and goals of their respective policies as the same.

3.5 However, each supervisory authority must construct their policy in such a way as to advance their own statutory objectives. For this reason, the policy approaches of the supervisory authorities have not changed.

4 This table summarises the important business services definitions for CRR and Solvency II firms set out in the Operational Resilience Parts.

5 December 2019: https://www.bankofengland.co.uk/prudential-regulation/publication/2018/building-the-uk-financial-sectors-operational-resilience-discussion-paper.

3.6 The PRA and FCA expect firms to understand whether the scenarios that may cause firms to exceed their respective PRA and FCA impact tolerances would differ (whether or not those impact tolerances are aligned) and to take action to remain within impact tolerances.

3.7 The PRA and FCA understand that in practice firms may concentrate their efforts in ensuring they can remain within the more stringent tolerance. Therefore, the final policies state that taking action to ensure firms can remain within the more stringent tolerance will be acceptable if a firm can demonstrate:

(i) how they have considered each of the PRA and FCA's objectives when setting their impact tolerances;

(ii) how their recovery and response arrangements are also appropriate for the longer impact tolerance (recovery and response arrangements must be viable for both shorter and longer time periods); and

(iii) that scenario testing has been performed with the longer impact tolerance in mind as a shorter impact tolerance might constrain the universe of severe but plausible events a firm might consider.

Disruption to multiple business services

3.8 The consultations proposed that firms set an impact tolerance for each of their important business services.

3.9 The supervisory authorities received responses commenting that their respective statutory objectives are more likely to be impacted by a disruption to multiple business services rather than by significant disruptions to individual important business services.

3.10 Having considered the responses, the supervisory authorities are retaining the requirement, as proposed, for impact tolerances to be set for individual important business services. Firms and FMIs should understand the maximum amount of time for which disruption to an important business service can be tolerated, or a point in time beyond which disruption cannot be tolerated. This will provide clarity for firms and FMIs on how they should act to remain within these tolerances.

3.11 However, the supervisory authorities also recognise that disruptions to multiple important business services could significantly compound the impacts of disruptions. Therefore, the policy has been amended to include an expectation for firms and FMIs to take into account the impact of failure of other related important business services when setting impact tolerances for an individual important business service. These may be related because, for example, they share common resources which support the delivery of the important business services or where simultaneous disruption could have compounding impacts on similar external end users, customers, or participants. The supervisory authorities expect firms to take a proportionate approach in making this assessment, and only to consider extra layers of complexity where there are significant benefits in terms of building operational resilience.

Measuring impact tolerances

3.12 When defining impact tolerances for important business services, the consultations proposed that firms and FMIs would be required to, at a minimum, specify the length of time for which a disruption to that important business service or important group business service can be tolerated (ie use a 'time-based' metric for all impact tolerances).

3.13 Some respondents raised concerns that requiring a time-based metric for all impact tolerances could result in firms and FMIs treating impact tolerances as a compliance exercise.

3.14 The supervisory authorities acknowledge the concerns of the respondents. The supervisory authorities consider that the use of a time-based metric is necessary to ensure that firms plan around the continuity of important business services, and ensure that there are contingency plans in place to limit the extent of disruption. This common approach to all impact tolerances would also enable a minimum level of consistency – an idea that was supported by respondents' comments. However, the supervisory authorities also understand the importance of considering other metrics depending on the type of the important business service in question.

3.15 The supervisory authorities would like to clarify that a time-based metric can be defined in different ways and, where appropriate, must be used in conjunction with other metrics. The impact tolerance should specify that a particular important business service should not be disrupted beyond a certain period of or point in time. As an example, this could be a number of hours/days or a point in time, such as the end of the day, in conjunction with, for example, a certain level of customer complaints or volume of interrupted transactions.

Definition of impact tolerances between supervisory authorities

3.16 The supervisory authorities proposed definitions for impact tolerances in their respective documents. These definitions were intended to provide clarity in relation to the term in line with the respective supervisory authorities' objectives.

3.17 A number of respondents commented that the lack of consistency between the definitions caused some confusion and that greater harmonisation between the supervisory authorities was needed.

3.18 Following these responses, changes have been made to align the definitions where possible. Some differences in the wording of the definitions remain to reflect the differing objectives and legal frameworks of the supervisory authorities.

3.19 Where definitions for impact tolerances have been updated, these are outlined in the table below and are reflected in the final rules. The FCA has, in line with amendments to the 'important business service' definition, made a corresponding change to its definition of 'impact tolerance' to remove the reference to 'intolerable' risk. The areas which have been amended have been underlined in the table below. The PRA definitions are in the Operational Resilience Parts of the PRA Rulebook, and the FCA definitions are in the Glossary of the FCA Handbook.

Term	PRA	FCA
Impact Tolerance	The maximum ~~acceptable~~ tolerable level of disruption to an important business service or an important group business service as measured by a length of time in addition to any other relevant metrics.	means the maximum tolerable level of disruption to an important business service, as measured by a length of time ~~and~~ in addition to any other relevant metrics, reflecting the point at which any further disruption to the important business service could ~~pose~~ cause intolerable harm to any one or more of the firm's clients or pose a ~~intolerable~~ risk to the soundness, stability, or resilience of the UK financial system or the orderly operation of the financial markets.

4 Implementation timeline

4.1 The consultations proposed that firms and FMIs would have 12 months from the publication of final policy to implement the policy. At the time of consultation, the proposed implementation date for the proposals was the second half of 2021. The consultation period was subsequently extended by six months in response to the Covid-19 pandemic. The consultations also proposed that firms and FMIs would be required to ensure they could remain within their impact tolerances in the event of a severe but plausible disruption to operations. The proposed rules would have required firms and FMIs to meet this latter outcome within a reasonable time, but no later than three years after the policy came into force.

4.2 A number of respondents enquired as to whether there would be flexibility within the timelines for implementation. Firms and FMIs queried if mapping and testing should also be completed in these 12 months, suggesting they are resource intensive and may be difficult to implement within such timeframe. Respondents also requested flexibility around remaining within impact tolerances, citing that operational resilience is not an end-state and that remediating operational shortfalls can take significantly longer than three years.

4.3 Firms and FMIs will need to have identified their important business services and set impact tolerances by Thursday 31 March 2022. In order to achieve this, and to identify any vulnerabilities in their operational resilience, firms and FMIs should have mapped their important business services and commenced a programme of scenario testing. Firms and FMIs are not expected to have performed mapping and scenario testing to the full extent of sophistication within this time. Both mapping and scenario testing are ongoing processes, and firms and FMIs are expected to perform them at varying levels of sophistication over time. The supervisory authorities expect that firms' and FMIs' approach to both mapping and scenario testing should evolve over time.

4.4 Senior management are expected to take responsibility for delivering the policy outcomes. Firms and FMIs are expected to have a strategy or plan which sets out how they will comply with the supervisory authorities' requirements and expectations. In order for the strategy to be effective, it should be put into effect before Thursday 31 March 2022.As part of the strategy or plan, firms and FMIs should prioritise their efforts on mapping and scenario testing so that they will be able to identify vulnerabilities in sufficient time so that measures can be taken to remediate them. Firms and FMIs, particularly larger more complex ones, will need to make choices and prioritise with the ultimate goal of delivering the outcomes of the policy.

4.5 The speed at which vulnerabilities are remediated should be commensurate with the potential impact that a disruption would cause, and will be an area of supervisory focus.

4.6 After Monday 31 March 2025, maintaining operational resilience will be a dynamic activity. By this point, firms and FMIs should have sound, effective, and comprehensive strategies, processes, and systems that enable them to address risks to their ability to remain within their impact tolerance for each important business service in the event of a severe but plausible disruption (or extreme disruption).

4.7 In the early stages of the Covid-19 pandemic, the supervisory authorities decided to postpone the consultation close date to Thursday 1 October 2020. In light of this, the supervisory authorities have maintained the same timeline (12 months followed by three years), but the date the timeline starts has been pushed back. The policy will take effect on Thursday 31 March 2022 with a fixed three year implementation timeline within which the policy will become fully operational.

4.8 The supervisory authorities have considered the implementation timelines carefully and consider that there is urgency for firms and FMIs to build and prioritise their operational resilience as soon as reasonably practicable. The supervisory authorities further believe they are being proportionate and flexible in their expectation for firms and FMIs to propose to their supervisors what a 'reasonable time' is for them to comply with operational resilience requirements.

5 Delivering operational resilience

Overview

5.1 The policy requires firms and FMIs to set, and take actions to meet, standards of operational resilience that incorporate the public interest as represented by supervisory authorities' objectives. Firms and FMIs should focus on their important business services and ensure they have the ability to remain within impact tolerances in severe but plausible (or extreme) scenarios. Firms will be required to map the resources, people, processes, technology and facilities necessary to deliver important business services, irrespective of whether or not they use third parties in the delivery of these services, and test their ability to remain within their impact tolerances.

Mapping

5.2 The consultations proposed that a firm or FMI would be required to identify and document the necessary people, processes, technology and information required to deliver each of its important business services. In particular, it was proposed that mapping should enable firms and FMIs to deliver the following outcomes:

(i) identify vulnerabilities in delivery of important business services within an impact tolerance; and

(ii) test their ability to remain within impact tolerances.

5.3 Some firms and FMIs responded requesting that the supervisory authorities set out further detail on these expectations through a proportionate approach. The supervisory authorities consider that the most proportionate and effective approach is maintaining the outcomes-based approach. Firms and FMIs are expected to meet these outcomes in ways most appropriate for their circumstances. The supervisory authorities expect firms and FMIs to take ownership of how mapping may fit into their existing approaches and how they could use it to identify vulnerabilities. In supervising the policy, the supervisory authorities expect firms and FMIs to meet the outcomes of the policy proportionate to their size, scale, and complexity.

5.4 Some firms and FMIs requested clarity on identifying sub-outsourcing dependencies through mapping. The supervisory authorities note that the policy does not prescribe this level of mapping. However, firms and FMIs should understand the reliance placed on sub-outsourcing arrangements, and if these arrangements pose a threat to their operational resilience. Firms and FMIs should, at a minimum, monitor sub-outsourced providers involved in the provision of important business services, including their ability to deliver the firm's important business services within the firm's impact tolerances.

Scenario testing for PRA-FCA dual-regulated firms

5.5 Under the final policy, firms will be required to document a self-assessment of their compliance with the policy. Firms are expected to:

- summarise the vulnerabilities they have identified to the delivery of their important business services; and

- outline the scenario testing performed and the findings from the tests.

5.6 In addition to the above, the FCA has set an expectation for firms to conduct 'lessons learned' exercises to identify, prioritise and invest in their ability to respond and recover from disruptions as effectively as possible.

5.7 Firms indicated that the introduction of the additional concept of undertaking a 'lessons learned' exercise during scenario testing in the FCA's consultation was not drawn out specifically in PRA proposals. The respondents requested that the supervisory authorities use consistent terminology in this regard.

5.8 To provide consistency in the terminology used across the supervisory authorities, the PRA has amended its policy to include an expectation for firms to include 'lessons learned' within their self-assessment document. Firms should identify any lessons learned when undertaking scenario testing or via practical experience, and include the actions taken to address the risks in their self-assessment document.

Severe/extreme but plausible definition

5.9 The policy sets out that firms and FMIs should articulate specific maximum levels of disruption, including time limits within which they will be able to resume the delivery of important business services following severe but plausible disruptions. Firms and FMIs are also required to take action to ensure they remain within impact tolerances in severe/extreme but plausible scenarios. In the case of FMIs, the terminology 'extreme but plausible' is used to avoid confusion with other parts of their supervisory approach.

5.10 A number of firms and FMIs asked for clarity regarding the 'severe/extreme, but plausible' scenarios, and requested a definition be set out in the policy.

5.11 To allow flexibility for firms and FMIs in their approach to operational resilience, the final policy expects that firms and FMIs identify the severe/extreme but plausible scenarios they use for testing. When setting severe/extreme but plausible scenarios, firms and FMIs could consider previous incidents or near misses within the organisation, across the financial sector and in other sectors and jurisdictions. A testing plan should include realistic assumptions and evolve as the firm learns from previous testing.

5.12 The supervisory authorities see this area as one where the interest of firms and FMIs and the supervisory authorities should be aligned – if a firm or FMI chooses scenarios that are insufficiently severe/extreme, boards and senior management might be taking inappropriate risks with the running of their businesses. The nature and severity of scenarios it is appropriate for firms to use may vary according to their size and complexity. As a result, the policy does not include detailed guidance. However, the supervisory authorities anticipate that this will be a common area for supervisory discussion, including developing an understanding of how and why scenarios have been selected. The supervisory authorities expect best practice to develop over time and that both firms and FMIs, and the supervisory authorities will learn more over time.

Review of testing

5.13 The consultations proposed that firms and FMIs would be required to carry out regular scenario testing of their ability to remain within their impact tolerances for each of their important business services in the event of a severe but plausible disruption of their operations.

5.14 A number of firms and FMIs requested clarity on the extent, level and nature of testing on a regular basis as processes mature over time. Other respondents suggested that regular testing could be too burdensome and have requested a review of the requirement.

5.15 While the supervisory authorities agree that testing should not become unduly burdensome, the supervisory authorities consider that the process of reviewing mapping at least annually and testing regularly is required for firms and FMIs to better understand their systems and identify any vulnerabilities that need remediation. Where appropriate, the supervisory authorities have set out their expectations in their respective policy documents.

5.16 The final policy expects firms and FMIs to prioritise and narrow their scenarios appropriately to ensure effective testing that is not unduly burdensome. Firms and FMIs will also need to test regularly their ability to remain within impact tolerances in severe/extreme but plausible scenarios. The final policy states that supervisory authorities would also expect firms and FMIs to update their mapping annually at a minimum, or following significant change if sooner.

Self-assessment templates and guidance for PRA-FCA dual-regulated firms

5.17 The consultations proposed an expectation for firms to: summarise the vulnerabilities they have identified to the delivery of their important business services; and outline the scenario testing performed and the findings from the tests. Firms would need to indicate what actions are planned to improve their ability to remain within impact tolerances and demonstrate that the timing for these is reasonable and in proportion to the systemic importance of the firm’s important business service. The PRA and FCA define this documentation as self-assessment.

5.18 Respondents requested additional guidance or a template for the self-assessment process. Firms also requested further clarity on the level of detail required for the document.

5.19 The PRA and FCA consider that firms should undertake bespoke self-assessments which reflect their individual important business services and scenario testing. A self-assessment should document the necessary information to make decisions required to meet the outcomes of the policy. The level of detail should therefore be appropriate for the decisions firms will make. Setting exact minimum standards would not be proportionate given the differences in the structures of individual firms.

Outsourcing and the use of third parties

5.20 The consultations proposed that firms and FMIs would be required to map their important business services and test their ability to remain within impact tolerances for the purposes of building operational resilience. This would be expected regardless of whether the operational resources are being provided wholly or in part by a third party. Mapping and testing on third parties is necessary for the firm or FMI and the supervisor to obtain an accurate understanding of their operational resilience.

5.21 Some respondents raised concerns relating to third party suppliers which may be reluctant to share information necessary for mapping and testing, particularly where some firms have low negotiating power in relation to large suppliers.

5.22 The supervisory authorities expect that the level of assurance firms and FMIs receive from third party suppliers relating to important business services should be proportionate to the size and complexity of the firm or FMI and reflect the materiality and risk of the outsourcing and third party arrangement. Firms that enter into outsourcing or third party arrangements remain fully accountable for complying with all their regulatory obligations. As part of their assurance, firms or FMIs may ask third parties to provide mapping or scenario testing data but this is not required in all cases, particularly if other assurance mechanisms are effective and more proportionate.

6 International Alignment

6.1 A number of respondents commented on the UK's proposals differing from international approaches. They also asked for clarification regarding the differing terminology and the relationship to potential international standards, such as those being developed by the Basel Committee on Banking Supervision (BCBS).

6.2 The supervisory authorities recognise the global and interconnected nature of firms and FMIs and the importance of supervisory coordination, and are committed to working closely with other regulators to ensure that supervisory approaches on operational resilience are well coordinated.

6.3 In August 2020 the BCBS published its consultation on principles for Operational Resilience.[6] The UK's supervisory authorities have made a significant contribution to drafting these principles, using insights gained from developing their domestic policy proposals.

6.4 Comparing their policy with the BCBS consultation, despite some differences in terminology, the supervisory authorities consider that there is alignment on the core principles:

- a distinction between operational risk and operational resilience;
- operational resilience as an outcome, that firms and FMIs continually need to work towards;
- the importance of operational resilience for both financial stability and the safety and soundness of firms and FMIs;
- the concept of a risk or impact tolerance to define what might be acceptable that does not assume zero failure; and
- the use of scenario testing to assure resilience.

6.5 The UK's supervisory authorities will continue to engage with international policy development processes. It is realistic to assume that there will be local differences in implementation. And it is reasonable that different jurisdictions will have different views on what they consider critical or important. But as long as the principles are aligned, the supervisory authorities consider firms and FMIs and their supervisors should be able to work effectively across borders.

6 BCBS Principles for operational resilience (https://www.bis.org/bcbs/publ/d509.pdf).

7 Conclusion

7.1 The supervisory authorities are grateful for the consultation feedback in developing the operational resilience policy. They are encouraged by the high level of engagement they have received from industry and consumers.

7.2 The supervisory authorities expect firms to begin implementing the policy requirements in line with the timeline as set out in paragraphs 4.3 to 4.8 above. The final policy is now set out in the individual supervisory authorities' policy documents, which are detailed below:

- PRA - PS6/21: 'Operational resilience: Impact tolerances for important business services';
- FCA - PS21/3 'Building operational resilience'; and
- Bank - Bank of England policy on Operational Resilience of FMIs.

7.3 Identifying important business services and setting impact tolerances will be the first steps in the new framework for operational resilience. The supervisory authorities recognise there will be more to learn as the supervisory authorities and industry progress on the shared goal of operational resilience.

7.4 The supervisory authorities have found that collaboration with firms, FMIs, security, and other public and private sector organisations provides a constructive approach to promoting operational resilience. They intend to continue this strategy, working with other organisations in both authority-led and industry fora. The supervisory authorities believe that cooperation in this area is vital to achieving good operational resilience outcomes.