IIF/GFMA Operational Resilience – 2021 Priorities for Strengthening Global Operational Resilience Maturity in Financial Services

January 2021

The Global Financial Markets Association (GFMA) and the Institute of International Finance (IIF) (the Associations) have developed an updated set of priorities[1] on how to continuously improve and strengthen the level of operational resilience in the financial system for the benefit of customers, markets, and the broader economy in countries across the world.

Operational resilience has been defined as the ability of firms and the financial system to deliver key services and continue to serve the needs of customers through disruptions.[2] Operational resilience is an outcome and not a specific process, and as such the path to maintaining it will differ between firms. An operational resilience approach should therefore encompass the people, processes, and communication channels necessary to efficiently connect with internal stakeholders, clients and global authorities across the industry. The aim of operational resilience within the financial sector is ultimately to support financial stability and ensure proper functioning of markets to serve clients where they do business.

The global financial industry continues to embrace the importance of operational resilience as a firm-wide matter, and it is being reflected within internal governance structures. The financial industry has historically invested, and continues to invest, significant time and resources on this extremely important topic. The industry is constantly learning from events, identifying any gaps, and implementing the changes necessary to mitigate disruptions by improving and updating processes as necessary in line with the ever-changing financial industry ecosystem.

Authorities, in turn, are focused on operational resilience from the perspective of financial stability. Since 2018, several jurisdictions – including Australia, Canada, the European Union, Singapore, the UK and the U.S. – have been developing jurisdictional policies related to operational resilience, and the Basel Committee on Banking Supervision (BCBS) has recently consulted on global principles related to operational resilience to support consistency of the outcomes sought.[3] Operational resilience has come into even sharper focus given the COVID-19 crisis, which has been a significant real-life operationally disruptive event for the economy, including financial institutions.

As various authorities seek to establish how to assess operational resilience there is a risk that national-level approaches begin to diverge and become inconsistent. This potential for market fragmentation due to divergences in regulatory standards and supervisory oversight poses substantial risks and operational challenges for financial institutions that operate globally and, in turn, for the financial system. Joint industry and regulatory collaboration across jurisdictions will be critical to negate the risk of unnecessary complexity, regulatory divergence, increased cost and effort that ultimately affects progress and could hamper efforts to manage cross-jurisdictional disruptions.

[1] In October 2019, the IIF and GFMA released a set of Discussion Draft Principles: Supporting the Strengthening of Operational Resilience Maturity in Financial Services ("IIF/GFMA 2019"), including five guiding principles that were published for discussion by the Associations' members on how to support the strengthening of operational resilience maturity in financial services.
[2] See BCBS 2020: '*Principles for operational resilience*' (August) and IIF/GFMA 2019.
[3] Ibid.

The Associations request that jurisdictions leading the development of approaches to operational resilience continue to play an active role in global forums and relevant standard setting bodies, and collaborate with other public and private sector stakeholders via supervisory colleges, roundtables, or other forums to ensure that a globally coordinated and consistent approach is developed across the industry. The Associations, from across our global membership, have set out the five priorities below to continue supporting the strengthening of operational resilience maturity in financial services. We look forward to the necessary ongoing collaboration with policymakers and all financial market participants as markets and conditions continue to evolve.

Five Priorities to Support the Strengthening of Operational Resilience Maturity in Financial Services

1. **Regulatory alignment and consistency are needed, internationally and within jurisdictions, with an emphasis on developing a unified global view on the outcomes being sought.**
2. **It is important to strive for a principles-based, risk-based, and outcomes-focused approach to support effective and globally consistent implementation.**
3. **Efforts should complement and leverage existing resilience-related regulations and expectations.**
4. **Continued global public-private collaboration will be vital.**
5. **Cross-sectoral collaboration and supervisory coordination are needed, including with financial market infrastructures (FMIs) and other third parties, to ensure operational resilience across the financial system.**

We would like to emphasize and further elaborate on the following five priorities to help strengthen operational resilience globally.

1) Regulatory alignment and consistency are needed, internationally and within jurisdictions, with an emphasis on developing a unified global view on the outcomes being sought.

- Global alignment of the outcome objectives being pursued is a foundational element for defining and measuring operational resilience.
- Establishing an internationally recognized approach that demonstrates the desired outcomes sought would benefit the financial system by, at a minimum:
    - Enabling consistent communication and understanding of operational resilience objectives across jurisdictions;
    - Mitigating risk of market fragmentation during the final stages of policy development and supervisory oversight of the implementation of resilience approaches;
    - Allowing financial institutions to apply these principles consistently across global, cross-border business services in a manner suited to their varying and unique business models, sizes and complexities; and
    - Mitigating the extraterritorial impacts of jurisdiction-specific approaches that can create group-wide expectations on a firm.
- Flexibility on how global financial institutions demonstrate resilience outcomes is necessary. Financial institutions serving clients globally will need to manage to different frameworks and terms used in the jurisdictions in which they operate. Frameworks and terms that have the same regulatory intent could still result in confusion or conflicts of law if regional supervisory implementation is too prescriptive.
- The ongoing BCBS process to define and refine global principles for operational resilience is highly valuable. It is important that jurisdictions continue to engage through the global standard-setting bodies and base their domestic approaches on the globally agreed principles.

2) It is important to strive for a principles-based, risk-based, and outcomes-focused approach to support effective and globally consistent implementation.

- A principles-based, risk-based, and outcomes-focused approach to operational resilience should afford financial institutions the flexibility to demonstrate operational resilience in a way that is relevant and proportionate to their unique business and risk profile.
- Prioritizing resources on a globally consistent, outcomes-focused objective will direct resources and investment to those processes integral to the safety and soundness of a firm, and to the financial stability of the system.
- Supervisory acknowledgment of the value of flexibility will enable the financial industry to continuously adapt, in collaboration with other market participants and regulatory authorities, and to maintain a high level of resilience in the highly dynamic and evolving environment.
- Further, as markets and conditions evolve, flexibility for individual financial institutions to use and identify the necessary metrics to demonstrate operational resilience will be integral. The financial industry believes that regulators and supervisors should review evidence as to how firms are managing their own risk, rather than being prescriptive upfront on metric design and definitions. The financial industry encourages authorities and standard setting bodies to collaborate collectively with the industry to identify minimum agreed to objectives for the demonstration of operational resilience.
- Collaboration between regulators and the private sector should acknowledge and recognize that, in times of crisis, flexibility and ongoing communications will be required.

3) Efforts should complement and leverage existing resilience-related regulations and expectations.

- Operational resilience is connected to a number of existing processes that financial institutions currently manage to, including but not limited to: business continuity management; enterprise risk management; disaster recovery; cyber security; third-party vendor management; technology management; operational risk; and recovery and resolution planning.
- It is extremely important that the global approach to supporting the financial sector's operational resilience is complementary to, and not duplicative of or in conflict with, other existing resilience-related regulations and supervisory expectations.[4] Firms should be able to leverage existing broader risk management frameworks, if they choose, as part of their operational resilience efforts.
- In the spirit of taking an outcomes-based approach, if the desired operational resilience outcome can be demonstrated consistently with policy objectives, the financial industry should not be *required* to leverage particular frameworks.
- Financial industry participants should, in collaboration with supervisors, identify scenarios and types of disruptions that are the most relevant to their business and risk profile to continue prioritizing resources and investment to strengthen their operational resilience maturity where it is most warranted; based on the importance of services and risk to the firm, consumers and the sector.

4) Continued global public-private collaboration will be vital.

- Financial institutions believe it will be essential to partner with the public sector authorities to support global coordination efforts to maintain and further strengthen operational resilience on an ongoing basis, as well to respond to any cross-border disruptions.
- Industry and policymaker collaboration can support sector-wide resilience at the global level by identifying potential risks and gaps, given sector-wide interdependencies. This is of particular importance for cross-border products and services (e.g. wholesale payments) and financial institutions that operate in multiple jurisdictions.
- Joint industry and regulatory collaboration will be useful to clarify technical aspects in the policy discussions to date and prevent different interpretations. Supervisors should be included in discussions and should also collaborate with individual financial institutions and relevant supervisors in other jurisdictions to ensure that examinations are consistent with the policy intent.

---

[4] An indicative, non-exhaustive list of relevant regulations and guidance that financial institutions already comply with globally was included in an Appendix to the Associations response to the BCBS consultation on 'Principles for Operational Resilience'. See the November 6, 2020 response here.

- Collaboration will also help industry and policymakers to learn from each other to identify best practices. Operational resilience maturity is an iterative process: it will take time to operationalize and embed new and complex concepts with the objective of supporting regulatory consistency and comparability.

5) Cross-sectoral collaboration and supervisory coordination are needed, including with financial market infrastructures (FMIs) and other third parties, to ensure operational resilience across the financial system.

- The aim of operational resilience within the financial sector is ultimately to support financial stability and ensure proper functioning of markets to serve clients where they do business. In order to meet this aim, key participants in the financial sector – financial institutions, FMIs, as well as third parties, where necessary – require a robust operational resilience approach.
- However, the level of regulatory oversight of financial sector participants varies, with some providers sitting outside of the regulatory perimeter. Third parties and outsourced functions[5] should, and some entities are already required by regulatory authorities to, be able demonstrate robust operational risk management and operational resilience approaches to the financial institutions and authorities they support. The ability of financial institutions to require transparency and impose operational resilience requirements on third parties may be predicated upon choice in the marketplace, size of the financial institution, and level of service agreement. For some particular third-party services, there are a limited number of providers in the market.
- While financial institutions recognize the importance of balancing concentration risks with respect to their third parties, it would be incumbent on the respective authorities to assess whether there is any overall risk to financial stability as financial institutions themselves do not have sufficient information about how providers are being used across the industry. This also applies to mapping interconnections and interdependencies across the financial system. Notwithstanding, careful consideration is needed when developing regulatory approaches designed to mitigate industry concentration risks in order to prevent a competitive disadvantage arising for some firms (e.g. policy requirements for a multi-vendor strategy or for certain contracts to be exited due to concentration risk concerns).
- We recommend that the relevant global standard-setting bodies, including the BCBS, International Association of Insurance Supervisors (IAIS), International Organization of Securities Commissions (IOSCO) and Financial Stability Board (FSB), collaborate to consider the interdependencies across the global financial system and establish common policy outcomes sought across sectors. In addition, testing could be conducted at the level of the financial sector, as well as within individual institutions, to support preparedness and identify interconnections and potential market dependencies.

Institute of International Finance (IIF)
1333 H St NW, Suite 800E
Washington, D.C. 20005
United States
Tel: +1 202 857-3600
mboer@iif.com / www.iif.com

Global Financial Markets Association (GFMA)
1099 New York Avenue, NW, 6th Floor
Washington, D.C. 20005
United States
Tel: +1 202 962 7300
aparent@gfma.org / www.gfma.org

[5] Outsourced functions are an arrangement of any form between a financial institution and a service provider by which that service provider performs a process, service, or activity that would otherwise be undertaken by the financial institution itself exclusive of the following: functions legally required to be performed by a service provider; clearing and settlement arrangements between clearing houses, central counterparties, and settlement institutions and their members; market information services (e.g. data provisioned for credit ratings and pricing); global network infrastructures (e.g. credit card companies); global financial messaging infrastructures that are subject to regulatory oversight; and correspondent banking services.