



Via Electronic Mail

Dietrich Domanski
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cc:
Tobias Adrian
Financial Counsellor and Director of the Monetary and
Capital Markets Department
International Monetary Fund

Re: Development of Global Principles on Operational Resilience

June 5, 2020

Dear Sirs and Madams,

On behalf of the Global Financial Markets Association (GFMA) and the Institute of International Finance (IIF) (“the Associations”), we are writing to encourage the development of global principles on the operational resilience of financial institutions, which has been of high importance for both public sector authorities and financial institutions for a long time and has come into focus more generally during the COVID-19 pandemic. Financial institutions have remained resilient under the extraordinary circumstances created by the pandemic, which is a result of significant efforts and investment in the preceding years to build resilient processes and plans to respond to different types of operational threats and challenges.

Operational resilience is extremely important for the public and private sectors to maintain confidence in the financial industry and support financial stability and economic growth. The Associations and our global members acknowledge the importance of operational resilience for individual institutions, and across the financial sector as a whole, in support of customers, markets and the communities and broader economies they support nationally and globally. We support collaborative efforts to continuously improve and strengthen the level of operational resilience across the global financial system.

A key priority for our members is global coordination and alignment among policymakers and supervisors on the policy outcomes, terminology and supervisory approaches to operational resilience.¹ Global consistency was an overarching consideration in our development of 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 **Chief among these was the proposal that operational resilience – as a global effort – will require the adoption of an international common approach by the public and private sectors.** If national level approaches are developed in isolation, without global coordination, the resulting fragmentation can undermine the financial sector’s operational resilience and result in a lack of consistency that is likely to increase the cross-border impacts of disruptive events. More

¹ To help facilitate these efforts, on October 16, 2019, the Associations hosted a working session on operational resilience in Washington DC to bring together leading members of the regulatory community (including representatives from the BCBS, CPMI, FSB and IOSCO, as well as authorities from several jurisdictions), key financial and capital market participants around the world and relevant industry trade association representatives.

² GFMA and IIF “Discussion Draft Principles Supporting the Strengthening of Operational Resilience Maturity in Financial Services” (October 2019). Published here: <https://www.iif.com/Publications/ID/3583/IIF-and-GFMA-Release-Joint-Discussion-Draft-Principles-Supporting-the-Strengthening-of-Operational-Resilience-Maturity-in-Financial-Services>, and here: <https://www.gfma.org/correspondence/gfma-and-iif-discussion-draft-principles-supporting-the-strengthening-of-operational-resilience-maturity-in-financial-services/>.

generally, fragmentation resulting from excessive regulatory and supervisory divergence can create significant financial and operational inefficiencies resulting in additional unnecessary costs to end-users and reducing the capacity of financial firms to serve domestic and international customers. Indeed, fundamentally different definitions of ‘operational resilience’ are being used by authorities across jurisdictions, and various regulatory approaches have been introduced already in Australia, the European Union, Singapore, the UK and the U.S. – ranging from comprehensive new frameworks to increased supervisory focus or approaches that leverage existing guidance.³

Variation in regulatory and supervisory expectations across and within jurisdictions leads to the potential for unintended consequences if authorities and their regulated firms define the stated outcome objective inconsistently. Recent experience reinforces the cross-jurisdictional and cross-sectoral nature of operational resilience, the role of third-party providers and the interconnectivity of financial institutions with other sectors. **As achieving operational resilience maturity is a priority across the global financial sector, the Associations and our members believe that it is imperative for global standard setters – in a collaborative effort with the industry – to develop global principles to promote consistency across and within jurisdictions.** The global standard setting bodies are uniquely organized to coordinate, collaborate, and develop global principles that align outcome objectives across the global financial system. As multiple regulatory authorities are well underway in the development of approaches, it is crucial for the global standard setters to engage now before fragmentation becomes firmly entrenched.

Establishing a consistent and globally recognized international approach would:

- Provide a minimum agreed upon outcome objective for the definition and measurement of operational resilience
- Help to enable accurate communication and understanding across jurisdictions
- Help to prevent fragmentation during the development and implementation of resilience approaches around the globe
- Allow firms 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
- Mitigate the extraterritorial impacts of jurisdiction-specific approaches.

Our members believe that an international approach should consider the following factors:

- **Complementing and leveraging existing, related-resilience standards, regulations and expectations:** Operational resilience is connected to a number of existing processes that firms currently manage 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 therefore extremely important that the global approach to increasing the financial sector’s operational resilience should be complementary to, and not duplicative of or in conflict with, other existing resilience-related regulations and supervisory expectations.
- **Coordination with other sectors:** The dependencies and connectivity between the financial sector and other sectors – including utilities, critical infrastructure and critical shared services – are also important to ensuring the operational resilience in the financial sector. This suggests that there is value in a cross-sectoral approach to the development of global operational resilience principles.
- **Engagement with industry:** It is widely recognized that strengthening operational resilience will be an iterative process that requires effective collaboration among financial institutions and global regulators on an ongoing basis. Recent events highlight the importance in the near term of global leadership in the development of aligned principles as the next step in the process. Given current constraints due to COVID-19, however, we would encourage a sufficiently long feedback period for the industry to engage with the global standard setting bodies on the development of global principles.

On behalf of GFMA and IIF members, we stand ready to support development of global principles as well as the ongoing collaboration as markets and practices evolve. Thank you for taking our views into consideration around this important

³ EY 2019 “Supervisory perspectives and regulatory approaches to enterprise resilience: Common themes and differing approaches” Published here: https://assets.ey.com/content/dam/ey-sites/ey-com/en_gl/topics/banking-and-capital-markets/ey-enterprise-resilience.pdf?download.

topic. We look forward to continuing to contribute constructively to your work in this area. If you have any questions in the meantime, please do not hesitate to contact the undersigned.

Regards,



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About the IIF and GFMA

The Institute of International Finance (IIF) is the global association of the financial industry, with more than 450 members from more than 70 countries. Its mission is to support the financial industry in the prudent management of risks; to develop sound industry practices; and to advocate for regulatory, financial and economic policies that are in the broad interests of its members and foster global financial stability and sustainable economic growth. IIF members include commercial and investment banks, asset managers, insurance companies, sovereign wealth funds, hedge funds, central banks and development banks.

The Global Financial Markets Association (GFMA) represents the common interests of the world's leading financial and capital market participants, to provide a collective voice on matters that support global capital markets. It advocates on policies to address risks that have no borders, regional market developments that impact global capital markets, and policies that promote efficient cross-border capital flows to end-users by efficiently connecting savers and borrowers, benefiting broader global economic growth. The GFMA brings together three of the world's leading capital markets trade associations to provide a forum for the largest globally active financial and capital market participants to develop standards to improve the coherence and interaction of cross-border financial regulation. It aims to improve the functioning of global capital markets to support global economic growth and to support lending and to serve clients in those jurisdictions they want to do business.