Discussion Draft Principles Supporting the Strengthening of Operational Resilience Maturity in Financial Services

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The Global Financial Markets Association (GFMA) and the Institute of International Finance (IIF) (the Associations) have set out the below principles on how the financial industry can continuously improve and strengthen the level of operational resilience for the firms, the customers, markets, the sector, and the broader economies they support nationally and across the globe.

The Associations believe that the public and private sectors should work together to develop and mature an international approach to operational resilience. We believe this approach should be developed based on principles that are applied in a proportionate manner considering the importance of services and the risks they present at the level of each firm, its customers and the industry. The approach should remain principles- and risk-based enabling firms to have the latitude to use their judgement and discretion to identify critical business functions, impact tolerances, and scenarios or types of disruptions that are the most relevant and proportionate to their business and risk profile, as well as the evolution of risk(s).

Operational resilience has been defined by regulators as the ability of firms, Financial Market Infrastructure(s) and the financial system as a whole to identify, detect, protect, adapt and respond to, as well as recover and learn from, operational disruptions. Operational resilience is not a specific process, rather it is an outcome and as such the path to maintaining it will differ between firms. Operational Resilience is a priority for the public and private sectors to maintain confidence in the industry and support financial stability and economic growth. Operational resilience should be viewed as having a level of importance similar to financial resilience. Like financial resilience, operational resilience is a key pillar underlying the soundness of broader economies and markets.

Achieving operational resilience is an evolutionary process expanding upon areas such as business continuity and cyber resilience. Consequently, governance models for operational resilience should leverage existing structures that are used to govern and manage these areas. The financial industry is constantly learning from events and incidents, identifying any gaps and implementing the changes necessary to continue improving and updating processes in line with the fast-changing financial industry ecosystem.

As 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 fragmentation due to divergences in regulatory standards and supervisory oversight poses substantial risks and operational challenges for financial services firms that operate globally and, in turn, for the financial system. A good operational resilience approach encompasses the people, processes and communication channels necessary to efficiently connect with clients, internal stakeholders, and global authorities across the industry.

The GFMA and IIF request that jurisdictions leading the development of approaches to operational resilience should 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.

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1. The global financial industry should embrace the importance of operational resilience.

2. Operational resilience is a global effort that will require the adoption of an international common approach by the public and private sectors.

3. The industry will seek to work with regulators to establish a global common lexicon to promote consistency and alignment across all markets.

4. The approach to operational resilience for the financial industry should be principles- and risk-based, reflecting each participant's respective risk profile, appetite and tolerances.

5. Dependencies and connectivity between the financial sector, utilities, critical infrastructure and critical shared services must be transparent.

1. The global financial industry should embrace the importance of operational resilience.

- The industry should continue to promote "tone from the top" for institutions to identify the people, processes and effective communication channels necessary to integrate a firmwide operational resilience program.
- Firms should leverage internal governance structures to provide various stakeholders, including boards, executive leadership and regulatory authorities, with visibility into evolving resilience risk(s) to facilitate timely management.
- Firms should integrate resilience into the culture of the core business operations and risk management.
- Regulators should acknowledge that maturing operational resilience will take significant time and resources to achieve due to its inherent complexity and vast scope and scale, and that firms will evolve towards maintaining an increased level of operational resilience maturity over time.

2. Operational resilience is a global effort that will require the adoption of an international common approach by the public and private sectors.

- Establishing a consistent and globally recognized international approach will permit firms to apply these principles proportionately in view of the importance of business services and associated risks, and in a manner suited to their varying and unique business models, sizes and complexities.
- A firm's operational resilience approach should incorporate existing structures, including, but not limited to, those covering its risk appetite, risk management, business continuity processes (BCP), cyber security, IT, disaster recovery and third-party vendor management.
- The public sector should consider how an approach to increase the financial sector's operational resilience will be complementary to and not duplicative of other resilience-related regulations and supervisory expectations.
- If national level approaches are developed in isolation, without global coordination, the resulting fragmentation will inhibit the strengthening of the financial sector's operational resilience and result in inefficiencies or confusion that increase the cross-border impacts of disruptive events.

3. **The industry will seek to work with regulators to establish a global common lexicon to promote consistency and alignment across all markets.**
   - A common lexicon of key terms and vocabulary will enhance oversight, communications internally and externally, support congruence of operational resilience approaches, as well as mitigate potential confusion of the interpretation and requirements. Such clear, consistent communication is a necessary component of effective operational resilience programs.
   - A lexicon should be developed by the industry in collaboration with the Financial Stability Board in coordination with the Basel Committee on Banking Supervision and other relevant regulatory stakeholders.

4. **The approach to operational resilience for the financial industry should be principles- and risk-based, reflecting each participant's respective risk profile, appetite and tolerances.**
   - Supervisors provide for firms' ability to implement a principles- and risk-based approach to resilience rather than a prescriptive, one-size-fits-all model.
   - 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 and continue to prioritize 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.
   - Firms should be permitted to take a reasonable approach for assessing the potential economic impact of a disruption, enabling firms to use appropriate quantitative and qualitative estimates, with supporting rationales.
   - Firms should evaluate whether a type of disruption gives rise to an impact on markets, customers and the firm, i.e. a degradation of service or service failure, and the tolerance for such failure.
   - Firms should have flexibility to set individual impact tolerances using various alternative strategies that measure the materiality and risk of internal and external impacts (e.g., number of consumers impacted, value/volume of missed payments, operational throughout).
   - Collaboration between regulators and the private sector should acknowledge and recognize that, in times of crisis, flexibility and ongoing communications will be required.

5. **Dependencies and connectivity between the financial sector, utilities, critical infrastructure and critical shared services must be transparent.**
   - The financial sector should consider the interdependencies required for financial services to ensure the safety and soundness of the financial sector. Those providers identified as significant, including industry utilities, critical infrastructure and critical shared services (including cloud providers) should be encouraged by their appropriate regulatory authorities to have a robust operational resilience approach.
   - The financial sector should work with these utilities, critical infrastructure and critical shared services to understand recovery times and impacts.
   - The financial sector, including Financial Market Infrastructures, should undertake to understand alternative financial industry options in the event of disruptions.
   - Testing should be conducted at both firm- and sector levels to support preparedness and identify interconnections and potential market dependencies.