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ECSDA Comments on the CPSS-IOSCO Assessment Methodology for Critical Service Providers

In September 2011, ECSDA responded to the consultation on CPSS-IOSCO's Principles for Financial Market Infrastructures (PFMI). We did not comment on Annex F on critical service providers (CSPs) which we generally consider appropriate and helpful. In the context of the [consultation](#) on the corresponding assessment methodology for the oversight expectations applicable to CSPs, we would however like to suggest that **CPSS and IOSCO should provide further guidance on the definition of a "critical service provider"**.

Indeed, the definition of the term currently included in the PFMI is rather general, and we think it is important that the assessment methodology specifies further **which service providers are to be considered "critical to an FMI's operations"**, i.e. to clarify the scope of Annex F and the corresponding assessment methodology. "Information technology and messaging providers" are currently cited as the sole examples of FMI's critical service providers, and the assessment methodology questions largely seem to have been devised with this focus in mind. However, an FMI may also have critical dependencies on other providers, such as depository or cash correspondent banks, central banks and payment systems (in Europe for example, TARGET2 and TARGET2-Securities). It would be helpful if CPSS and IOSCO could clarify whether such providers are also intended to be covered.

We are concerned that the guidance included in the current assessment methodology is still too general and could impact more providers than only those that are truly critical to the operation of an FMI. In particular, we note that the assessment methodology contains a very comprehensive set of questions and requirements for CSPs that translate into a considerable burden in terms of administration and costs for providers. Restricting the assessment to truly critical providers is thus important to avoid penalising non-critical service providers of CSDs that might be small companies with limited resources, and for whom applying the methodology would be too burdensome.

Moreover, we believe that the high safeguards included in the assessment methodology need to be justified by systemic risk concerns. The scope of the assessment should be explicitly limited to third party outsourcing/provision of services related to the FMI's strategic activities. To this end a service should be considered critical only where a failure in its performance would impair the FMI's ability to

meet relevant regulatory requirements, affect financial performance or the continued provision of core services.

An overly broad scope that is not strictly related to risk or other regulatory concerns would otherwise discourage outsourcing which generally aims to achieve higher operational efficiency by reducing costs through a specialisation of competences and additional organisational flexibility.

Limiting the scope of the assessment to truly critical providers as suggested above will enhance the efficiency and standardisation of supervisory practices in line with the aim of the assessment methodology and, at the same time, will avoid putting an excessive burden on FMIs and their providers. **More precise guidance on the definition of CSPs will also help ensure a consistent approach across different jurisdictions.**

Moreover, the definition of “critical service providers” in the assessment methodology should be further complemented by **more specific guidance as regard the types of activities that can be excluded from the assessment**. This should include in particular the mere provision of support services by third parties with respect to an activity that remains managed by the FMI (both operationally and in terms of decision-making), such as:

- utilities (basic telecommunication services, water, electricity and gas);¹
- personal security services, reception, mail sorting and cleaning of the premises;
- hardware maintenance services and software used as a tool for individual computers;
- payroll processing services;
- advisory/consultancy services (legal, IT, business analysis).

Finally, we believe that a proportionate approach is also warranted in the case of **intra-group outsourcing** of core activities which implies a generally lower level of risk. The level of control over the service provider is a key aspect for the CSD to consider when defining the outsourcing requirements. Hence, while specific arrangements must be in place also for intragroup outsourcing, there should be considerable flexibility as regards the level of detail of the assessment that FMIs should perform.

ECSDA thanks CPSS and IOSCO for the opportunity to comment on the Assessment Methodology for the oversight expectations applicable to Critical Service Providers. For any questions on this paper, please contact the ECSDA Secretariat at +32 2 230 99 01 or email alexander.westphal@ecsd.eu.

¹ Utilities are currently the only services that are explicitly mentioned as exempt from the scope of the assessment methodology (p. 1).