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Arthur Lindo
Chair, Operational Resilience Working Group
Basel Committee on Banking Supervision
Centralbahnplatz 2
Basel, Switzerland

Re: d509 - Revisions for operational resilience

Dear Arthur,

ORX values the opportunity to respond to the Basel Committee on Banking Supervision's Principles for operational resilience. Our response is informed by feedback from our membership, input from our resilience working group[1] and our "coronavirus: the first lessons" report[2]. Our contribution is summarised below:

- **A welcome addition**: We welcome publication of the principles, which will add to the detail provided on resilience by other regulatory groups. COVID-19 continues to highlight the need for consistency and coordination in the approach to operational resilience. The key challenge is how resilience fits into existing operational risk management frameworks and governance structures.
- **Need to support innovation**: Operational resilience is challenging, with specific complexity in identifying critical operations and their interconnections. Whilst **92%** of our membership think the principles support resilience today, this drops to **50**% when asked if they support future innovation**.** We think the principles should support practice developments and would welcome the opportunity to discuss the appetite for innovation within the supervisory community and how it can be supported.

We hope the Committee finds our letter helpful and are available to follow-up on any questions you have.

Yours sincerely,

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Luke Carrivick, Director of Research and Information, ORX

[1] https://managingrisktogether.orx.org/news-blogs/operational-risk-community-discuss-resilience

[2] https://managingrisktogether.orx.org/research/coronavirus-first-lessons

Formal Response

The remainder of this letter provides direct responses to the five questions. Our response is informed by discussions with, and formal feedback from, our banking membership[3].

Q1. Has the Committee appropriately captured the necessary requirements of an effective operational resilience approach for banks? Are there any aspects that the Committee could consider further?

The overall articulation of principles and focus on operational resilience is welcome. Specifically, welcome is that:

- The guidance is firmly principles rather than rules based
- The principles are broad based, cover a range of areas key to resilience
- The definition of operational resilience as an outcome of effective operational risk management
- The focus on preserving resilience in the long term, discouraging short-term actions, with a proactive and preventative mindset
- The principles maintain a close link to other existing regulatory guidance

The encouragement given to reuse of existing frameworks is welcome. Specifically, the alignment of operational resilience to the Operational Risk Management Framework, tying the two domains together while distinguishing their differences. However, this is not easy, and was identified as the biggest challenge in a recent ORX working group study[4]. Understanding where and how operational resilience fits into organisational models, from roles and responsibilities through to governance and reporting, will be crucial to determining this relationship. Although it is widely agreed that operational resilience is an outcome of effective operational risk management, many are still treating operational resilience as a separate component of operational risk management. A key challenge will be ensuring that a silo structure is avoided and that, whatever approach is taken, synergy between the two is achieved

The influence of the pandemic is clear to see within the principles, with the specific focus on business continuity planning and testing, as well as information and communications technology (ICT). This specific focus (Principle 7) on resilient ICT is welcome but some additional areas of the technology ecosystem (e.g.

[3] ORX is a not-for-profit industry association dedicated to advancing the measurement and management of operational and non-financial risk in the global financial services industry. Please see https://managingrisktogether.orx.org/about for more detail.

[4] https://managingrisktogether.orx.org/news-blogs/operational-risk-community-discuss-resilience

technology assets, cloud, third party) are understated. Furthermore, following the lessons of the pandemic there may be other risks of importance, such as people and execution.

Other aspects of risk overlooked which may be relevant to resilience are:

- Systemic and concentration risk (particularly within Third Parties),
- How risks such as reputation, strategic and credit are expected to interact with the principles.

In contrast to other regulatory papers on resilience, the impact on customers and other external stakeholders was a notable absence for some. This may simply be a consequence of the elevation to principles which can apply to all aspects of banking. In addition, the absence of impact tolerances may remove a clear way by which resilience metrics are linked to concrete outcomes but may reflect the view that "operational resilience is in a nascent stage ".

Q2. Do you have any comments on the individual principles and supporting commentary?

The following presents additional feedback on several principles.

Principle 3 - Business continuity planning and testing

The guidance in this principle refers to a paper from 2006[5] which may need to be updated. Furthermore, some acknowledgement that this should cover both short-term losses of service and long-term disruptive events would be welcome.

Principle 4 - Mapping interconnections and interdependencies

Mapping interconnections and inter-dependencies is the most challenging principle, particularly in larger and more complex institutions. Comments on this principle focus on the ambition of it rather than its conception.

Complexity: the challenge here is determining what is genuinely "critical" within a critical operation. Including too much detail could lose the end to end strength of operational resilience, and would come at a cost of time, effort, and institutional resistance.

Consistency: Building on the observation about complexity, guidance on how banks can develop comparable and consistent granularity of their critical process mapping would be welcome.

[5] https://www.bis.org/publ/joint17.pdf

Maintenance: for understanding of critical operations to be useful when needed it must be up to date. Maintenance of the mapping would require many multi-disciplinary resources to prevent it becoming obsolete.

Principle 5 - Third-party dependency management

More clarity on whether the requirements apply to all third-party arrangements, or only those that support critical operations would be welcome. The former could be very onerous to implement.

The intersection with principle 4 is key. Further guidance on expectations around boundaries of the supply chain would be welcome, for example at what point does a mapping for one bank end and another begin.

Principle 6 - Incident management

This principle aligns incident management processes to operational resilience. To ensure that they support operational resilience, an understanding of which potential incidents could impact critical operations is needed.

Q3. Are there any specific lessons resulting from the Covid-19 pandemic, including relevant containment measures, that the proposed principles for operational resilience should reflect?

In June, ORX published a publicly available first lessons learned for operational risk during the pandemic[6]. This was based on many hours of dialogue with our more than 100 members over the 4-month period. This contains lessons about the role of operational risk, how risk profiles rapidly changed, and how the operational risk management framework performed under stress. While this is useful context, we emphasise these are early lessons from a response to a specific stress on operations. We believe the industry will need more time to properly reflect, and in time some activities may be shown to be simply helpful tactical responses rather than long term strategic improvements.

Q4. Do you see merit in further consolidation of the Committee's relevant principles on operational risk and resilience?

Around 50% of our membership saw merit in further consolidation.

[6] https://managingrisktogether.orx.org/research/coronavirus-first-lessons

Q5. What kind of metrics does your organisation find useful for measuring operational resilience? What data are used to produce these metrics?

Metrics for measuring operational resilience is an area where practice is emerging. At this point in time only around 30% of our members thought there was a benefit in mandating standard metrics, and rather there was a period where it would be beneficial for the industry to share, learn and identify best practices.

We would welcome the opportunity to share and discuss the progress we make with our members on operational resilience. We hope our comments have been constructive and that the BCBS considers our points before finalising its recommendations.