

Prudential Communication 4 of 2025

Financial Sector Regulations Act 9 of 2017

Financial Market Act 19 of 2012

The 2025 flavour-of-the-year topic communication to market infrastructures

Objective of this Prudential Communication

This communication provides information on the Prudential Authority's 2025 flavour-of-the-year topic, namely 'Third-party risk management, including strategic partnerships'.

1. Application

- 1.1 This Prudential Communication is applicable to market infrastructures.

2. Purpose

- 2.1 The purpose of this Prudential Communication is to provide information on the 2025 flavour-of-the-year topic for market infrastructures.

3. Introduction

- 3.1 Annually, the Prudential Authority (PA) considers whether any ongoing developments and/or emerging risks affecting regulated financial institutions at an industry level are of such significance that additional focus is required from a supervisory perspective. The selected theme is communicated to regulated financial institutions and is referred to as flavour-of-the-year topic.
- 3.2 The PA has determined that the 2025 FOTY topic will be 'Third-party risk management, including strategic partnerships'.

4. Third-party risk management including strategic and/or alliance partnerships

4.1 Background

- 4.1.1 Market infrastructures are increasingly using third-party service providers (TPSPs) to improve services and enhance offerings to clients, enable scalability and access expertise not readily available internally to achieve strategic objectives and reduce costs.

- 4.1.2 The reliance on third parties, if not adequately managed, may result in various risks, including concentration risk, cybersecurity risk and concerns relating to operational resilience.
- 4.1.3 On 4 December 2023, the Financial Stability Board issued a toolkit for financial institutions and financial authorities with respect to enhancing third-party risk management and oversight. In October 2021, the Board of the International Organization of Securities Commissions published a report titled 'Principles on Outsourcing', which updated the existing principles to address recent developments. These documents provide guidance to market infrastructures and regulatory authorities on effective management of third-party risks.
- 4.1.4 Focused engagement on this topic will allow market infrastructures to assess their third-party risk management practices and subsequently formulate and execute strategies to effectively manage third-party risks including strategic partnerships. This engagement will also provide the PA with information to further inform regulatory and supervisory activities.
- 4.2 Engagement approach
 - 4.2.1 One of the following two approaches will be applied for market infrastructures and the appropriate approach will be communicated to the respective entities by means of a letter:
 - i) A survey will be issued to the market infrastructures entities during the second quarter of 2025.
 - ii) A meeting will be held with the market infrastructure where the Chairperson of the Board of Directors (Board) is required to make a high-level presentation to the PA on third-party risk management, including strategic partnerships, at the scheduled prudential meeting with the Board. The presentation should be approximately 45 minutes.
 - 4.2.1.1 For market infrastructures where meeting will be held, the PA requires a copy of the presentation to be provided at least three weeks prior to the date of the prudential meeting with the Board.
 - 4.2.2 The PA endeavours to communicate the thematic outcome of these engagements to the industry at an aggregate level.

5. Minimum aspects to be covered in the presentation

The market infrastructure is required to, as a minimum, cover the following aspects related to third-party risk management:

- 5.1 Strategy, governance, and risk management
 - 5.1.1 Illustrate the alignment of the third-party risk management strategy with the overall strategy of the market infrastructure and how the third-party life cycle is integrated into the governance structures and frameworks of the market infrastructure.

- 5.1.2 Define the risk appetite and tolerance levels for TPSPs and how these are influenced by internal and external factors.
- 5.2 Risk assessment
 - 5.2.1 Highlight the degree of the market infrastructure's reliance on third parties with elevated concentration risk and dependence on sub-contractors (fourth and nth parties), including intragroup and cross-border relationships for critical services.
 - 5.2.2 Describe the risk management processes and practices for assessing critical and material TPSPs.
- 5.3 Due diligence
 - 5.3.1 Highlight the factors considered to determine the level of depth and scope of the due diligence when engaging TPSPs.
 - 5.3.2 Outline the governance process used to identify and manage conflicts of interest.
 - 5.3.3 Explain the use of internal resources versus third-party providers when conducting the due diligence process.
- 5.4 Contracting
 - 5.4.1 Explain the management of third-party arrangements with/without contracts or legally binding agreements as well as dispute resolution mechanisms.
 - 5.4.2 Detail the process for access to information by relevant stakeholders.
- 5.5 Onboarding and ongoing monitoring
 - 5.5.1 Discuss the criteria for selecting TPSPs metrics used to evaluate the success of these agreements.
 - 5.5.2 Demonstrate the TPSP's continual understanding of the market infrastructure's policies, processes, and interconnections.
 - 5.5.3 Describe the ongoing risk management processes and practices, including escalation strategies in response to issues associated with TPSPs.
- 5.6 Termination of services
 - 5.6.1 Demonstrate the management of planned and/or unplanned termination of TPSP arrangements within the context of the market infrastructure's exit strategy.
- 5.7 Strategic partnerships (if applicable)
 - 5.7.1 Provide an overview of the strategic partnerships, including the associated risk management processes and practices.

6. Acknowledgement of receipt

- 6.1 A written acknowledgment of receipt of this communication, signed by the Chief Executive Officer of the market infrastructure, should be submitted to the PA Frontline team responsible for the supervision of the market infrastructure within 10 working days. Should you have any queries in this regard, please contact the relevant PA Frontline team.

Fundi Tshazibana
Chief Executive Officer

Date: