



SOUTH AFRICAN RESERVE BANK
Prudential Authority

Financial Sector Regulation Act, 2017 (Act No. 9 of 2017)

Prudential Standard RAXX

Requirements for Operational Continuity in Resolution

DRAFT FOR CONSULTATION - XX

Objectives and key requirements of this Standard

This Standard sets out the principles and minimum requirements for operational continuity in resolution that must be complied with by all designated institutions in line with sound principles, practices and processes for the orderly resolution of a designated institution in resolution.

This Standard gives effect to the objectives and requirements of the Financial Sector Regulation Act, 2017 (Act No. 9 of 2017).

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1. Commencement

- 1.1. This Standard comes into effect on **Day-Month-Year**.

| Version number | Commencement date |
|----------------|-------------------|
| 01 | Day -Month-Year |

2. Legislative authority

- 2.1. This Standard is made in terms of section 105(2)(c) read with section 30(1A) of the Financial Sector Regulation Act, 2017 (Act No. 9 of 2017).

3. Definitions and interpretation

- 3.1. In this Standard, **‘the Act’** means the Financial Sector Regulation Act, 2017 (Act No. 9 of 2017) and any word or expression to which a meaning has been assigned bears the meaning so assigned to it by the Act unless the context indicates otherwise.

- 3.2. For the purposes of this Standard -

‘core business lines’ means business lines and associated services that represent material sources of revenue or profit and are essential for the sustainability of the designated institution;

‘core shared services’ means activities performed by the designated institution or outsourced to a third party where failure would impair the designated institution’s ability to continue its core business lines;

‘critical shared services’ means activities performed by or within the designated institution or outsourced to a third party where failure would lead to the designated institution’s inability to perform critical functions;

‘essential operational assets’ means the non-financial assets, including but not limited to, real estate, intellectual property, information technology systems, necessary for the continuity of a designated institution’s essential services, core business lines and critical functions;

‘essential services’ means the core shared services and/or critical shared services that enable the continuity of a designated institution’s core business lines and/or critical functions;

‘essential staff’ means the staff and/or roles necessary for the continuity of a designated institution’s essential services, core business lines and critical functions;

‘independent review’ means a review conducted by either of the following - an internal audit function; external audit function; an independent control function or a suitably qualified third party;

‘operational continuity in resolution’ means the ability to maintain or support the continuity of the critical functions and the core business lines of a designated institution in resolution so as to facilitate the orderly resolution of a designated institution;

‘Reserve Bank’ means the South African Reserve Bank in its capacity as the resolution authority in terms of section 166A of the Act; and

‘service delivery model’ means the approach adopted by a designated institution for the delivery of essential services which may take the form of -

- (a) the provision of services by a division within the designated institution;
- (b) the provision of services by an intragroup entity;
- (c) the provision of services by a third-party service provider; or
- (d) any combination of the approaches described in (a) to (c) above.

4. Application

- 4.1. This Standard applies to all designated institutions and must be read and applied in conjunction with the Act, including micro-prudential regulatory instruments and other relevant financial sector laws.

5. Roles and responsibilities

- 5.1. The governing body of the relevant designated institution is responsible for ensuring that the designated institution has adequate measures in place to continuously comply with the requirements set out in this Standard.

6. Governance requirements

- 6.1. A designated institution must have clearly defined policies and procedures, documented practices as well as internal systems capabilities in place for monitoring and ensuring ongoing compliance with the requirements set out in this Standard.
- 6.2. The development, approval, monitoring and review of the policies, procedures, practices as well as internal systems capabilities required in terms of this Standard must be subject to an appropriate governance process, with clearly assigned roles and responsibilities for the governing body, senior management and operational staff.

7. Measures to support operational continuity in resolution

- 7.1. Design of arrangements to support operational continuity in resolution

- 7.1.1. A designated institution must -

- (a) have in place arrangements to support operational continuity in resolution that are consistent with its existing operational risk management considerations, including but not limited to its -
 - (i) enterprise-wide risk management framework;
 - (ii) operational risk management framework;
 - (iii) operational resilience framework;
 - (iv) business continuity plans;
 - (v) information technology risk management framework; and
 - (vi) recovery plans.

- (b) ensure that its organisational structure and related arrangements do not hinder the continued provision of essential services as well as access to essential staff and essential operational assets;
- (c) ensure that the service delivery model it adopts for the delivery of essential services adequately supports its ability to maintain its continued performance of critical functions and core business lines in resolution;
- (d) unless otherwise instructed in writing by the Reserve Bank, ensure that, in the case of an intragroup service provider, the relevant contracts and/or service level agreements prohibit the service provider from prioritising services to one or more of the group companies over the designated institution -
 - (i) once the designated institution has been or is proposed to be placed in resolution; or
 - (ii) a resolution action has been proposed or executed in relation to the designated institution;
- (e) ensure that the relevant contracts and related arrangements governing its continued access to essential services, essential staff and essential operational assets while in resolution enable the transferability of such services, staff and assets and cannot be terminated, amended or suspended by the service providers solely as a result of the designated institution's entry into resolution;
- (f) where the relevant service that underpin essential services is carried out by units/divisions within the designated institution (intra-entity services), document the information which would facilitate the identification and transfer of relevant service agreements in resolution;
- (g) put measures in place to ensure that the pricing structure for the essential services it receives is transparent and cannot be altered because of its entry into resolution and, where an intragroup service company model is used, ensure the pricing for essential services is at arm's length;
- (h) prepare a report, at least every six months, on the viability and effectiveness of its arrangements to support operational continuity in resolution. The report must be subject to an independent review; and
- (i) upon written request, provide the Reserve Bank with the report referred to in subparagraph (h) above.

7.2. Management information systems

7.2.1. A designated institution must -

- (a) have in place a management information system that is capable of producing up-to-date information and that allows for timely access to information relevant for ensuring operational continuity in resolution; and
- (b) ensure that the relevant contractual arrangements with intragroup or third-party service providers are well documented and include all the

relevant information that would enable the Reserve Bank to conduct an orderly resolution of the designated institution.

7.2.2. A designated institution's management information system must be underpinned by, among others -

- (a) a catalogue of essential services, essential staff and essential operational assets;
- (b) an up-to-date repository of all the relevant contractual agreements governing the essential services, the critical functions as well as the core business lines;
- (c) an up-to-date inventory of the essential operational assets as well as a database of the essential staff; and
- (d) any other requirements as may be determined by the Prudential Authority or the Reserve Bank.

8. Identification and mapping of essential services, essential staff and essential operational assets

8.1. Identification of essential services, essential staff and essential operational assets

8.1.1. A designated institution must identify and document the essential services, essential staff and essential operational assets it requires to maintain its continued performance of critical functions and core business lines.

8.1.2. A designated institution's documentation of the essential services, essential staff and essential operational assets it requires to conduct core business lines and perform critical functions must, at a minimum, include the following information in relation to each critical function or core business line -

- (a) details of the legal entities and/or business lines that perform critical functions and/or core business lines;
- (b) a description of the service delivery model used;
- (c) a description of the relevant essential service and the related performance standards;
- (d) details of the essential staff such as, where relevant, their location, employing legal entities and employment terms, including retention and succession arrangements (if any);
- (e) details of the essential operating assets, including their ownership, location within the group and physically; and
- (f) a description of the pricing structure for the relevant essential services.

8.1.3. A designated institution must, where relevant, maintain a detailed record of the -

- (a) outsourcing arrangements related to its core business lines and critical functions and the related underlying contracts and service level agreements;

- (b) third-party providers of essential services, including, at a minimum, their jurisdiction of incorporation as well as the jurisdiction from which the relevant service is provided; and
- (c) alternative service providers and the estimated time required to switch to alternative providers (where available).

8.2. Mapping of essential services

8.2.1. A designated institution must conduct, document and maintain a detailed mapping of its essential services in relation to the -

- (a) relevant critical function performed by the designated institution;
- (b) relevant core business line undertaken by the designated institution;
- (c) essential staff or roles and essential operational assets required to operate the relevant critical function and/or core business line and their location within the group;
- (d) legal entity that is a contracting party to an agreement to receive the relevant essential service and, where applicable, the legal entity that uses the relevant essential service;
- (e) legal entity that performs a critical function or operates a core business line;
- (f) provider of the relevant essential service; and
- (g) related contracts or similar arrangements governing the essential services.

9. Identification, assessment, mitigation and monitoring of risks to operational continuity in resolution

9.1. Identification and assessment of risks to operational continuity in resolution

9.1.1. A designated institution must identify and, on an ongoing basis, assess all plausible risks to operational continuity in resolution, including but not limited to, the interruption of essential services, loss of access to essential operational assets and unavailability of essential staff.

9.1.2. Regardless of the service delivery model adopted, a designated institution must, as part of its risk management processes -

- (a) identify the main drivers, both internal and external, of risks to operational continuity in resolution; and
- (b) assess the internal and external risks to operational continuity in resolution that may be posed by, among others, the information technology systems it employs and the service delivery model it adopts.
- (c) identify and assess the risks associated with interconnections and interdependencies among the providers of services that support its core business lines and critical functions.

9.2. Mitigation and monitoring of risks to operational continuity in resolution

9.2.1. A designated institution must -

- (a) put measures in place to ensure that it has the capability to sufficiently address and/or mitigate the identified risks to operational continuity in resolution;
- (b) put measures in place to provide for the retention of or address the potential loss of essential staff so as to ensure the continued provision of essential services;
- (c) put measures in place to ensure that it is able to maintain access to essential operational assets while in resolution;
- (d) ensure that it has sufficient financial resources to enable it to continue to meet its financial obligations to providers of essential services while in resolution;
- (e) have in place a documented methodology for the ongoing monitoring of risks to operational continuity in resolution; and
- (f) ensure that the relevant contracts and related arrangements for essential services which are governed by laws outside of South Africa provide for terms which, at a minimum:
 - (i) secure the continued provision of essential services while the designated institution is in resolution on substantively the same terms as during business-as-usual conditions, notwithstanding the exercise of any resolution powers and/or resolution action by the Reserve Bank in respect of the designated institution; and
 - (ii) provide for the transfer, assignment or novation of the relevant contracts and related arrangements to a different recipient.

10. General compliance requirements

- 10.1. A designated institution must assess its compliance with the requirements in this Standard regularly but at least every six months.
- 10.2. A designated institution must notify the Reserve Bank in writing of any changes to the measures it has in place as required in terms of this Standard within three days of such change.

11. Reporting requirements

- 11.1. The form, manner and period for reporting in terms of this Standard will be determined by the Prudential Authority as directed by the Reserve Bank.

12. Short title

- 12.1. This Standard shall be called 'Prudential Standard RAXX: Requirements for Operational Continuity in Resolution'.