



SOUTH AFRICAN RESERVE BANK  
Prudential Authority

**Statement explaining the need for, expected impact and intended operation of the draft Prudential Standard RAXX - Requirements for Operational Continuity in Resolution**

**Draft for Consultation**

**DATE**

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## **1. Introduction**

- 1.1 The statement explaining the need for, the intended operation of and the expected impact of the proposed Prudential Standard RAXX – Requirements for operational continuity in resolution (the Statement); is prepared and published in accordance with and in fulfilment of the requirements under section 98(1) of the Financial Sector Regulation Act, 2017 (Act No. 9 of 2017) (the Act).
- 1.2 The proposed Prudential Standard RAXX – Requirements for operational continuity in resolution (the Standard) is issued in terms of section 105(2)(c) read with section 30(1A) of the Act.
- 1.3 The Standard sets out the principles and 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.
- 1.4 In the aftermath of the of the global financial crisis, the Financial Stability Board (FSB) as part of its considerations, identified the lack of adequate arrangements to support operational continuity in resolution as one of the main obstacles to the orderly resolution of financial institutions.
- 1.5 The Key Attributes of Effective Resolution Regimes for Financial Institutions (Key Attributes) read together with the Guidance on Arrangements to Support Operational Continuity in Resolution<sup>1</sup> issued by the FSB in 2014 and 2016 respectively specify that resolution regimes should, among other things, ensure the continuity of systemically important financial functions of institutions in resolution.
- 1.6 The Key Attributes represent a framework for dealing with the failure of certain systemic financial institutions and constitutes the international standard from which all the Group of 20 (G20) member jurisdictions derive their resolution frameworks.
- 1.7 For purposes of the Standard, operational continuity in resolution is defined in the context of critical functions and core business lines. In this regard, operational continuity refers to the means of ensuring the continuity of the critical shared services and core shared services (collectively referred to as 'essential services' in the Standard) that are necessary to support a designated institution's ability to provide critical functions and undertake core business lines while in resolution.
- 1.8 The approach described in paragraph 1.7. above is favoured because it is recognised that it is unlikely that a designated institution will be able to continue providing critical functions without securing the continuity of its core business lines and essential services.
- 1.9 It is worth noting that operational continuity is a going concern consideration that is addressed as part of a designated institution's overall risk management framework including, among others, business continuity planning, outsourcing

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<sup>1</sup> Financial Stability Board, Guidance on Arrangements to Support Operational Continuity in Resolution (Revised version), March 2024

arrangements, recovery planning processes, and operational resilience frameworks.

- 1.10 In this regard, there will be parallels between the arrangements required to support operational continuity in resolution and a designated institution's established measures to support operational continuity during business as usual.
- 1.11 Notwithstanding the above, it is acknowledged that there could also be some tensions between the arrangements required to support operational continuity in resolution and a designated institution's measures to support operational continuity in going concern. As such, designated institutions will be required to have measures in place to address any tensions that may arise as a consequence of their actions to improve the adequacy of their arrangements to support operational continuity in resolution.

## **2. Statement explaining the need for the Standard**

- 2.1. As a member of the G20, South Africa committed to implement the Key Attributes and end the phenomenon of Too-Big-To-Fail financial institutions. To this end, South Africa developed and enacted amendments to the Act to strengthen the South African resolution framework in line with the Key Attributes.
- 2.2. Operational continuity is one of the key aspects of resolution planning for individual designated institutions and a lack of adequate arrangements to support operational continuity in resolution is likely to impair designated institutions' resolvability.
- 2.3. The Act designates the South African Reserve Bank (Reserve Bank) as the resolution authority and entrusts it with the responsibility to plan for the potential need for the orderly resolution of a designated institution.
- 2.4. To achieve its resolution objectives as set out in the Act, the Reserve Bank is required to perform its resolution functions in relation to a designated institution and ensure that the affairs of a designated institution in resolution are managed so as to maintain, as far as practicable, financial stability.
- 2.5. The Reserve Bank's ability to undertake an orderly resolution will be adversely impacted if a designated institution in resolution does not have arrangements in place to ensure the continuity of the essential services necessary to support its core business lines and maintain its critical functions.
- 2.6. The Standard complements the principles and resolution objectives laid out in the Act by setting out the requirements for arrangements to support operational continuity in resolution that must be complied with by all designated institutions.
- 2.7. The requirements provided for in the Standard will, if adequately and appropriately implemented, improve the resolvability of designated institutions thereby enhancing the Reserve Bank's ability to execute orderly resolution.
- 2.8. Further to the above, the Standard contributes towards enabling South Africa to have an effective resolution framework by implementing the Key Attributes in line with its commitment, as a member of the G20, to resolve financial

institutions in an orderly manner without unduly exposing taxpayers to loss from solvency support, while maintaining continuity of their critical functions.

### **3. Statement of the expected impact of the Standard**

- 3.1. While it is conceivable that the Standard may impose an additional administrative burden on designated institutions it is also worth noting that there are leverage opportunities between the requirements set out therein and the business-as-usual risk management processes, procedures and arrangements already implemented by designated institutions to manage operational risk.
- 3.2. Notwithstanding the above, the Reserve Bank and the Prudential Authority are not in a position to determine the full extent of the expected possible impact and/ or any other potential unintended consequences that may arise because of the Standard.
- 3.3. To this end, a set of questions has been prepared and will be used to solicit designated institutions' / industry inputs on the expected impact of implementing the Standard. The questions are included under **Section C** of the Comments Template that will be published as part of the consultation process with the industry in terms of section 98(1) of the Act.
- 3.4. Interested stakeholders are encouraged to respond to the questions under **Section C** of the Comments Template and to identify and highlight any relevant potential risks and/ or unintended consequences that might arise from the implementation of the Standard.
- 3.5. After the consultation process, a revised Standard will be prepared, considering the comments that may be received from the industry.

### **4. Statement explaining the intended operation of the Standard**

- 4.1. Once finalised, the Standard will apply to all designated institutions and assign the responsibility to a designated institution's governing body for ensuring that a designated institution has adequate measures in place to comply with the requirements set out in the Standard on a continuous basis.
- 4.2. The Standard will among others require designated institutions to:
  - 4.2.1. Ensure that their arrangements to support operational continuity in resolution are consistent with their existing operational risk management considerations.
  - 4.2.2. Have in place clearly defined policies and procedures, documented practices as well as internal system capabilities for monitoring and ensuring compliance with the requirements set out in the Standard.
  - 4.2.3. Identify and assess risks to operational continuity in resolution, including but not limited to, the interruption of essential services, loss of access to relevant essential operational assets and loss of essential staff/roles.
- 4.3. Primarily, the Standard will require designated institutions to ensure that they have in place arrangements to ensure the continuity of the essential contracts, staff/roles, and operational assets necessary for supporting the operation of core business lines and the maintenance of critical functions in resolution.

## **5. Conclusion**

- 5.1. Operational continuity in resolution is one of the elements in resolution planning and thus a component in the process of improving the resolvability of designated institutions.
- 5.2. The Reserve Bank does not intend to prescribe any model for the delivery of essential services. Designated institutions are expected to determine a service delivery model or a combination of models that is appropriate to support their continued operation of core business lines and their maintenance of critical functions in resolution.
- 5.3. The ability of designated institutions to have adequate measures to support operational continuity in resolution in place will enable the Reserve Bank to achieve its resolution objectives as outlined under Chapter 12A of the Act.