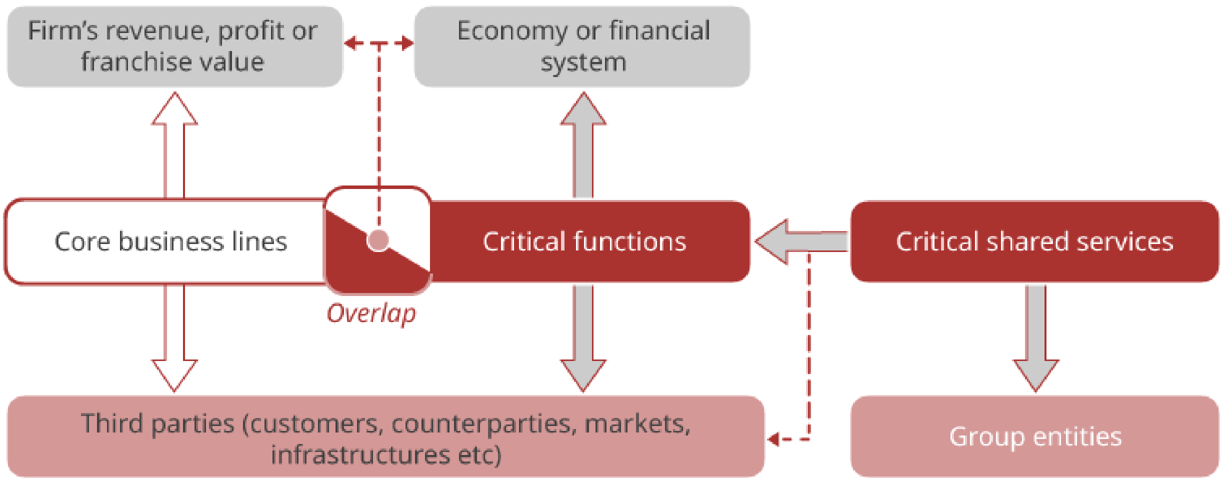
Impact of digitalisation on operational continuity in resolution – Executive Summary

What is operational continuity?

Effective resolution aims to ensure continuity of the **critical functions (CFs)** of a failing financial institution. CFs are activities undertaken by a financial institution for the benefit of third parties (eg households, businesses, other financial institutions), the failure of which could lead to the disruption of services that are vital for the functioning of the economy or the financial system. CFs may coincide with a firm's core business lines (which are material sources of its revenue and franchise value), but this is not necessarily the case.

CFs rely on **critical shared services (CSS)**. A CSS is an activity, function or service performed for internal business units of a firm's group where its failure would undermine the financial institution's performance of its CFs. The two main categories of CSS are finance-related, involving the management of financial resources, and operational, involving the infrastructure necessary for the provision of CFs. Operational CSS include IT infrastructure and software-related services. CSS may be provided "in-house" within a financial institution or its group through various service delivery models, outsourced to external vendors or through a combination of both.



The concept of **operational continuity in resolution (OCiR)** refers to a financial institution in resolution's ability to continue the CSS that are necessary to maintain the provision, or facilitate the orderly wind-down, of the financial institution's CFs.

In 2016, the Financial Stability Board (FSB) published Guidance on Arrangements to Support Operational Continuity in Resolution. In 2024, a supplementary note was added to the end of that guidance to clarify its implementation in the context of the increasing digitalisation of CSS.

Operational continuity – the impact of digitalisation

The rapid digitalisation of financial services in recent years has been accompanied by increased dependency of firms on third-party service providers to support CSS. For example, more firms are embarking on group-wide digitalisation projects for data management, storage and applications that use third-party providers. This, in turn, gives rise to two factors that make preserving OCiR more complex.

First, data are increasingly stored and processed in other jurisdictions, and operational assets may be shared across multiple firms. This may lead to uncertainty in a resolution about access to data or questions of legal ownership.

Second, services may involve multiple supply chain layers. This means that the final service offered to a firm is not provided by a single third-party provider, but may depend on an intricate network of subcontractors, sub-outsourced or indirect providers (referred to as "nth-party service providers"). This may add complexity in the service delivery models, and if not adequately captured in the firm's operational continuity arrangements, could create potential challenges in resolution.

The supplementary note to the FSB guidance sets out considerations for approaching operational continuity of CSS that are digital in nature.

	Arrangements by financial institutions to support OCiR of digitalised CSS	Implementation for digital services
Contractual provisions	• Maintain clear and comprehensive documented contractual arrangements and service-level agreements for both intragroup and third-party providers	• Have a deep understanding of contractual arrangements and the networks of interdependencies of CSS service providers • Be able to assess potential impediments to OCiR that arise from weaknesses in contractual arrangements
Management information systems	• Keep a clear taxonomy of shared services and maintain up-to-date mapping of all CSS to entities, businesses and CFs	• Have robust oversight on third-party service providers' supply chains to the extent they affect the continuity of CSS in resolution • Identify key nth-party service providers that are essential to delivery of CSS
Robust pricing structures	• Pricing structures for CSS should be predictable, transparent and set on an arm's length basis	• Financial institutions should ensure those standards in pricing structures are met, despite the potential challenges of negotiating with a concentrated set of digital service providers
Operational resilience and resourcing	• CSS should be operationally resilient and not unduly affected by the failure or resolution of other group entities	• Consider the implications for OCiR of reliance on a concentration of CSS providers and/or a lack of substitutability for such providers
Governance	• CSS should have their own governance structure with well-defined reporting lines	• Pay particular attention to governance arrangements for digital services since increased use of third-party service providers may complicate management of those arrangements
Rights of use and access and cross-border provision	• Access to operational assets by a CSS provider should not be disrupted by the failure or resolution of any group entity (noting that this may be more complicated where the service provider is in another jurisdiction)	• Attention should be given in resolution planning to potential impediments to continued access to intangible assets, such as data stored or processed by a third-party service provider • Ensure contractual arrangements support access in resolution to data stored on a third-party system

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