

Setting the Standard: The SFC on Operational Resilience

November 2021



The SFC has pulled together the various strands on operational resilience which run through many of its publications into a single circular. By setting out five operational resilience standards with accompanying implementation measures for each standard, the SFC has made its regulatory expectations on the topic clear.

Intermediaries will now need to ensure they have a clearly badged operational resilience framework in place.



What the SFC expects: Operational resilience

The SFC issued a [circular](#) that sets out five standards on operational resilience which intermediaries should meet. In addition to the standards, the SFC provides required implementation measures which offer further detail on how the framework should be implemented and maintained; a summary is below.



Remote Working

The circular and report also look at managing and mitigating remote working risks and set out the SFC's expected regulatory standards which intermediaries should have in place.



Lessons learnt: SFC Report on Operational Resilience and Remote Working Arrangements

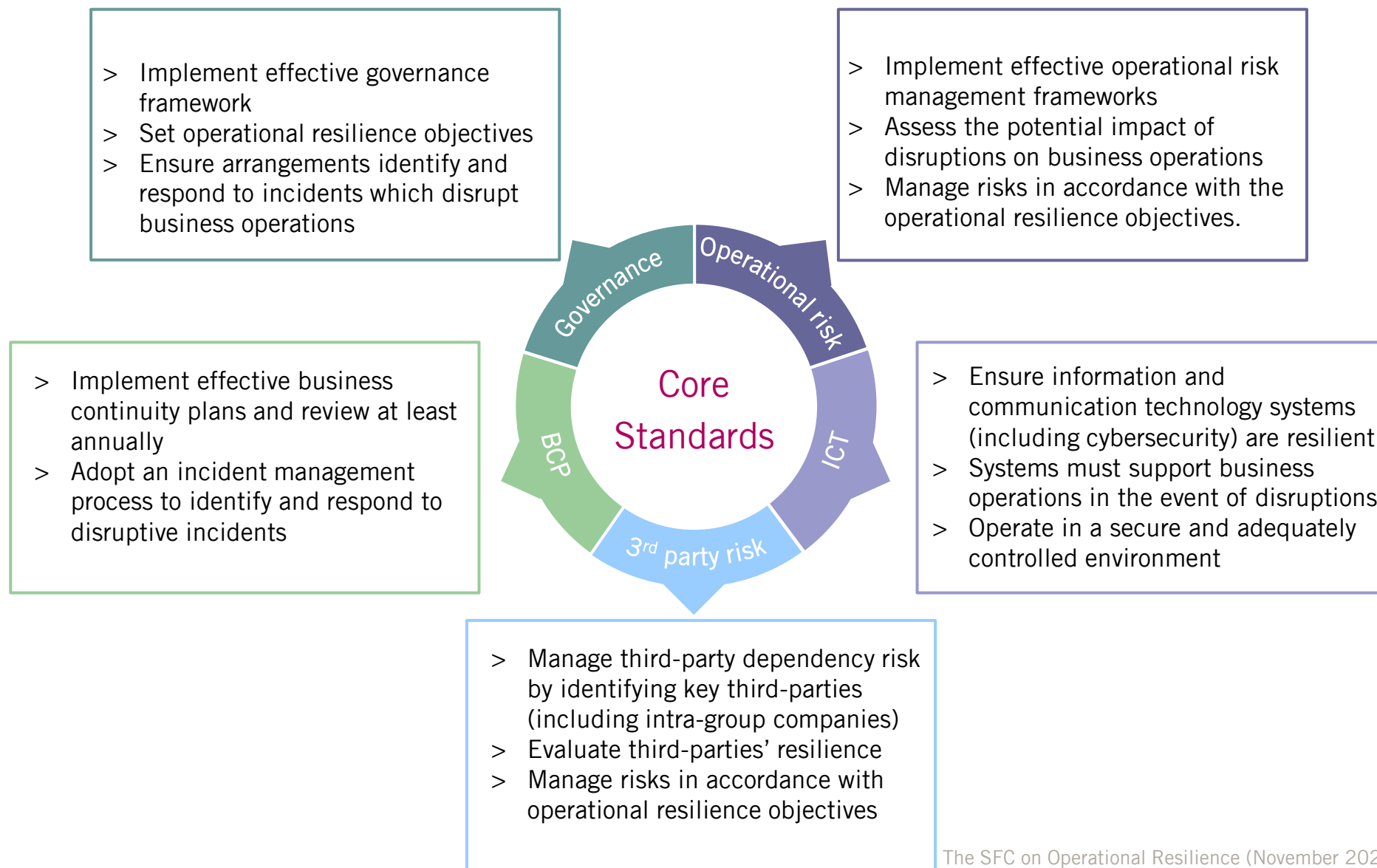
Alongside the circular, the SFC published a [Report](#) which looks at how intermediaries can create strong operationally resilient frameworks. The report includes examples of both challenges and solutions which firms have faced in real-life.



Listen to us talk about operational resilience in our podcast

Our team members got together to run through the main points from the SFC's circular and report, as well as discuss similarities with what the UK regulators have said on the topic. The [podcast](#) is the latest in a [series](#) dedicated to operational resilience.

SFC's five operational resilience standards - summarised

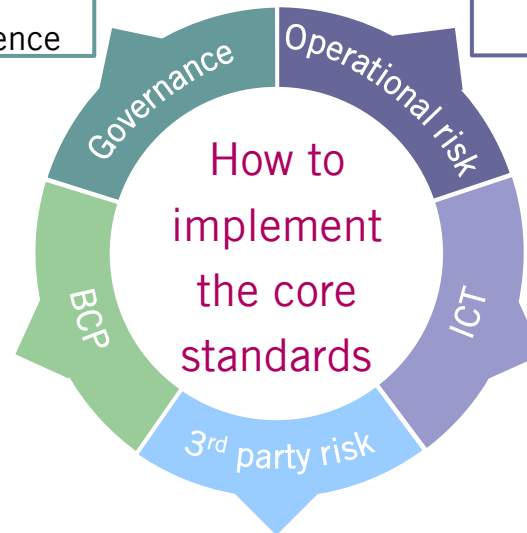


Operational resilience ‘required implementation measures’

- > Senior management (SM) to assume responsibility for setting operational resilience objectives and oversight
- > Designated staff to support SM by monitoring operational resilience
- > Ensure SM is provided with information allowing continual assessment of operational resilience

- > Establish effective policies and procedures to ensure management of operational risks
- > Conduct comprehensive reviews at intervals to ensure that the risk of losses resulting from operational disruptions is at an appropriate level

- > BCPs should address various disruptive scenarios and activation procedures
- > Annual review and whenever necessary (eg following changes)
- > Full and effective incident management process must contain communication plans to report incidents to internal and external stakeholders



- > Establish policies and procedures which ensure secure operation
- > Protect confidential data
- > Manage cybersecurity risk

- > Identify, contain and manage third-party dependency risks
- > Conduct reviews at suitable intervals and when there are changes in key service providers
- > Ensure the risk of suffering losses is maintained at an appropriate level



Operational Resilience: How should firms approach the SFC circular and report?

As mentioned above, the SFC has set out its expectations on how firms should approach operational resilience by highlighting the five overarching **standards** in the key areas which support resilient operations.

The second level of regulatory expectation is made up of the SFC's '**implementation measures**' which break down the standards into steps which should be taken to meet the standards.

In the Report on Operational Resilience, the SFC also sets out '**suggested techniques and procedures**' for each standard, which are more practical actions that firms can take to help meet the standards. The Circular and the Report both note that intermediaries are '*encouraged to adopt the suggested techniques and procedures as appropriate to their circumstances*'.

Intermediaries should therefore be reviewing their relevant current policies and procedures with the SFC expectations on the standards, implementation measures and suggested techniques and procedures to ensure there are no gaps. There is no timeline given, so firms should make this part of their business as usual from now.

Much of what has been included will be familiar to firms from other SFC circulars and guidelines, so it is likely that much may be covered in existing procedures. However, by drawing it all into one place, the regulator has provided clarity on what it sees as necessary to ensure resilient operations. Overall, the requirements are not prescriptive and allow firms to implement frameworks which will cater to their particular business and risk profile.



SFC expectations on working from home – ensuring a framework is in place

The SFC also provides clarity on its expectations in relation to the working from home arrangements with which we have all become very familiar.

There are expected regulatory standards set out for eight areas relevant to intermediaries' working from home models. The Report supplements these standards with suggested techniques and procedures – as mentioned previously, the approach remains that intermediaries should review the techniques and procedures as they are encouraged to adopt them where it is appropriate to their circumstances.

Once again, much of what is covered within the eight areas will not be new to firms; indeed the standards do reflect the conversations that the regulator has been engaged in with the industry since early 2020.

The areas include governance and cybersecurity, but there are also specific expectations in relation to topics such as off-premises trading and record keeping. Where remote working arrangements constitute significant changes to an intermediary's business plans, a notification should be made to the SFC and the HKMA if necessary (as required by the Securities and Futures Ordinance), but the report notes that a notification will not be necessary for remote-working arrangements for short periods of time.



...it is important for [intermediaries] to ensure continued strength by adopting a comprehensive approach to achieve their operational resilience objectives based on common established standards."

SFC Circular,
Operational
resilience and
remote working

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