



Navigating Resilience and Resolution

Examining the synergies in New Zealand's regulatory environment

BS11 | CPS230 | CoFI | OBR

April 2024



Emerging resolution and resilience regulation in New Zealand intersects and overlaps with the existing regulatory landscape. This blending creates both complexity and synergies that require clear understanding and careful navigation.

Large financial institutions in New Zealand have just completed a six-year journey to implement the Reserve Bank of New Zealand's (RBNZ) BS11 Outsourcing Policy. Ultimately, BS11 aims to enhance the resilience of the financial system in New Zealand by minimising the impact of the failure of a large bank, or a service provider to a large bank.

Similarly, the RBNZ's Open Bank Resolution (OBR) policy aims to minimise the impact of a bank failure on the wider financial system, by providing depositors with quick access to a portion of their funds when a bank enters statutory management.

Resilience and resolution regulation is a strong current focus of prudential and conduct regulators around the world. In fact, multiple jurisdictions around the world have introduced dedicated operational resilience regulatory regimes in recent years, including the United Kingdom and Australia.

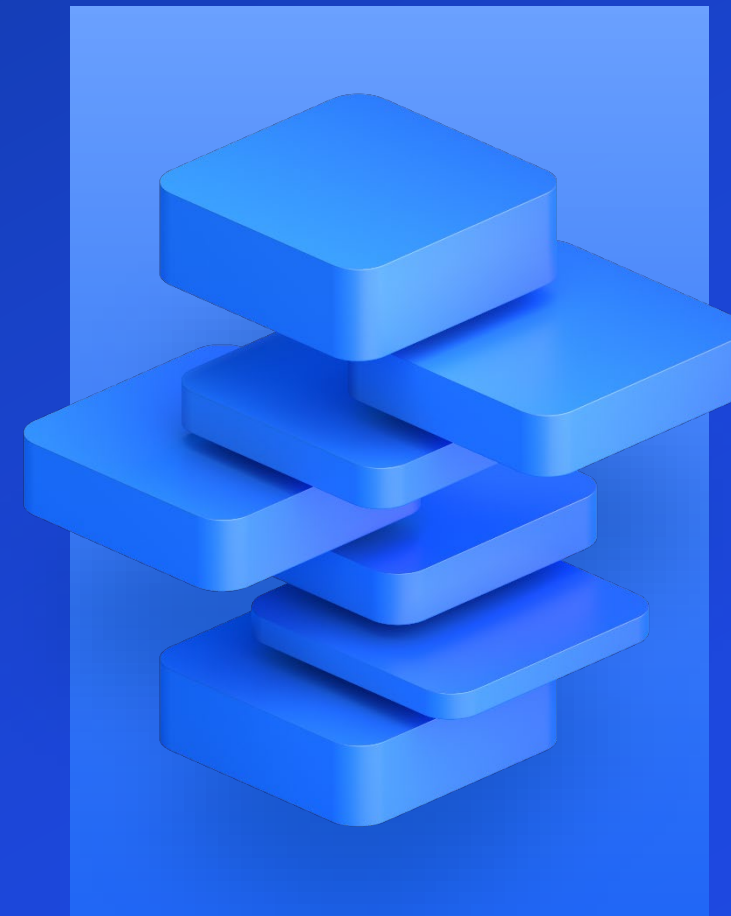
Operational resilience regulation has now reached New Zealand both directly, through the Financial Markets Authority's (FMA) Conduct of Financial Institutions (CoFI) regime (via standard conditions for financial institutions

licences), and indirectly, through the Australian Prudential Regulation Authority's (APRA) Prudential Standard CPS230 (which applies to any New Zealand-based entity of an APRA-regulated group).

Also on the horizon is the RBNZ's Depositor Compensation Scheme, which will protect up to \$100,000 per customer per financial institution in the event of a failure. Rules and standards are currently being developed which financial institutions will need to comply with.

Given these different regulatory regimes cover similar areas to varying degrees, financial institutions subject to these regulations will need to make sure they are fully aware of the unique requirements of these regimes, while also clearly understanding any overlap or duplication of effort, to avoid introducing unnecessary complexity into the operating environment. Doing so will ensure efficient, effective and sustainable implementation of these requirements.

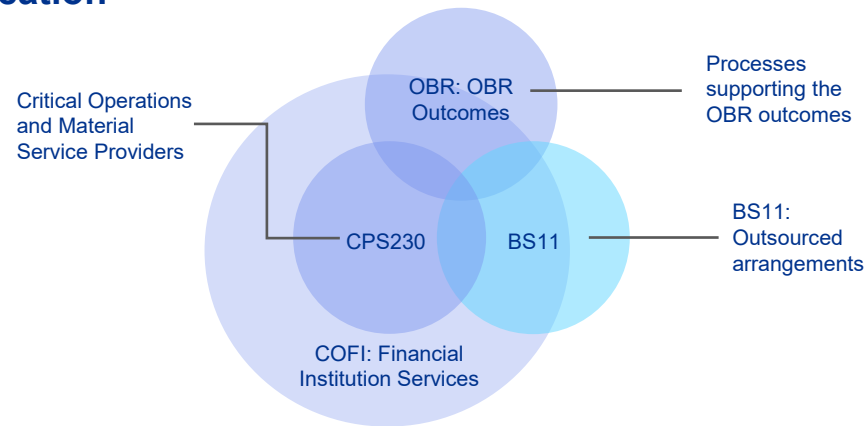
Set out below is our analysis of the overlap between BS11, OBR, CPS230 and CoFI, to help guide financial institutions through their implementation of, and compliance with, these regulations.



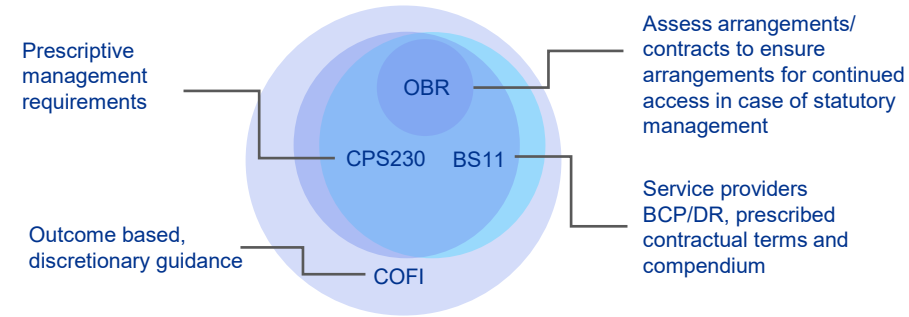
Overview

The following slides provide a high level over view of the overlap between BS11, OBR, CPS230 and the business continuity requirements under CoFI

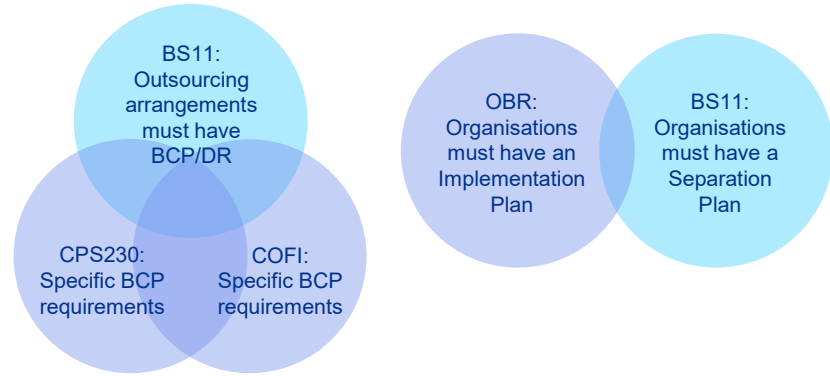
Application



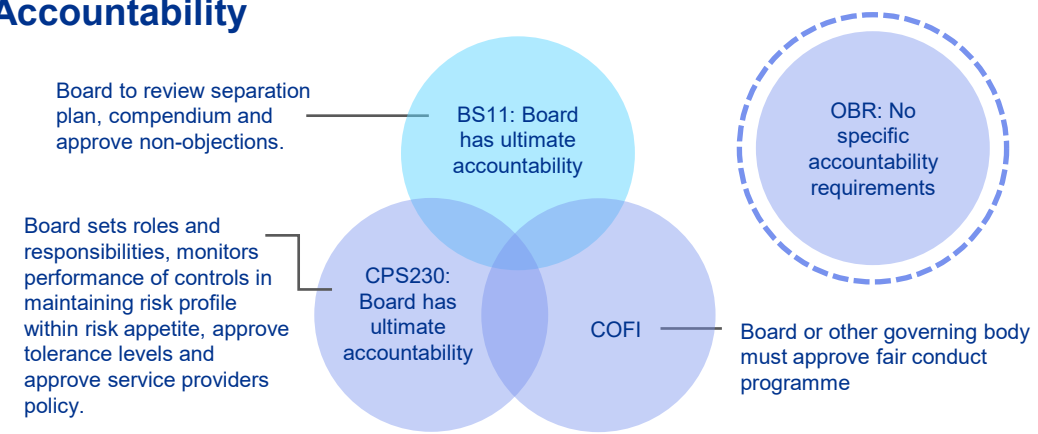
Ongoing management of service providers



Business continuity requirements

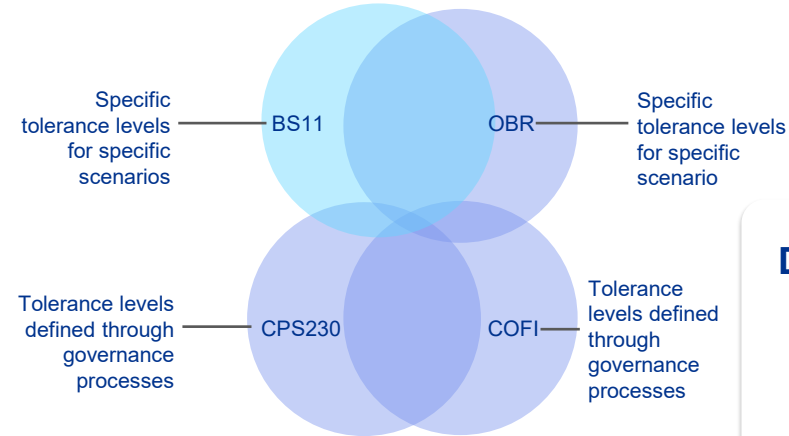


Accountability

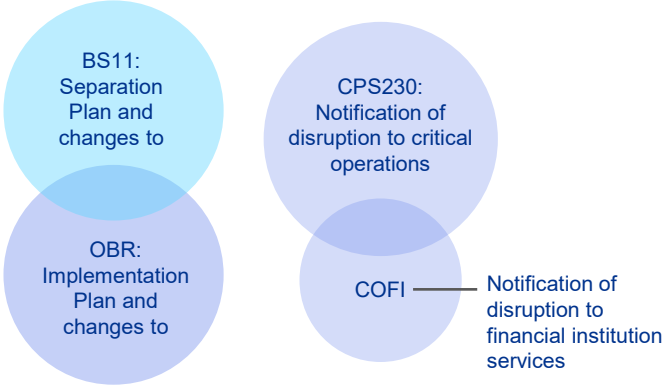


Overview

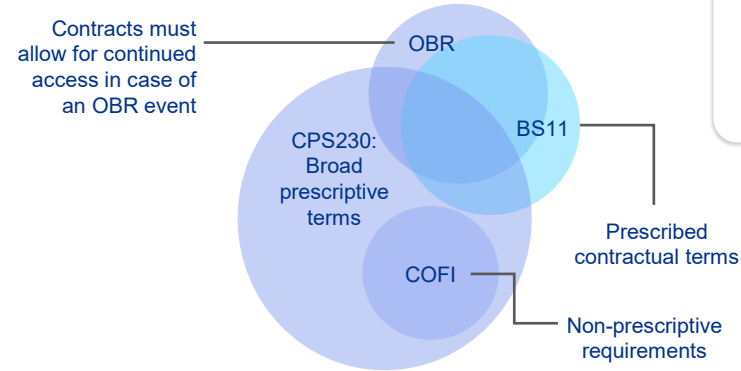
Tolerance levels



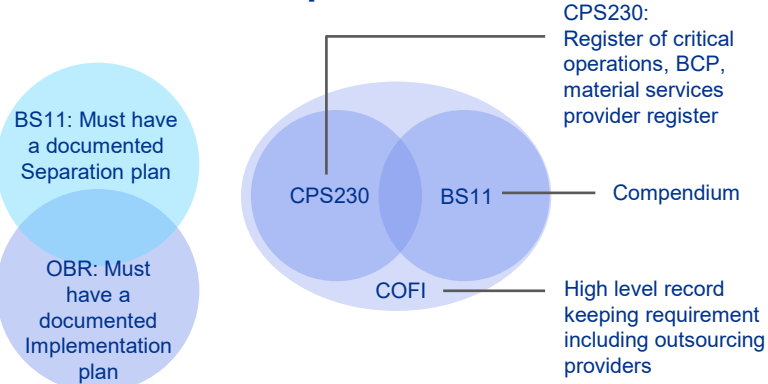
Regularity reporting



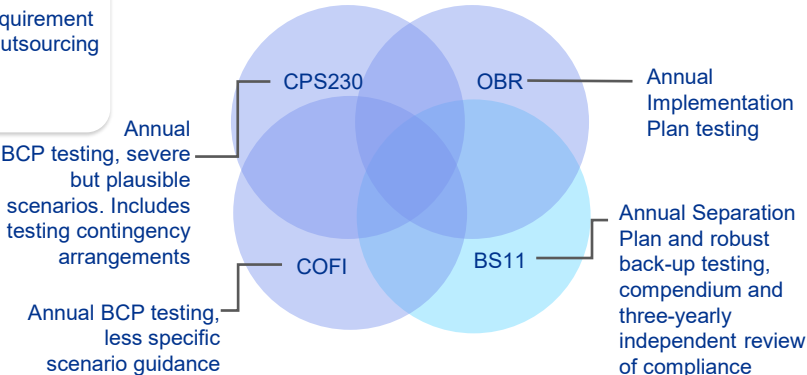
Contractual terms



Documentation requirements



Testing/review



Key steps in implementing resolution and resilience regulations

01

Identifying critical operations

- Operational resilience (in particular, CPS230) requires financial services organisations to identify critical operations and material service providers.
- We recommend a structured approach to defining and identifying critical operations, and material service providers.
- Combining strong local experience and leveraging international best practice from our overseas counterparts who have supported financial institutions in jurisdictions who have been subject to these requirements for some time will ensure this is done to the right level.

02

Process mapping

- Understanding and mapping the end-to-end processes that underpin critical operations is a specific requirement of CPS230. It is also essential to ensure that all business processes which underpin the OBR outcomes, BS11 and financial institutions services under CoFI are clearly understood.
- Mapping end-to-end processes (including people and systems), keeping the customer at the centre, as well as overlaying material service providers, critical data elements, risks and controls.
- Process mapping all critical operations and financial institutions services will ensure a comprehensive and streamlined approach to meeting the requirements of these regulations, while reducing any overlap or duplication.

03

Defining disruption tolerance & measuring resilience

- Organisations must define tolerance levels for disruption and measure resilience as part of these regulations.
- Leveraging international best practice can help you to take a principled, customer-focussed approach to defining tolerance levels for disruption of services.
- Defining metrics to measure the impact of disruption.
- Evaluating and monitoring of end-to-end resilience with ecosystem partners, quantifying third, fourth and even fifth party risk associated with material service providers and outsourced providers is the ultimate output.

04

Vulnerability assessment & testing scenarios

- Regular testing of your critical operations and technology vulnerability assessment, taking a customer centric and holistic view of processes will become the norm.
- Develop a comprehensive 'scenario library', as well as support performing and reporting on scenario testing that appropriately and fully addresses the differing testing requirements across the regulations, helping to meet the requirement to test severe, yet plausible scenarios in CPS230, for example.

05

Harmonisation across all regulations

- Given the extent of overlap and variety of unique requirements, having streamlined and integrated frameworks, policies and procedures will ensure sustainable and efficient compliance.
- Independent review of existing strategy, policies, processes and controls supporting compliance and maintenance of business continuity planning, and provide a roadmap towards an integrated view of the organisation, utilising existing capabilities such as crisis management, business continuity, service provider management and operational risk management.
- Development of appropriately tailored governance reporting to support fulfilling accountability requirements and provide a clear picture of the overall resolution and resilience picture.



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