Response: PRA DP3/22 – Operational resilience: Critical third parties to the UK financial sector

23rd December 2022

WORLD FEDERATION OF EXCHANGES

Background

The World Federation of Exchanges (WFE) is the global trade association for regulated exchanges and clearing houses. We represent the operators of over 250 market infrastructures, spread across the Asia-Pacific region (37%), EMEA (43%) and the Americas (20%), with everything from local entities in emerging markets to international groups based in major financial centres. In total, member exchanges trade around $100 trillion a year and are home to some 60,000 companies, with an aggregate market capitalisation of around $120 trillion. The 50 distinct central counterparty (CCP) clearing services (both vertically integrated and stand-alone) collectively ensure that traders put up $1 trillion of resources to back their risk positions.

With extensive experience of developing and enforcing high standards of conduct, WFE members support an orderly, secure, fair, and transparent environment for all sorts of investors and companies wishing to invest, raise capital and manage financial risk.

Founded in 1961, the WFE seeks outcomes that maximise financial stability, consumer confidence and economic growth. We also engage with policy makers and regulators in an open, collaborative way, reflecting the central, public role that exchanges and CCPs play in an internationally integrated financial system.

If you have any further questions, or wish to follow-up on our contribution, the WFE remains at your disposal. Please contact:

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Response:

The WFE welcomes the opportunity to comment on the Bank of England's discussion paper *DP3/22 – Operational resilience: Critical third parties (CTPs) to the UK financial sector*, which sets out how supervisory authorities could use their proposed powers in the draft Financial Services and Markets Bill (FSM Bill) to assess and strengthen the resilience of services provided by CTPs to firms and Financial Market Infrastructures (FMIs), with the intent to reducing the risk of systemic disruption. The proposed statutory measures in the FSM Bill introduce a framework for the designation of certain third parties as 'critical' by HM Treasury (HMT); and new powers for the supervisory authorities to make rules for, gather information from, and take enforcement action against CTPs in respect of the services that they provide to firms and FMIs.

Even though the current regulatory framework provides for a regime where FMIs are responsible for the supervision/operational resilience of their third parties, it can be resource intensive for a single firm or FMI to effectively monitor and manage the interaction of certain third parties with the broader system. Thus, it could be beneficial to have a high-level perspective of the CTPs. Equally the obligations already placed on regulated entities and FMIs should be recognised, and any changes to the regime relating to the use of third parties should acknowledge these and be measured and proportionate. Any new regulatory regime should not impose any additional or duplicative requirements on the FMIs as they already are required to have comprehensive third-party risk management programmes in place that evaluate criticality and resilience of CTPs providing services to them.