BlackRock.

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**The Recovery, Resolution and Resilience Team**
**Prudential Regulation Authority**
**20 Moorgate**
**London**
**EC2R 6DA**

Submitted via email to: CP26_23@bankofengland.co.uk

**RE: CP26/23: Operational resilience: Critical third parties to the UK financial sector**

BlackRock[1] is pleased to have the opportunity to respond to CP26/23: Operational resilience: Critical Third Parties to the UK financial sector.

BlackRock supports a regulatory regime that increases transparency, protects investors, and facilitates responsible growth of capital markets while preserving consumer choice and assessing benefits versus implementation costs.

This consultation paper raises important topics, and we will continue to contribute to the thinking of the Bank of England, Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) (the "regulators") on any matters that may assist in the final outcome.

Yours faithfully,

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[1] BlackRock is one of the world's leading asset management firms. We manage assets on behalf of institutional and individual clients worldwide, across equity, fixed income, liquidity, real estate, alternatives, and multi-asset strategies. Our client base includes pension plans, endowments, foundations, charities, official institutions, insurers and other financial institutions, as well as individuals around the world.

**Executive summary**

BlackRock is supportive of the implementation of a proportionate and outcomes based Critical Third Parties (CTP) regime that enhances the operational resilience of and minimises systemic risk to the financial services sector. We welcome the consideration that has been given to how the CTP proposals will complement the existing operational resilience policy for firms and Financial Market Intermediaries (FMIs). We would encourage maximum alignment between the respective regimes to ensure that a cohesive and consistent approach is taken towards maintaining operational resilience across the financial services sector. This should include clarifying CTPs expected levels of resilience in the event of a severe but plausible scenario given the requirement for firms and FMIs under the existing operational resilience framework.

We also welcome the consideration given to the proposals' interoperability with similar existing and future regimes, such as the EU's Digital Operational Resilience Act (DORA) and the US's Bank Service Company Act. A fragmented and divergent regulatory approach would result in inconsistent requirements for firms, FMIs and CTPs operating on a cross-border basis, undermining the effectiveness of national operational resilience frameworks while creating outsized operational costs. Additionally, the implementation and oversight of conflicting or inconsistent regimes can significantly increase operating complexity, which could lead to the undesired and unintended effect of increasing, rather than reducing, operating risk.

We would encourage a continued focus on developing harmonised standards and common expectations, including taking due consideration of global enterprise policies and processes that have been reviewed under parallel regimes in other jurisdictions, as these will help facilitate coordination and collaboration between regulators in their oversight of CTPs. Harmonisation and consistency across regimes are amongst the most important contributions regulators can make towards promoting effective and efficient risk management of and by CTPs, firms and FMIs (as end users).

**Responses to questions**

This response is intended to highlight those areas where we believe that further attention by the regulators is warranted. We welcome the opportunity to comment on the issues raised by this consultation paper and will continue to work with the industry and the regulators on this matter and other topics.

Information Sharing

We would encourage the regulators to reconsider the information CTPs would be required to share with firms and FMIs. There is limited value in CTPs being required to share self-assessments. It is worth noting that this is a disclosure that is not required for UK Global-Systemically Important Financial Institutions (G-SIFI) or between firms who are subject to existing operational resilience rules. This requirement would not be in keeping with the wider proportionality of the regulators' proposals.

With CTPs incentivised to address any vulnerabilities before testing, the results of tests may be of limited utility to end users. We suggest that CTPs instead be required to disclose their testing framework, maximising both the utility of the information provided to end users and allowing for challenge on the robustness of the framework. This approach can also ensure that potentially confidential or sensitive information, including details about a CTP's operations and personnel, that could be used to support illicit behaviour such as cyber-crime remain secure. We would also suggest that the regulators review this approach after an appropriate period of time to assess whether CTPs are providing useful information and not incurring outsized costs for themselves or end users in doing so.

Voluntary Opt-In

We understand the intent behind the regulators' proposals to restrict CTPs from indicating for marketing purposes that designation implies regulatory endorsement and addressing the risk that non-CTPs are perceived to be less resilient by end users. Nevertheless, end users are likely to be incentivised to utilise services provided by CTPs on the basis that they are subject to a regulatory framework and minimum standards that are also complementary to the existing operational resilience regime.

We therefore suggest that the regulators consider a voluntary opt-in or similar mechanism to allows non-CTPs to demonstrate their adherence to the CTP regime. This approach would address concentration risks in the existing provision of material services by lowering barriers to entry for new CTP market entrants. We recognise that an opt-in would oblige the regulators to commit additional resources and develop the expertise to assess applications and justifiably may require a financial contribution for opt-in requests. To enable continued innovation and diversification amongst CTPs, these costs should remain proportionate.

Similarly, we would encourage the regulators to leverage international supervisory expertise in designing an opt-in regime given the global nature of CTPs, as this will produce economies of scale, reduce the regulatory cost burden for UK authorities and help to standardise operational risk analysis internationally.

## Conclusion

We are supportive of the implementation of a proportionate and outcomes-based CTP regime. This important regulatory initiative will have significant implications for the UK financial services sector, and it is imperative that the regime complements the existing operational resilience framework for firms and FMIs as well as international standards.

We welcome the opportunity to comment on the issues raised by this consultation paper and will continue to contribute to the thinking of the industry and the regulators.