



Bank of England
Financial Conduct Authority
Bank of England PRA

By email

12 March 2024

Dear Sir/Madam,

CP26/23: Operational resilience: critical third parties (CTPs) to the UK financial sector

The Panel strongly supports the proposals to introduce operational risk and resilience requirements and standards to strengthen the resilience of CTPs providing key services to the UK financial services sector.

The risks posed by a growing dependency on a small number of providers to provide critical services such as technology support and cloud provision as well as niche, sector-specific, support to firms is well outlined in the consultation. The potential for widespread disruption and market failure in the event of failure of these services is of great concern. It is appropriate that CTPs meet robust operational risk and resilience requirements, alongside the existing checks financial services firms comply with, to safeguard this provision. We welcome that the FCA is seeking to take a balanced approach to introducing new requirements for CTPs recognising that many of these providers may be global organisations and over-regulation could risk materially higher costs for the critical services or driving CTPs away, which would lead to poor outcomes for firms, consumers and FMIs.

Alongside operational resilience risk, firms' reliance on CTPs also poses inherent risk to competition and innovation. Firms are dependent on CTPs, particularly tech/data providers, offering their services on a fair and equal basis. In our experience, there are instances of CTPs failing to provide equivalent services to new entrants. This results in high barriers to entry and the entrenchment of current monopolies.

Innovation is also challenged by the inertia of a small number of CTP technology providers who are not willing to adapt. This inertia prevents innovation in the capital markets industry simply because of their 'critical' status and the inability to force change through innovation and competition. The critical nature of the Retail Service Provider model in the facilitation of price formation and connectivity is one example where the significance of one dominant provider has prevented any change to modernise the market.

Given this context and the regulators' secondary competitiveness and growth objective we suggest adding 'potential impact on the competitiveness of the UK' to the proposed criteria regulators will use in their approach to identifying CTPs for recommended designation by HM Treasury. We also believe that a regulatory 'stick' is required to ensure CTPs support competition and innovation. This might involve a letter being written to identified CTPs making the point clear that competition and competitiveness is a key issue for the further development and success of the UK capital markets.

We would be happy to discuss these points further if required.

Yours faithfully,

[signed]

Matt Hammerstein
Chair, FCA Practitioner Panel