TISA

Response by TISA to FCA's consultation – Operational Incident and Third-Party Reporting (CP24/28)

Phil Turnpenny

Policy Executive, TISA

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About TISA

Supporting the financial journey through life

The Investing and Saving Alliance (TISA) is committed to improving the financial wellbeing of all UK consumers by working collectively with the financial services industry to deliver solutions and champion innovation, for the benefit of people, our industry, and the nation.

We do this by working with our member firms to deliver practical solutions and devise innovative, evidence-based strategic proposals for government, policy makers and regulators that address major consumer issues.

We care about the entire financial life of consumers: from their first savings account opened to ensuring people can age and retire with dignity. TISA believes that savings and investments play a significant role in the lives of people and small businesses. Consumers benefit when they put aside money for their future. Saving and investing can provide a buffer for emergencies; help people achieve big and small goals throughout their lifetime; and give people quality of life in later years.

TISA is a not-for-profit membership organisation and a trusted partner of key industry stakeholders in helping shape the future of the UK financial services and the environment in which we operate. We have approximately 270 member firms involved in the supply and distribution of savings and investment products and associated services.

Our work, your influence

Our policy work reflects TISA's broad scope of interests and aims on meeting the needs of UK consumers, members, and our industry. From improving financial education, inclusion, and accessibility, right through to savings, investments and retirement planning, the work we do with our members to **influence policy** is crucial in enhancing the industry we operate in and driving positive change.

As part of our commitment to delivering focused and impactful consumer outcomes, TISA's policy working groups have been structured into **four distinct workstreams**:

1. **Consumer Protection -** *Protecting the best interests of UK consumers in their financial journeys.*
2. **Consumer Access -** *Considering issues that could directly impact access to financial products.*
3. **Effective Products -** *Examining key considerations and legislation relating to products across the investing and saving landscape.*
4. **Corporate Responsibility**
   Exploring issues that directly impact society, the environment, and the economy.

All groups focus on both strategic and technical elements of policy/regulation. We provide a channel for firms to have their say on the policy we develop and present, contribute to our technical and regulatory interpretation work and, importantly, gain insights from other TISA members, policy makers, government, and regulators.

Find out more about TISA here: **www.tisa.uk.com/about-tisa**

Contents

1 Introduction and Summary of Recommendations..... 4
2 Question Responses..... 5

Introduction and Summary of Recommendations

TISA welcomes the opportunity to respond to the FCA's consultation on Operational Incident and Third-Party Reporting. We support the aims to:

- Having a new approach to reporting incidents.
- Ensuring definitions of what constitutes an operation incident are clear and when they should be reported.
- A better understanding of the third-party suppliers, collecting information in a structured manner.
- Application of material third party reporting to a sub-set of firms whose services could have a significant consumer or market impact should they be disrupted.

We are pleased to see that the consultation has been developed in conjunction with the PRA, although there are some inevitable differences.

We would like to thank the FCA and PRA for attending the TISA working group on February 20th to discuss the consultations and provide clarification and answers to our questions, which are noted in our response. This was extremely helpful to TISA and our firms, and we would appreciate similar sessions for future consultations.

Overall, the consultation is clear in its requirements, but there are a few areas that require further clarity, including:

- The costing analysis, which is not easy for firms to understand in terms of impact.
- The wording used for the thresholds which could be open to interpretation.
- Expectations from the FCA regarding the initial and interim reports.

Question Responses

Question 1: Do you have any comments on the cost benefit analysis including our assumptions, assessment of costs and benefits to firms, consumers, the market and third parties?

We agree that enhancing incident reporting will benefit all parties by strengthening process resilience and providing the FCA with a comprehensive view of issues, especially those involving third parties. This improvement will ultimately lead to better consumer outcomes, although the Consultation lacks data on the sector's cost-benefit analysis.

Standardised incident reporting will enable the FCA to review firms' outputs at various stages of an incident, allowing for quicker action and more efficient issue resolution. However, the one-off and ongoing costs are challenging to assess across our diverse member base, and additional costs may arise from interim reports.

Firms already have their own reporting systems, but setting up the required reporting to output specific fields will demand resources and funds, posing a particular challenge for smaller firms. For firms complying with DORA, the reporting format, although based on DORA, still requires more information, adding complexity to the changes and ongoing processes.

The third-party proposal's annual submission will incur a one-off cost for gap analysis and register setup, which will be simpler since firms already document their third parties. However, there will still be costs associated with this change, and firms must ensure that any changes to the register from the previous year are considered annually.

Question 2: Do you agree with the proposed definition of an operational incident?

We agree with the proposed definition outlined in section 3.4 of the consultation.

Question 3: Do you agree with the thresholds for firms to apply when considering reporting an operational incident to us? Are there other factors firms should consider when reporting. operational incidents?

We agree with the premise of the thresholds; however, the term "could," as detailed in section 3.7, requires further clarification due to its open interpretation. It is also unclear whether the reporting requirement pertains solely to important business services.

For service providers working with multiple firms, differing interpretations of the thresholds could necessitate additional oversight. During the TISA Operational Resilience Working Group meeting on February 20th, the FCA and PRA confirmed that near misses do not need to be included in the required reporting. However, they expect firms to inform their supervisory team. Firms noted that such incidents could occur without impacting periodic processes, depending on the timing of the issue.

It was also confirmed that third-party incidents affecting a high volume of firms need to be logged, even if the cause of the issue is unknown and not provided to the firm.

We agree that potential incidents nearing the agreed thresholds should be flagged to the regulator. The case studies provided in the consultation offer firms a better understanding of how to apply the thresholds.

Question 4: Do you agree with the proposed approach to standardise the formats of incident reporting?

We agree with the approach to standardise using an online platform with some pre-populated fields, although this may impact costs, particularly for small firms. It is also helpful that the FCA recognises that firms may not fully understand the incident and does not expect them to divert resources to report at the expense of resolving the incident.

For initial reports, the submission timelines are "as soon as practicable once a crystallised operational incident has breached a threshold." This differs from the PRA, which states the first report needs to be submitted within 24 hours. It would be useful for the FCA to clarify their expectations on this point.

Regarding the interim report, we would like to understand if there will be a timeline before firms are chased for additional information or changes to the incident, as detailed in section 3.44.

Question 5: Do you agree that we are being proportionate and is collecting the right information at the right time to meet its objectives? Is there other information that should also be collected for a better understanding of the operational incident?

We agree that the appropriate information is being collected for the incident.

Additionally, we would like to understand how you plan to use the vast amount of data collected and what actions will be taken after a holistic review (e.g., lessons learned) in the final policy.

Question 6: Do you agree with the proposed definition of third-party arrangements?

We agree with the definition of Third-party arrangements.

Question 7: Do you agree with the proposed definition of material third party arrangements?

We agree with the definition of Third-party arrangements.

Question 8: Do you have any comments on our proposed notification requirements including the impact on the number of arrangements that will be reported?

The proposal to implement a structured notification process for material outsourcing arrangements will require firms to submit information in a specific format. While this may necessitate additional effort, it will greatly assist the FCA in analysing and assessing the risks posed by third parties.

Although alignment with other regulations has been considered, the required fields differ, with DORA requiring more detailed information.

Question 9: Do you think the mechanism to submit and update the structured register of firms' material third party arrangements is proportionate?

The mechanism for submission and updates is proportionate and will enable the FCA to compile a comprehensive data set. This will help them understand the third parties being used across the industry and their specific applications.

Question 10: Do you have any comment on the template which includes the information on third party arrangements to be shared with us?

The template and information required is clear to provide to the FCA.