

Achieving Operational Resilience



Organisations' operational resilience is currently being challenged as key members of staff are working remotely. The need to access data in real time has increased and reporting accurately has become more critical than ever.



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FCA regulated firms are expected to have robust operational business continuity plans in place to deal with significant global events like the COVID-19 crisis. The FCA and Bank of England are reviewing firms' operational resilience and expect firms to take reasonable steps to ensure they continue to comply with their regulatory obligations, notwithstanding any adjustments made to their usual practices in the context of extraordinary circumstances.



4 Key Trends within the Financial Services Industry

1

Post-crisis the FCA are likely to review all regulated firm's operational resilience across the financial services sector.

2

A particular area of focus will be on FCA-regulated firms ensuring that on-going CASS compliance and governance is adhered to and met.

3

The increase for cloud-based applications has increased to help overcome some of the challenges that employees face working remotely, especially around accessing on-premise applications.

4

Going forward it is predicted that many firms will offer more flexible working from home schemes which in turn will increase the need for BAU to be carried out from any location.

• "The Consultation Paper on Building operational resilience, CP19/32, was published in December 2019, with an initial consultation close period running up to April 2020. However, the consultation period has been extended to 1 October 2020."



Understanding the impact of COVID-19

The disruption to financial services firms in the first half of 2020 due to COVID-19 cannot be underestimated in terms of its relevance to operational resilience. Firms have had to make changes to elements of their business continuity plan in order to continue to operate, given that staff are advised not to attend their office place of work.

COVID-19 has undoubtedly put operational strain on firms in the financial services sector, whereby employees are having to work from home, sometimes on a laptop with one screen, with weak network strength via VPN connections to local servers.

For firms using manual spreadsheets for regulatory processes such as CASS related internal client money and custody assets reconciliations, the daily process of working from home on less powerful hardware and weak connectivity to local servers is a considerable strain, and an obvious significant risk. Furthermore, the control framework consisting of daily sign-offs is reliant on the other employees who are no longer in the visible office.

Whilst COVID-19 has created an operational disruption to normal BAU activities, the FCA's concept of operational resilience dictates that firms should have the ability to prevent, adapt, respond to, recover and learn from this disruption. CASS reconciliations are no different. The FCA does not expect COVID-19 to be used as a reason for daily internal client money reconciliations not being carried out every day. It expects regulated firms to be operationally resilient to COVID-19 on CASS matters.

The last 2-3 years has seen a spike in qualified and adverse opinions in client assets reports provided by CASS auditors to the FCA, as a result of the introduction of the Financial Reporting Council's Client Asset Assurance Standard in 2016. The FCA typically frowns upon "clean" audit opinions. It would not be a surprise to see an increase in FCA CASS reviews on firms, with focus on how firms dealt with CASS operations and oversight during COVID-19, and how resilient the firms were to the impact of COVID-19.

With COVID-19, operational resilience, CASS audits, and future FCA direct CASS reviews in mind, if you are a firm that still maintains its daily CASS reconciliations, or its Risk and Controls Rules Mapping, or its Resolution Pack, all on manual spreadsheets (which the FCA is not a fan of as manual spreadsheets are quite often not robust), and are seeing operational strains as a result of working from home, it is highly advisable to consider using robust, operationally resilient, and cloud-based external regulatory solutions for CASS.

Not only are external cloud-based CASS solutions more robust and operationally resilient compared with manual spreadsheets on local servers, but they strengthen the controls and governance framework of the firm, thereby potentially reducing a firm's Pillar 2 operational risk requirement, as well as making resource efficiencies as a result of time spent more on exceptions and breaks as opposed to manual processes that the software solution automates.

No-one likes reporting a CASS breach to the FCA, and there are firms that may "massage" the level of materiality of a breach so that it is not reportable. Many reportable CASS breaches are derived from the use of manual daily reconciliations. The move away from manual spreadsheets to automated CASS software solutions can give material benefits to FCA regulated firms.



Defining Operational Resilience

The FCA has made the subject of "Operational Resilience" a key focus area over the past 12 months. The Consultation Paper on Building operational resilience, CP19/32, was published in December 2019, with an initial consultation close period running up to April 2020. However, the consultation period has been extended to 1 October 2020.

The FCA defines operational resilience as the ability of firms, financial market infrastructures, and the financial sector as a whole to prevent, adapt, respond to, recover and learn from operational disruptions. It is important to recognise the difference between operational risk, which is centred around risk management, and operational resilience which is an outcome, which should be looked on as a forward looking approach where decisions are made today to prevent detriment in the future.

The FCA expects firms to be operationally resilient by having a comprehensive understanding and mapping of the people, processes, technology, facilities and information necessary to deliver each of its key business services. This includes people and other dependencies such as third parties.



How Can AutoRek Help?

AutoRek is a powerful automated reconciliation solution which comes complete with everything your company needs to streamline your data processing. AutoRek's rapid deployment allows businesses to see the results of automation within days rather than a matter of weeks. AutoRek comes complete with its configurable MI (Management Information) including standardised reports and configurable dashboards to surface any data from the platform from any moment in time either historic or present. AutoRek allows automated workflow allowing tasks to be assigned to users or groups this ensures that the end-to-end reconciliation process and reporting remediation cycle is managed comprehensively.



Key Features

- Web based solution hosted in AutoRek's ISO 27001 certified cloud or hosted within a firms private hosted cloud.
- Unlike an on-premise solution there is no need to invest in hardware or the need to create a DR plan as this is entirely managed within the AutoRek SaaS solution.
- Flexible data integration supports processing of data in any format from any application. AutoRek can be easily integrated with existing file formats or connect directly to source systems where required.
- AutoRek posting rules provide the tools needed to automate ledger account migration, while ensuring the integrity of records at a transactional level guaranteeing that data is fully accounted for.
- Data quality is a significant challenge for many organisations. Data cleansing rules support validation of format and content, assuring the integrity of data throughout the migration process.
- Workflows for certification and sign off of each control point support accountability and governance.
- AutoRek provides reference data lookup rules supporting fully automated resolution of any discrepancies.
- Comprehensive audit trails provide traceability of all actions, meaning your able to demonstrate positions, status and exposure at any point in time.
- Exceptions are immediately highlighted and escalated to users through the AutoRek workflow functionality. Analytics provide root cause analysis with drill down to individual exception management workflows.

KEY BUSINESS BENEFITS



RESILIENCE



TRANSPARENCY / CENTRALISATION



COST REDUCTION (AUTOMATION)



COMPLIANCE



RISK REDUCTION (PEOPLE / FINANCIAL CONTROL)



REMOTE WORKING



HIGH AVAILABILITY (24/7X365)



Find Out More

To arrange a demonstration or a confidential discussion to explore our methodology and credentials, please contact us:

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Find Out More

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