



## **Operational Risk Management**

Key Changes and Perspectives on APRA's final CPS 230 Standard

August 2023

# Key updates to CPS 230

APRA has released the final version of *CPS 230 Operational Risk Management*, supported by a draft Prudential Practice Guide (CPG 230).

Regulated entities are expected to be proactive in their CPS 230 implementation and be able to demonstrate **“meaningful steps and staged progress” towards compliance.**

Source: APRA Response Paper – Operational Risk Management

## 1. Extended timeframe for implementation

Maintain proactive focus on CPS 230 implementation despite the extended timeframe.

### **Key update:**

The effective date of the Standard has been deferred to 1 July 2025, with updates to existing contractual arrangements with Service Providers due from the earlier of the next renewal contract date or 1 July 2026.

### **Key implications:**

Given the scale, complexity and interdependencies of the implementation ahead, it is important that regulated entities maintain focus on their CPS 230 implementation efforts. The extended timeframe presents an opportunity to take more strategic and considered choices on how the organisation will strengthen and maintain its operational resilience, but also brings heightened expectations on achieving compliance outcomes by the effective date.

The revised effective date for Service Provider contractual arrangements will also allow entities to thoughtfully consider contractual provisions that may need to be reviewed for other purposes (e.g., Operational Continuity in Resolution and CPS 900 *Resolution Planning*).

Drawing insights from other jurisdictions with comparable regulatory frameworks, entities should not underestimate the effort involved in implementing the new Standard.

## 2. Minimum Critical Operations and Material Service Providers

Be prepared to justify the Criticality of Operations and Materiality of Service Providers.

### **Key update:**

APRA prescribes sector-specific, minimum Critical Operations and Material Service Providers in the final Standard, emphasising the need for appropriate justification where an entity's classification differs.

### **Key implications:**

While entities may have an initial view of their Critical Operations and Material Service Providers, entities should be diligent and start with an inventory of Operations and Service Providers *before* applying their Criticality and Materiality assessment criteria.

Entities should be prepared to provide clear rationale and metrics to support their qualitative assessments of Criticality and Materiality. Boards will also need to understand and approve scoping decisions and supporting justifications.

# Key updates to CPS 230

The Standard takes into consideration practical concerns raised by the industry and has been revised to provide clarity and flexibility.

## 3. Revised scope of Material Service Providers and fourth parties

Focus on Service Providers that deliver Critical Operations or expose the entity to material operational risks, and the sub-set of Fourth Parties that underpin Critical Operations.

### Key update:

The draft Standard was more expansive in its definition of a 'Material Service Provider' and the scope of fourth parties subject to CPS 230 requirements.

APRA no longer expects Service Providers managing critical or sensitive information assets (as defined under CPS 234 *Information Security*) to be classified as Material. APRA has also limited the scope of fourth parties to those associated with Material Service Providers that support the delivery of Critical Operations, as opposed to all fourth parties of any Material Service Provider.

### Key implications:

The final Standard supports a risk-based approach to managing service providers and fourth parties. For certain entities, the revised scope of Material Service Providers and fourth parties will alleviate some of the pressure and allow for investment and resources to be allocated more effectively.

**Other notable changes in final CPS 230:** APRA has removed a requirement to assess the systemic importance of Service Providers and the Service Provider Management Policy is no longer expected to be inclusive of the Material Service Provider Register.

## 4. Revised trigger for APRA notification following disruption

Establish mechanisms for monitoring Critical Operations and detecting potential or actual breaches in Tolerance Levels.

### Key update:

Regulated entities will be expected to notify APRA where the organisation has suffered a disruption to Critical Operations outside of Tolerance Levels. This differs from the draft Standard which required notification upon BCP activation.

This provides a clearer link between the APRA notification requirement and a breach of Tolerance Levels for Critical Operations.

### Key implications:

Regulated entities will need to establish robust mechanisms for monitoring Critical Operations to detect potential or actual deterioration of Critical Operations outside of Tolerance Levels. Escalation triggers will also need to be reviewed to ensure timely regulatory notifications.

Additionally, while APRA notification is required when a Critical Operation is disrupted beyond Tolerance Levels, prudent entities may consider notifying APRA pre-emptively if the organisation anticipates that Tolerance Levels are likely to be breached due to a disruption.

## APRA expectations for CPS 230 implementation milestones:

Mid  
2024

Critical Operations and Material Service Providers identified

End of  
2024

'Well positioned' to set Tolerance Levels.

Source: APRA Response Paper – Operational Risk Management

In our view, to be 'well positioned', entities will at a minimum need to understand the processes and resources needed to deliver Critical Operations and have a defined methodology for setting Tolerance Levels. They will also need a detailed execution plan and appropriate resources to support implementation.

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