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APRA on Operational Risk Management

Background

On 17 July 2023, the Australian Prudential Regulation Authority (“**APRA**”) issued a Prudential Standard CPS 230 Operational Risk Management ("**CPS 230**"), and a consultation draft of Practice Guide CPG 230 Operational Risk Management. CPS 230 aims to minimise disruptions of critical operations by requiring entities to have robust risk management frameworks in place. To achieve this, it emphasises active board involvement in overseeing critical operations, comprehensive assessment of the entity's operational risk profile, improvement of business continuity measures, and the introduction of stricter requirements for supplier contracts/outsourcing and due diligence.

Key Update

Firstly, APRA-regulated entities are now required to classify their "critical operations". By default, the following functions should be categorised as critical operations for APRA-regulated entities:

Type of APRA Regulated Entity	**Functions**
ADI	Payments, deposit-taking and management, custody, settlements, and clearing
Insurer	Claims Processing
RSE Licensee	Investment management, and fund administration
All APRA Regulated Entities	Customer enquiries and the systems and infrastructure needed to support critical operations

Firms must evaluate if any other function within their operations should also be classified as critical. If an APRA-regulated entity experiences a disruption to a critical operation, it must notify APRA within 24 hours. APRA-regulated entities are also required to classify service providers offering the following services to the firm as "material service providers".

Type of APRA Regulated Entity	**Services**
ADI	Credit assessment, funding and liquidity management, and mortgage brokerage
Insurer	Underwriting, claims management, insurance brokerage, and reinsurance
RSE Licensee	Fund administration, custodial services, investment management and arrangements with promoters and financial planner
All APRA Regulated Entities	Risk management, core technology services and internal audit

An APRA-regulated firm's internal audit function must periodically report to the Board or Board Audit Committee on the compliance status of material arrangement requirements.

Next Steps

CPS230 will come into force on 1 July 2025. APRA-regulated firms must review their existing policies and procedures to ensure compliance with the new standards. Additionally, they should review and update any arrangements and documentation with service providers to incorporate the new requirements effectively. To access the new standards, click here.

For further information on operational risk management requirements, Cleveland & Co External in-house counselTM, your specialised outsourced legal team, is available to assist you.

If you need any help or further information, please contact Tanja Listar:

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