

APRA refines
Operational Risk
Management guidance
in CPG 230

July 2024

APRA refines Operational Risk Management guidance in CPG 230

The Australian Prudential Regulation Authority (APRA) finalised the Prudential Practice Guide CPG 230 Operational Risk Management (CPG 230), along with a response paper on 13 June 2024, following its industry consultation on the Draft CPG 230.

The updates introduced by APRA aim to provide a clearer guidance on CPS 230, enabling entities to tailor its application based on their specific business size, complexity and nature. Further, APRA's revised timelines allow non-significant financial institutions (non-SFIs) to concentrate more on the core objectives of the Standard, which is how to operate in the event of disruption.



Summary of the key changes

1. Extended start date for non-SFIs



APRA has granted non-SFIs an additional 12-month period for meeting requirements concerning Business Continuity and Scenario Analysis. This extension aims to allow smaller entities to focus on establishing robust foundations, particularly in operational risk management and with material service providers.

Starting from 1 July 2026, non-SFIs will need to adhere to specific requirements concerning the maintenance, execution, Internal Audit review, and systematic testing program of their Business Continuity Plans (BCP). Meanwhile, CPS 232 and SPS 232 requirements regarding the maintenance and testing of BCPs will remain in effect until 30 June 2026.

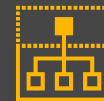
3. Three-year supervision program



APRA has announced a 3-year supervision program for SFIs and non-SFIs.

This supervision programme indicates when APRA can take a heightened supervision, such as when an MSP is an outlier or a material event has occurred.

2. Day-one checklist for entities



APRA has introduced a day-one compliance checklist, providing entities with a clear and structured roadmap to progressively meet regulatory expectations.

Notably, APRA-regulated entities must submit their initial Material Service Providers (MSP) register by 1 October 2025, emphasising the importance of early and thorough compliance in enhancing operational resilience. APRA has further clarified that the submission of critical operations lists, tolerances, roles and responsibilities, risk profiles, reporting, updated policies and frameworks, and scenario testing results, is not compulsory upon the implementation of CPS 230. However, APRA-regulated entities must ensure preparedness to furnish this information if requested by APRA.

4. Streamlined guidance



The final version of CPG 230 has been streamlined, removing additional expectations on better and best practices. This adjustment aims to clarify APRA's minimum requirements and grant companies greater flexibility to tailor compliance according to their business size and complexity. Additionally, APRA has provided further guidance in their response paper to enhance clarity on specific areas in response to industry consultation.

Revised timeframes for non-SFIs

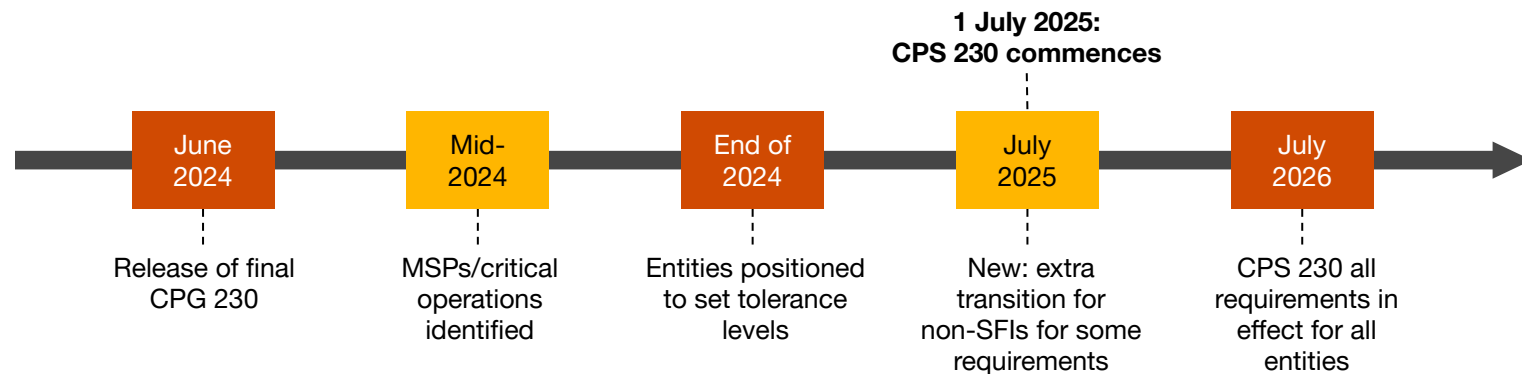
Part of the key changes is the extension provided for non-SFIs in the implementation of requirements concerning Business Continuity and Scenario Analysis.

Despite this extension, non-SFIs are still expected to take a proactive approach in implementing CPS 230, as well as complying with Prudential Standard CPS 232 Business Continuity Management (CPS 232) and Prudential Standard SPS 232 Business Continuity Management (SPS 232) where applicable. Significant Financial Institutions (SFIs) however, are required to adopt a more mature implementation approach commensurate with the scale and complexity of their operations.

All entities are encouraged to enhance their practices progressively as their business activities expand and evolve, aligning with the magnitude of their risks and their role within the financial system.

Based on our experience, embracing a "time-boxed approach" is a practical way to ensure steady progress in implementation, particularly in identifying and mapping Critical Operations and Material Service Providers. It's crucial to keep in mind that the primary goal of the Standard is to pinpoint the weaknesses in business resilience.

The below timeline reflects the extension for non-SFIs:



Key considerations

APRA's recent updates, including a day-one checklist, revised timelines, streamlined CPG 230, and supplementary guidance in their response paper, provide APRA-regulated entities with clearer guidance on reporting requirements and minimum standards application. Below are key considerations for entities:



Revisiting the CPS 230 project plan and implementation

Many entities are adopting a "no regrets" implementation strategy, with various entities at different stages of the process. Given the constraints faced by many entities in terms of time and resources, it is valuable to reassess the "better practices" and "best practices" that APRA has removed in their guidelines. It's worth noting that those examples previously provided by APRA and adopted by your organisation may not be mandatory.

APRA has clarified which submissions are mandatory. While items like critical operations lists, tolerances, roles and responsibilities, risk profiles, reporting, updated policies and frameworks, and scenario testing results do not need to be submitted, APRA-regulated entities should be ready to provide this information upon APRA's request to demonstrate preparedness.



Focusing on the intent of the Standard

The extension provided to non-SFIs aims to allow smaller entities to focus on establishing robust foundations, particularly in operational risk management and with material service providers. Despite this extension, they are still expected to take a proactive approach in implementing CPS230, as well as continuing to comply with Prudential Standard CPS 232 Business Continuity Management (CPS 232) and Prudential Standard SPS 232 Business Continuity Management (SPS 232) where applicable. SFIs however, are required to adopt a more mature implementation approach commensurate with the scale and complexity of their operations.

Irrespective of your organisation's scale, it's crucial to focus on the Standard's purpose: identifying vulnerabilities in business resilience to ensure operations during disruption.



Material service providers

As part of its updated guidance, APRA has released a response paper that addresses industry feedback received, majority of which relate to material service providers (MSPs)

Cohorts of service providers

To address the confusion around the cohorts of service providers and how it should be managed, APRA states that it is not necessary to identify each service provider within the cohort as a material service provider. APRA requires the entity to consider additional processes and controls that ensure that the relevant operational risks are managed.

Fourth parties

Based on industry feedback regarding challenges in managing fourth parties, APRA has reaffirmed its expectation that entities include fourth parties in their risk identification and management processes. Specifically, the following are required:

- Outline, as part of the service provider management policy, the approach to managing the risks associated with any fourth parties that MSPs rely on to deliver a critical operation (CPS 230)
- Take reasonable steps to identify the fourth parties that an MSP relies on in delivering a service necessary to support a critical operation (CPG 230)

APRA has specified in section 48 of the CPG, the content that should be reflected in the MSP register. APRA has also confirmed the deadline for submitting the MSP register is 1 October 2025, and it will provide a template in Q3 2024.

Insurance brokers

In CPS 230, APRA has defined, as a minimum, that service providers for insurance entities should include the provider of underwriting, claims management, insurance brokerage and reinsurance services as a Material Service Provider.

In response to feedback on the challenges and practicalities of managing these providers, APRA has clarified that CPS 230 excludes arm's length transactions or intermediation from the MSP register unless they meet specific criteria outlined in paragraph 49 of CPS 230. For example, the purchase of reinsurance or the intermediation of insurance policies by brokers does not automatically categorise these service providers as Material Service Providers requiring inclusion in the register. CPS 230 focuses instead on identifying situations where an entity relies on a service provider for critical operations or where the arrangement introduces significant operational risk to the entity.





Interaction between CPS 230 and CPS 900

APRA has addressed some confusion around the overlap between the CPS 230 and CPS 900. APRA may require entities to amend certain contracts with service providers, to make critical functions contracts ‘resolution resilient’, such that critical functions are maintained in resolution. This may include services that support an entity’s critical functions, business lines, daily operations, and/or resolution capabilities. APRA has indicated its expectations on the resolution-resilient contracts which include:

- Ensuring that service providers may not terminate, cancel, suspend, or vary terms solely on the grounds of APRA exercising any of its powers in connection with resolution
- Ensuring continued access, on arm’s length commercial terms, to services after APRA exercises its powers in connection with resolution. This includes continuity through any restructure or transfer that may be part of the resolution plan

APRA has also highlighted that entities may wish to amend contracts to meet CPS 900 at the same time as they make their CPS 230 updates, rather than re-open the contracts again when APRA initiates resolution planning with them.



Services provided by the same legal entity

APRA has provided additional guidance on the applicability of CPS 230 where services are provided by the same legal entity.

CPS 230 intends that a material service provider may be a third party, related party, or connected entity. Therefore, references to material service providers refer to parties that are not part of the same legal entity as the regulated entity.

Where an entity relies on another part of the same legal entity for the provision of a service in relation to a critical operation, APRA expects there to be an appropriate assessment of the risks associated with the provision of that service. Additionally, there should be service level agreements or other mechanisms in place to ensure that the regulated entity is appropriately informed of issues and other matters that could impact the provision of the service essential to its critical operations.



Application to non-regulated subsidiaries of a regulated entity

CPS 230 does not directly apply to an entity that is a non-regulated subsidiary of a regulated entity. However, the group provision in paragraph four of CPS 230 is applicable.

Essentially, paragraph four requires an APRA-regulated entity that is the Head of a group to ensure that the requirements in CPS 230 are applied appropriately throughout the group, including in relation to entities that are not APRA-regulated.

It is up to the Head of the group to determine how the requirements in CPS 230 are appropriately applied to non-regulated entities within the group. However, APRA’s expectation for a material non-regulated subsidiary (i.e., one that could have a material adverse impact on the regulated entity) is that the regulated entity would apply the requirements in CPS 230 to such a subsidiary in their entirety. While it is at the regulated entity’s discretion to determine a different approach to how CPS 230 applies, it would need to be able to justify its decision to take an approach other than full application.



How PwC can help

APRA's finalised guidance is meant to help the organisations get clarity on the implementation of the Standard. Wherever you are in the process, PwC can help. We have service offerings built to help you set up and run a fit for purpose and digitally enabled operational resilience capability, which will also enable you to meet your CPS 230 obligations. With our global connectivity and experience, we will provide you with the confidence that we are the right people. Our solutions are designed to encompass each of the Prepare, Respond and Sustain phases of your journey. Whilst there are three distinct components in the CPS 230 Standard, they are not mutually exclusive, and we will support you in responding to this in a holistic manner.

For further information,
visit our [Operational Resilience website](#).

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