UK FS CTP OVERSIGHT REGIME

5 KEY THINGS TO KNOW

1. OVERALL OBJECTIVE

To **mitigate risks to UK financial stability** or threats to confidence in the UK financial system arising out of failures or disruptions in CTP services

2. APPLICATION

Applies to **designated CTPs directly** and will likely affect **firms** (authorised persons, relevant service providers and financial market infrastructure entities) interacting with those CTPs

3. IMPACT DATE

The final rules will take effect from **1 January 2025** (though CTP obligations will only apply from the date of the HM Treasury designation and certain requirements will be subject to a transitional period).

4. CTP IMPACT

Imposes a set of **Fundamental Rules** and **requirements relating to** governance, risk management, dependency risk management, technology and cyber resilience, and change and incident management

5. FIRM IMPACT

Complements the existing operational resilience and third-party risk management regime, which will continue to apply to firms - firms will still **retain responsibility** for risks in outsourcing and/or third party arrangements

ADDLESHAW GODDARD

MORE IMAGINATION MORE IMPACT

1. OVERALL OBJECTIVE

- The UK's Critical Third Parties (CTP) regime brings the most significant service providers to financial services firms within the UK regulatory perimeter. It applies to those firms designated by HM Treasury using the criteria in the next column.
- To be in scope, CTPs must provide services to Prudential Regulation Authority (PRA) or Financial Conduct Authority (FCA) authorised firms, or financial market infrastructure firms supervised by the Bank of England (BOE).

2. APPLICATION

- Individual CTPs will be designated by HM Treasury on the recommendation of the regulators (PRA, FCA and BOE) where the overall objective is met for the services provided by the CTP.
- The regulators will consider the concentration, materiality and systemic impact of the services provided by a potential CTP, among others.

3. IMPACT DATE

- No CTPs have yet been designated, but it is expected soon.
- We expect about 10 to be initially designated, including the large cloud providers (though the regime is technology neutral).

4. CTP IMPACT

- CTPs will need to comply with a set of "fundamental rules" that relate to the services the CTP provides to financial services firms. These include obligations to act with integrity, due skill, care and diligence, prudence, effectively organise and risk manage, and be open and co-operative with the regulators.
- CTPs will then be subject to a number of more detailed rules in areas such as governance, risk and supply chain management, change and incident management. There are also obligations relating to self-assessment, scenario exercises and incident reporting.
- The regulators have enforcement powers over designated CTPs, though designated CTPs will not be required to establish a subsidiary in the UK.
- Most CTPs will be covered by rules made by each of the regulators. The overlapping sets of rules are meant to be identical.

5. FIRM IMPACT

- The CTP rules do not apply directly to regulated financial services firms. Compliance with the current operational resilience and third-party risk management rules remains with the financial services firm.
- However, CTPs may need to engage with the financial services firms to which they provide services around the new obligations. This may include in relation to contractual arrangements and scenario testing.

- The regulators are required to coordinate how they will oversee CTPs, though it remains to be seen how this will work in practice.