



State Street Trust Company
Canada

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Office of the Superintendent of Financial Institutions Canada
255 Albert Street
12th Floor
Ottawa, Ontario K1A 0H2

Via e-mail: Resilience@osfi-bsif.gc.ca

Re: OSFI Industry Letter - Operational Risk and Resilience

Dear Sir / Madam,

State Street Corporation (“State Street”) welcomes the opportunity to comment on the two questions issued on July 6, 2021 by the Office of the Superintendent of Financial Institutions Canada (“OSFI”) entitled Operational Risk and Resilience Industry Letter, a follow up to the Developing Financial Sector Resilience in a Digital World Discussion Paper response submitted in December 2020.

Question 1: How to position OSFI’s perspective on operational risk and resilience within its principles-based guidance framework (including Guideline E-21)

Consistent with the Basel Committee on Banking Supervision (“Basel Committee”), State Street understands operational resilience as the ability of firms and the financial sector as a whole to prevent, adapt, respond to, recover, and learn from operational disruptions. Continuing to enhance operational resilience is a key priority of State Street and a core part of how we ensure that we will be able to continue to meet the needs of our clients and the broader financial system.

We appreciate the work undertaken by the Basel Committee, OSFI and others in the area of operational resilience. While existing policy standards may address specific aspects of operational resilience, the frameworks outlined reflect a more comprehensive and deeper approach. There is much in the publications that is similar to steps that State Street is already taking, as outlined below. This has been born-out by our experience of responding to COVID-19, throughout which we have seen the benefits of having identified and being able to concentrate on Critical

Business Services (CBSs). Additionally, having the chain of activities mapping in place allowed us to better identify and prioritize specific areas of risk and dependencies. We would also like to acknowledge the benefit to the financial sector as a whole that the principles clearly lay out the requirement for industry collaboration to understand and mitigate systemic risks.

At the same time, standards for operational resilience, including those that OSFI may establish within its principles-based guidance framework, need to strike a delicate balance. On the one hand, an approach that is overly prescriptive or granular could unintentionally impede the steps that firms are already taking to build resilience. On the other hand, an approach that is insufficiently precise would fail to establish clear expectations for firms, their clients, and the broader market.

We wish to stress the importance of coordination and harmonization for operational resilience as it is an inherently global subject and must be supervised as such. A coordinated approach to supervision will in turn require as much consistency as possible in policy frameworks across jurisdictions. Supervisors might consider forming “Resilience Colleges” or other such mechanisms to ensure that firms are not subject to redundant or conflicting exams. We urge OSFI to continue to coordinate with the Basel Committee and counterparts in other jurisdictions as they finalize the integration of operational resilience into their principles-based guidance framework.

Question 2: How to address connections to related risks—including, but not limited to, technology and cyber risks, third-party risk, model risk, culture, compliance and reputation risk—within OSFI’s approach to operational risk management and operational resilience.

State Street acknowledges the interconnectedness of these risks as it relates to operational resilience. We note that the Basel Committee emphasizes in its consultative document regarding Principles for Operational Resilience its intention to promote a pragmatic and flexible approach to operational resilience, building on existing guidance and principles for the management of operational risk. This includes principles for corporate governance, the risk management environment, information and communication technology (“ICT”), outsourcing, and business continuity planning (“BCP”), as outlined in its document on Principles for the Sound Management of Operational Risk. We strongly support this practical approach to operational resilience, which we believe effectively draws out the key elements of a well-designed framework informed by a firm’s existing operational risk management processes, while also accommodating important differences in industry business models.

State Street believes the use of a principles-based approach to operational resilience will permit firms to develop solutions that most effectively reflect their particular role within the financial system, leveraging in the process, existing compliance structures, processes and practices. This includes the ability to pivot from existing operational risk management functionality by placing a resiliency lens on a firm’s assessment of its critical functions and services. While a principles-based approach will invariably lead to certain differences in the solutions adopted by

individual banks, we view this as a welcome development that should lead to better operational resiliency outcomes for both firms and regulators alike.

State Street's Approach to Operational resilience

As a Systemically Important Financial Institution (SIFI), State Street provides services that are important to our clients and market participants. As a consequence the resilience of State Street's critical business services are paramount for our clients and financial markets.

State Street's Front-to-Back Strategy drives a number of enhancements that support operational resilience. These include investment in technology, streamlining our operating models and vendor management. As the Firm's operational processes are distributed globally, it is imperative that State Street builds and maintains a clear understanding of the end-to-end delivery of its business services and the resources required to support delivery. The aim is to develop a scalable, configurable, end-to-end operating model that sets the industry standard and provides our clients with a reliable service on an upgraded platform that combines straight through processing and high-quality service delivery.

State Street's Executive Management recognizes the importance of maintaining delivery of key services to our clients and is taking an active role in establishing a broad understanding of the bank's approach to operational resilience and clear communication of the resilience objectives to all relevant parties.

In light of regulatory guidance and policies publications by US, European and UK Regulatory bodies, State Street established an enterprise Operational Resilience Program and Resilience Risk Framework and ensured the responsibilities under the framework and the execution of the Program plans are aligned across first and second line of defence and meet regulatory requirements.

As part of our global approach to Resilience, Enterprise Risk Management designed an Operational Resilience Risk Framework with the view to break silos, connect the firm's existing practices and integrate them with the new standards required by global regulatory publications:

- Identification of Critical Business Services ("CBS");
- End to end Mapping of CBS including dependencies;
- Setting Impact Tolerance for the firm's CBS;
- Test the ability of the CBS delivery to operate within Impact Tolerance across a range of severe but plausible disruption scenarios; and
- Development of holistic Operational Resilience MI.

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In early 2019, State Street established an Enterprise Resilience Office to address the evolving regulatory requirements on operational resilience and a corporate resilience program was designed to meet the global resilience expectations of regulatory bodies and of our clients including tools and processes to meet the framework requirements outlined above. This allows the deployment of common and effective tools allowing services and entities to assess their operational resilience.

The outcome that the organization seeks to achieve is an integrated Resilience Framework and Program that facilitate the development of a Resilience Culture: State Street seeks to promote transparency and support the understanding of the end-to-end processes and interdependencies and also aim to advance the understanding of the organization's strengths and weaknesses. State Street's enhancement of its ability to anticipate and respond to shocks through the setting and calibration of the firm's tolerance for disruption (Impact Tolerance) and the development of improved Resilience MI and holistic risk reporting allow it to elevate the quality of the firm's resiliency-related decision making at all levels of management. The result is an organization that promotes the prioritization of investments for business enhancements and IT developments to deliver state of the art highly resilience services to its clients and market participants.

We encourage OSFI to continue working with FRFIs, the Basel Committee and supervisors in other jurisdictions to coordinate and harmonize operational resilience standards as it is an inherently global subject and must be supervised as such. We appreciate the efforts of OSFI and its willingness to consider our perspective on this important matter. If you would like to discuss this topic in further detail, please feel free to contact me.

Respectfully,

Robert J. Baillie

Robert J. Baillie

cc Geoff Behm, Principal Officer

State Street Bank and Trust Company - Canada Branch