Technology, Resilience & Cyber Department
Financial Conduct Authority
12 Endeavour Square
London
E20 1JN

By email: cp24-28@fca.org.uk

13 March 2025

Dear Technology, Resilience & Cyber Policy,

RE: CP24/28 Operational Incident and Third Party Reporting

The British Private Equity and Venture Capital Association (BVCA) is the industry body and public policy advocate for the private equity and venture capital (private capital) industry in the UK. We represent the vast majority of all UK-based private capital firms, as well as their professional advisers and a large base of UK and global investors. In 2023, a total of £59.6bn was raised by UK-managed funds to be invested globally, with £20.1bn having been invested by private capital into UK businesses in sectors across the UK economy. There are over 12,000 UK companies backed by private capital which currently employ over 2.2 million people in the UK. Approximately 58% of the businesses backed are outside of London and 90% of the businesses receiving investment are small and medium-sized enterprises (SMEs).

We welcome the opportunity to respond to the FCA's consultation paper on Operational Incident and Third Party Reporting. We appreciate the FCA's focus on operational resilience and ensuring that firms appropriately manage the risks arising from third parties. However, we have concerns regarding the prescriptive nature of the proposed requirements, as well as the cumulative impact of new regulatory requirements on UK firms.

Prescriptive requirements (not principle/outcome-based regulation)

The proposals set highly prescriptive obligations around operational incident and third-party reporting, including incident reporting thresholds (which have a relatively low bar) and specific data fields required in initial, intermediate and final incident reports and third-party reports. While we support the principle of timely and transparent reporting, we believe the level of granularity proposed could undermine firms' ability to apply proportionate, risk-based approaches tailored to their size, individual business models, client base and operating environments – particularly for smaller firms with limited resources to implement these changes.

Prescriptive rules that set rigid thresholds and reporting formats may also have the unintended consequence of encouraging firms to adopt a tick-box approach, rather than fostering a culture of proactive risk management and meaningful engagement with operational threats.

We would also note the existing set of (in some cases, similar or duplicative) regulatory requirements pertaining to incident reporting, adequate controls, operational resilience and third-party arrangements (e.g. outsourcings), including:

- Principle 11 and SUP 15;
- Principle 3;

- SYSC 4.1;
- SYSC 8;
- SYSC 15A; and
- the Critical Third Parties sourcebook.

The Secondary International Competitiveness and Growth Objective

We would also like to highlight the importance of ensuring that these proposals are fully aligned with the FCA's secondary objective to support international competitiveness and growth. The UK's regulatory framework must remain attractive to both domestic and international firms, particularly at a time when other jurisdictions are actively seeking to attract financial services business. There is a need to consider the cumulative impact of new regulatory requirements on firms. Many UK firms are already navigating a complex regulatory landscape and contending with large-scale changes. New and additional requirements exacerbate compliance costs and administrative burdens, undermining the UK's attractiveness as a destination to locate a firm and invest. In this respect, we also welcome recent comments made by Nikhil Rathi on the FCA streamlining its work, ending duplication, cutting unnecessary regulatory burdens and supporting growth.[1]

Recommendations

We would recommend limiting the proposed changes in SUP 15.18 (notification of operational incidents) to the largest firms, covered by the categories in SUP 15.9.1R. Alternatively, we recommend limiting the mandatory use of the new reporting forms to firms covered by the categories in SUP 15.9.1R and leaving it open to other firms whether to use those forms or simply make a principle 11 notification.

We also encourage the FCA to consider the cumulative impact of new requirements. We recommend the FCA considers an offsetting approach, where new requirements that target emerging risks (such as third-party reliance) are counterbalanced by removing or simplifying existing requirements that may no longer be proportionate, effective or internationally competitive. This is particularly important for smaller firms, where the costs of compliance are disproportionately high.

We also encourage the FCA to build more proportionality into the proposed regime. While large, systemically important firms may reasonably be expected to meet more comprehensive operational incident and third-party reporting requirements, smaller firms and firms with a non-retail client base should be allowed greater flexibility to tailor their approaches in line with their size, complexity and risk profiles. The regulatory framework should focus on incentivising and supporting firms to achieve good outcomes, rather than dictating rigid processes that may not suit all firms or circumstances.

Please do not hesitate to get in touch if you have any questions or if you would like to discuss any of the above in more detail. Please contact Tom Taylor ttaylor@bvca.co.uk or Nick Chipperfield nchipperfield@bvca.co.uk.

Yours faithfully

Tim Lewis
Chair, BVCA Regulatory Committee

---

[1] The Gordian knot of growth | FCA