



Reserve Bank  
of New Zealand  
**Te Pūtea Matua**

# **Outsourcing Standard**

# **Guidance Note**

**GN XX.1**

## Guidance Note version history

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## Use and status of the Guidance

The purpose of this Guidance is to assist licensed deposit takers (or **deposit takers**) to interpret and comply with the Deposit Takers (Outsourcing) Standard 2027 (the **Standard**). This recognises that the Standard deals with technical subject matter and there may be no case law or other external reference points to assist with its interpretation. Guidance will assist individual deposit takers with their own compliance and support a more consistent approach across the industry.

The Guidance assists by:

- Outlining the context and purpose of the Standard. Technical content is better understood with awareness of the policy intent at the time it was drafted.
- Outlining our preferred interpretation in relation to some clauses, where we have been made aware of differing interpretations by deposit takers.
- Providing examples of good practice in complying with the Standard.

To assist in using the Guidance:

- Terms that are defined in the Standard or the Deposit Takers Act 2023 (the DTA) are italicised in this Guidance and have the same meaning.
- The Guidance is designed to be read alongside the Standard. Sections of this Guidance have the same headings as sections of the Standard and Clause numbers are those from the Standard.
- In the event of any conflict between the text of the Standard and this Guidance, the Standard prevails. The Standard is secondary legislation made under the DTA, while the Guidance does not have formal status. The Guidance represents our view and is therefore an authoritative indicator of that view. However, ultimately, it is for a court to determine the correct interpretation of the Standard.
- The Reserve Bank will keep under constant review and update the Guidance. We may change our guidance or our interpretation of the Standard if we consider this appropriate. We do not do this lightly and will endeavour to notify deposit takers in advance if we are considering amending the content of the Guidance.
- This Guidance is not legal advice. We encourage deposit takers to seek their own professional advice, as it is their responsibility to determine their obligations and ensure that they comply with the requirements of the Standard.
- The Guidance relates to the version of the Standard as at [day month year].
- We welcome feedback on the Guidance at any time.

## Part A: About this Standard

### Overview

The Outsourcing Standard sets risk mitigation requirements for a deposit taker's arrangements with third parties for the provision of critical operations (material service provider arrangements). It also contains separation planning requirements for deposit takers that are part of an overseas deposit taker group.

The requirements in the Standard are aimed at ensuring that the outsourcing of certain critical operations does not prevent a deposit taker from meeting a set of outcomes in the event of failure<sup>1</sup>. In summary, these outcomes are:

- continuing to meet daily clearing and settlement obligations
- monitoring and managing financial positions
- making available the systems and financial data necessary for the resolution manager and the Reserve Bank to have a range of options for managing the failed deposit taker
- continuing to provide basic banking services to existing customers

The risk mitigation requirements differ depending on the type of third party that is providing the critical operation. The requirements include:

- prescribed contractual terms to ensure continuing supply of the critical operation on arm's-length commercial terms and the ability of the Reserve Bank to access documentation and other information about the arrangement
- parallel rights that enable the deposit taker to step in and enforce the rights of a related entity (other than a subsidiary)
- the deposit taker having backup capability in place for the material service provider arrangement, or an alternative arrangement to backup capability

The Standard also requires Reserve Bank approval of certain material service provider arrangements, backup capability or alternative arrangements, and separation plans.

### Context and purpose of the Outsourcing Standard

When a deposit taker outsources critical operations to a third party, it may improve its services to customers, but this can potentially increase risks to financial stability. If a deposit taker fails, there would be direct costs to its owners, creditors and employees. However, there can also be wider costs to society such as the public losing temporary or even permanent access to funds for transactions, which in turn could have significant adverse effects on the wider economy. The public may also lose confidence in the financial system, thereby harming other institutions.

Outsourcing arrangements (referred to in the Standard as material service provider arrangements) can frustrate the orderly resolution of a deposit taker by preventing it from being able to operate

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<sup>1</sup> 'failure' means when any of the following events occurs –

- (a) a deposit taker –
  - (i) enters resolution under section 274 of the Act; or
  - (ii) is no longer a subsidiary of its holding entity; or
  - (iii) is given a direction under section 265 of the Act in relation to the requirements in this Standard; or
- (b) the deposit taker is, or will be, unable to meet the outcomes of clause 3 because of the interruption, suspension, or unavailability of the supply of a critical operation under a material service provider arrangement

as a stand-alone entity. This may occur in cases in which the deposit taker is part of a wider deposit taker group and is reliant on vital services (for example, IT, treasury or staff) from the holding entity or other related entities. In New Zealand, the potential risks of relying on material service providers in relation to resolution are high given that our largest deposit takers are part of overseas deposit taker groups. An over-reliance on third parties, including related entities, could prevent the New Zealand subsidiary from being able to operate as a standalone entity should it be necessary to protect the stability of New Zealand's financial system.

Material service provider arrangements are relevant to financial stability as they have the potential to cause disruption to the provision of basic banking services that rely on the use of material service providers.

The Standard seeks to reduce the risk of adverse impacts on financial stability by, amongst other things, enabling a failed deposit taker to continue to provide basic banking services in the event of resolution or separation from the wider group.

### **Relationship with the Operational Resilience Standard**

The Deposit Takers (Operational Resilience) Standard also places requirements on deposit takers to manage risks arising from the use of material service providers. The focus of that standard is to ensure deposit takers remain resilient through a range of operational disruptions, rather than being designed primarily to support crisis preparedness and management.

As explained in more detail in Part B below, we have used common terminology across the two standards where appropriate and endeavoured to ensure minimal overlap between requirements. The key definitional difference is that the set of material service provider arrangements that are in scope of the Outsourcing Standard is narrower than those captured by the Operational Resilience Standard. This is because not all arrangements that are relevant to operational continuity during periods of 'business as usual' will necessarily need to have risk mitigations in place to meet the crisis management related outcomes in the Outsourcing Standard.

## Part B: Guidance on the Outsourcing Standard

### Part 1: General provisions

#### Outcomes (Clause 3)

1. Clause 3 sets out the overarching purpose of the Standard which is to ensure that material service provider arrangements (i.e. the outsourcing of certain critical operations to a third party) do not compromise the deposit taker's ability to achieve a set of outcomes even in the event of failure.
2. The outcomes are not requirements in and of themselves but provide a reference point for the requirements in other parts of the Standard. For example, deposit takers will need to use the outcomes to help identify which material service provider arrangements are in scope of the Standard and for designing, implementing, and maintaining the risk mitigations required in the Standard. The outcomes focus on what a deposit taker must be able to do in a failure or separation scenario (as defined by 'failure' in clause 4), rather than prescribing the model for how this is achieved.
3. Outcome (a) relates to the deposit taker's ability to meet its daily clearing and settlement obligations. This outcome is intended to support continuity of core payment and settlement activities that are important for financial system functioning, both before the point of failure and on an ongoing basis.
4. Outcome (b) relates to the deposit taker's ability to monitor and manage its financial positions, including credit, liquidity, and market risk positions, from the start of the first working day after the day of failure and thereafter. We expect this to include having the capability, systems, data, and access needed to understand the deposit taker's financial position and meet relevant prudential and risk management needs in a resolution or separation scenario. This would include, where applicable, capabilities needed to support prudential reporting.
5. Outcome (c) relates to ensuring that the systems and financial data necessary for the resolution manager and the Reserve Bank are available, both before the point of failure and on an ongoing basis. This is intended to ensure decision-makers have access to information and tools needed to consider and implement a range of options for managing a failed or failing deposit taker, including options that may require visibility of funding and liquidity, exposures, and key operational dependencies.
6. Outcome (d) relates to the deposit taker's ability to continue to provide basic banking services (as defined in clause 4) to existing customers and to provide account activity reporting, from the start of the first working day after the day of failure and thereafter. This outcome is focused on providing continuity of services to customers, including access to funds and transaction capability.

#### Interpretation (Clause 4)

7. Consistent with section 20 of the Legislation Act 2019, words or expressions used in the Standard have the same meaning as in the DTA or referring legislation. Some of the terms in clause 4 have the same meaning as in other DTA Standards, including the Deposit Takers (Operational Resilience) Standard 2027 (the Operational Resilience Standard). Additional guidance is provided on key terms below.

## Basic banking services

8. The term basic banking services, as defined in clause 4, has two limbs:
  - 8.1. limb (a) is an exhaustive list of key retail and business services that deposit takers typically rely on for transactions and economic life
  - 8.2. limb (b) describes the threshold that a service in that list must meet, relating to the impact that disruption or sudden discontinuance could reasonably be expected to have on third parties or market confidence
9. We expect that the services included in the list in limb (a) will meet the threshold criteria in limb (b). However, if a deposit taker identifies any services that meet (a) but not (b), we suggest the deposit taker discuss this with the Reserve Bank in the first instance. Deposit takers are expected to assess whether a service is a basic banking service based on the type of service, rather than the individual product offering and its level of uptake by customers.
10. For clarity, the reference in (a)(i) of the definition to the ability of customers to access their account through the most commonly used channels only applies to the services in (a)(i). Deposit takers may determine the most commonly used channels and change these over time as customer preferences change.

## Critical operation and material service provider

11. The term critical operation has the same meaning as in clause 10(2) of the Operational Resilience Standard. A material service provider is a third party (which includes a related entity) that provides a critical operation to a deposit taker. Due to alignment of these definitions, deposit takers will be able to draw on the register of critical operations and material service providers identified as per the requirements in the Operational Resilience Standard in determining which of those arrangements are also subject to the requirements in the Outsourcing Standard (see guidance on material service provider arrangement below).
12. It is important to note that we expect there to be overlap between a deposit taker's critical operations and its basic banking services. Different definitions are required as the terms serve different purposes. Critical operations are broader as they are intended to capture end-to-end processes. Some critical operations may also be basic banking services, while other critical operations will support basic banking services. In other words, basic banking services will always be customer-facing whereas critical operations may be provided internally by a deposit taker or by a third party. Where those critical operations support basic banking services and could be undertaken by the deposit taker itself, but are instead provided by a material service provider, they will be relevant to the outcome in clause 3(2)(d) of the Standard.

## Material service provider arrangement

13. The definition of material service provider arrangement determines the scope of arrangements that are subject to the risk mitigation requirements in the Standard. This set of arrangements will be narrower than the scope of arrangements that are subject to requirements in the Operational Resilience Standard. This is because, for the purposes of the Outsourcing Standard, an arrangement with a material service provider must meet two additional criteria:
  - 13.1. the critical operation provided under the arrangement must be an operation that could be undertaken by the deposit taker
  - 13.2. the critical operation must be relevant to the outcomes in clause 3 of the Standard

14. In relation to the first criterion, deposit takers may identify some critical operations that are in scope of the Operational Resilience Standard but that could not be undertaken by the deposit taker itself. These arrangements would not be captured by the definition of material service provider arrangement in the Outsourcing Standard. This analysis needs to be undertaken by each individual deposit taker, but examples may include:
  - 14.1. use of a payment scheme or other financial market infrastructure (for example, access to interbank clearing and settlement arrangements) where participation and connectivity can only be provided through an accredited external operator
  - 14.2. provision of telecommunications or network connectivity services where the deposit taker cannot reasonably replicate the underlying infrastructure required to deliver the service
  - 14.3. use of an identity verification service (for example, verification of identity documents) where the underlying data or information cannot reasonably be replicated by the deposit taker
  - 14.4. use of credit reporting services that are necessary to support lending decisions or fraud detection, where access depends on membership or other constraints that a deposit taker cannot reasonably reproduce
  - 14.5. services provided by a special purpose vehicle established to issue Residential Mortgage-Backed Securities because a deposit taker cannot provide this function under the eligibility criteria for Reserve Bank domestic market operations
15. In relation to the second criterion, deposit takers will need to consider whether a critical operation provided by a material service provider relates to one or more of the outcomes in clause 3. We expect there will be examples of operations that, if disrupted beyond tolerance levels, may have an adverse material impact on the continued operations of a deposit taker but may not be relevant to the outcomes in clause 3. As with the first criterion, each deposit taker will need to undertake its own analysis.
16. For example, the following could potentially be considered critical operations by a deposit taker but would be unlikely to be relevant to any of the outcomes in clause 3:
  - 16.1. staff training platforms
  - 16.2. recruitment and talent management
  - 16.3. marketing and advertising
  - 16.4. corporate procurement or travel services.
17. We expect deposit takers to carefully assess critical operations provided by third parties, as whether a particular arrangement falls under the definition of a material service provider arrangement will depend on the nature, scale, and use of the operation within the business.

## **Application (Clause 6)**

18. The Standard will apply to deposit takers whose licence conditions identify them as a group 1 deposit taker for the purposes of this Standard (see the definition of group 1 deposit taker in clause 4). As set out in the Deposit Takers Non-Core Standards policy consultation<sup>2</sup>, we intend

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<sup>2</sup> [Deposit Takers Non-Core Standards Consultation Paper](#)

to apply the Standard to all deposit takers who are in scope of the Reserve Bank's Outsourcing Policy BS11 on commencement of the Standard. It is important to note that the threshold for being within scope of the Outsourcing Policy differs from the description of Group 1 in the Proportionality Framework for Developing Standards under the DTA.<sup>3</sup>

19. The separation planning requirements in Part 5 of the Standard only apply to deposit takers whose licence conditions identify them as a group 1 deposit taker for the purpose of the Standard and who are part of an overseas deposit taker group.

## Part 2: Risk mitigation requirements

### Prescribed contractual terms requirement (Clause 7)

20. Clause 7 sets out prescribed contractual terms that must be included in all material service provider arrangements. For clarity, this includes outsourced material service provider arrangements.
21. The prescribed contractual terms are designed to ensure that the deposit taker has continuing access to the critical operations provided by the material service provider if they enter resolution or are separated from the wider deposit taker group.
22. We expect that the arm's-length commercial terms referred to in clause 7(2)(a) would include a term that requires the deposit taker to continue to pay for the critical operation under the material service provider arrangement.
23. In terms of the provision in clause 7(2)(b), we only expect that material service providers will be contractually required to provide access to documentation and information about a material service provider arrangement when such documentation and information belongs to, or is accessible to, the material service provider itself. We expect that access to the documentation and information would be provided directly to the Reserve Bank and not via a disclosure by the deposit taker.
24. We do not expect access to information about a material service provider arrangement that:
  - 24.1. is subject to legal privilege
  - 24.2. relates to the material service provider's other customers
  - 24.3. discloses proprietary processes or trade secrets of the material service provider
  - 24.4. relates to the material service provider's cost base or profit margins
  - 24.5. constitutes personal information about the material service provider's staff beyond basic contact details required for business purposes
25. We encourage deposit takers to seek legal advice on whether prescribed contractual terms in their material service provider arrangements align with the requirements in clause 7 of the Standard. We also encourage deposit takers to seek a legal opinion on the enforceability of the prescribed contractual terms where material service provider arrangements are governed by laws in foreign jurisdictions. We note that seeking legal advice does not constitute a regulatory safe harbour in terms of compliance with the Standard.

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<sup>3</sup> The [Proportionality Framework for developing standards under the Deposit Takers Act](#) describes a Group 1 deposit taker as having total assets of NZ\$100 billion or more., whereas the threshold for being in scope of the majority of the requirements in the [Outsourcing Policy BS11](#) includes having net liabilities in excess of \$10 billion.

26. Other contractual terms the Reserve Bank would expect, but does not require, to see included in a material service provider arrangement include terms relating to:
- 26.1. the scope of the arrangement and the critical operation(s) to be supplied:
  - 26.2. the commencement and end dates:
  - 26.3. escrow arrangements:
  - 26.4. review provisions:
  - 26.5. pricing and fee structure:
  - 26.6. service and function levels and performance requirements:
  - 26.7. the form in which any data is to be kept and clear provisions identifying ownership and control of data:
  - 26.8. reporting requirements, including content and frequency of reporting:
  - 26.9. audit and monitoring processes:
  - 26.10. confidentiality privacy and security of arrangements:
  - 26.11. default arrangements and termination provisions:
  - 26.12. dispute resolution arrangements:
  - 26.13. liability and indemnity:
  - 26.14. sub-contracting:
  - 26.15. insurance.
27. To be clear, the contractual terms set out in the previous clause are not requirements. Accordingly, a deposit taker would not be in breach of the prescribed contractual terms requirements if these are not included in a material service provider arrangement.

### **Parallel rights requirement (Clause 8)**

28. Clause 8 requires deposit takers to include parallel rights in outsourced material service provider arrangements with related entities other than a subsidiary. There are two exceptions to this requirement, as explained in paragraphs 31-32.
29. Where parallel rights are required, the clause 4 definition of parallel rights provides that these can either be:
- 29.1. step-in rights that allow the deposit taker to enforce the rights of the related entity (other than a subsidiary) under a downstream arrangement (i.e. the contract between the related entity and the independent third party); or
  - 29.2. a separate contract between the deposit taker and the independent third party involved in the outsourced material service provider arrangement
30. For clarity, where the parallel rights take the form of a separate contract that takes effect on separation from, or failure of, the related entity there is no need for step-in rights to be included in the arrangement with the related entity.

31. The first exception to the requirement to include parallel rights is in clause 8(a). This exception applies if the Reserve Bank has approved substitution of parallel rights with the deposit taker having backup capability or an alternative arrangement and has also approved the backup capability or alternative arrangement. This is discussed further in the section below.
32. The second exception applies where the deposit taker is not part of an overseas deposit taker group and the material service provider arrangement is with a related entity that is incorporated in New Zealand.

### **Robust backup capability or alternative arrangement requirements (Clauses 9 and 10)**

33. Clause 9 requires deposit takers to have either a backup capability or an alternative arrangement to backup capability in place for material service provider arrangements with related entities other than subsidiaries. An exception to this requirement is if the deposit taker is not part of an overseas deposit taker group and the material service provider arrangement is with a related entity that is incorporated in New Zealand.
34. Clause 10 sets out requirements for backup capability, which should be treated as operational capabilities rather than static arrangements.
35. We expect deposit takers to consider the following in terms of the reference in clause 10(c) to legal and practical control over the system used in the backup capability:
  - 35.1. legal ability to control and execute the critical operation, including the ability to invoke statutory, contractual, or other enforceable rights to ensure continued provision; and
  - 35.2. practical ability to control and execute the critical operation within the required timeframes. This depends not only on legal rights, but also on operational realities. We encourage deposit takers to consider whether they have timely access to:
    - 35.2.1. staff with the necessary technical and business knowledge;
    - 35.2.2. systems, infrastructure, and data required to provide the critical operation; and
    - 35.2.3. facilities and other resources required to invoke the arrangement.
36. When assessing whether required timeframes can be met, deposit takers should take into account any delays that may arise in enforcing legal rights, including delays associated with operationalising step-in rights or other contractual mechanisms.
37. As set out in clause 10(e), the backup capability must be sustainable. It must be able to be substituted for the material service provider arrangement on an ongoing basis, including on a fully automated basis where relevant, and deliver the relevant critical operation with minimal disruption to customers and business operations. We encourage deposit takers to consider whether:
  - 37.1. manual workarounds would be required, and if so, whether they are viable for sustained use;
  - 37.2. resourcing arrangements could be maintained over time; and
  - 37.3. the arrangement could continue to operate beyond an initial stabilisation period.

38. Clause 10(f) requires annual testing of end-to-end functionalities for the backup capability. Testing is intended to provide assurance that the arrangement will be available when required and will operate as intended in practice. We expect testing to:
- 38.1. cover all components necessary to deliver the critical operation, including systems, data, processes, and governance;
  - 38.2. be conducted in an environment that, to the extent practicable, reflects the operational and technical characteristics of the live environment; and
  - 38.3. allow the deposit taker to assess whether required timeframes can be met in realistic stress scenarios.

### **Reporting on testing of end-to-end functionalities for backup capability (Clause 11)**

39. Clause 11 sets out reporting requirements following the annual testing of end-to-end functionalities for a backup capability required under clause 10(f) of the Standard. This testing is to provide the deposit taker's board and the Reserve Bank with timely visibility of whether the tested arrangement worked as intended.
40. We expect the report to the board and the Reserve Bank to be sufficiently detailed to allow an informed assessment of the continued feasibility and credibility of the arrangement. This would typically include:
- 40.1. the test scope and scenario(s);
  - 40.2. confirmation of which critical operations were tested and the extent to which testing was end-to-end;
  - 40.3. key assumptions and dependencies (including data, infrastructure, and resourcing);
  - 40.4. test outcomes against relevant timeframes and service levels;
  - 40.5. issues identified and root causes; and
  - 40.6. plans to remediate any issues.
41. In relation to clause 11(2), where the end-to-end functionalities were affected by a material service provider arrangement that is subject to a temporary suspension, we expect the report to clearly explain:
- 41.1. the nature of the suspension and the relevant arrangement(s);
  - 41.2. how the suspension affected the ability to perform the test as designed; and
  - 41.3. implications for the deposit taker's ability to meet the outcomes in clause 3.

### **Part 3: Bank approvals**

42. Part 3 of the Standard sets out requirements to obtain the Bank's approval before entering material service provider arrangements with a related entity and associated risk mitigations.
43. As with other approval processes under the Standard, the Bank will issue a notice under section 450 of the DTA specifying the form and information required for applications made under this Part. We expect applications to be sufficiently detailed to enable us to assess the arrangement without the need for repeated requests for further information.

## **Approval of certain material service provider arrangements (Clauses 12 – 14)**

44. Clause 12 sets out that Reserve Bank approval is required before a deposit taker enters a material service provider arrangement with a related entity. For clarity, this includes arrangements where the related entity outsources provision of the critical operation to an independent third party (i.e. outsourced material service provider arrangements).
45. Although approval is not required before entering a material service provider arrangement with an independent third party, deposit takers must still meet the risk mitigation requirements relevant to those arrangements.
46. Clause 13 sets out approval criteria for applications made under clause 12. If the Reserve Bank is satisfied that the criteria have been met, it must approve the material service provider arrangement.
47. Clause 14 provides clarification that even where approval has been granted for a deposit taker to enter a material service provider arrangement with a related entity, the obligations set out in the Standard relating to that arrangement continue to apply. In other words, approval does not provide a regulatory safe harbour from compliance with other relevant requirements.

## **Approval of robust backup capability or alternative arrangement (Clauses 15 – 18)**

48. Clause 15 requires Reserve Bank approval before a deposit taker enters a robust backup capability or an alternative arrangement to robust backup capability (as per the requirement in clause 9 of the Standard).
49. The purpose of this approval requirement is to ensure that backup or alternative arrangements are credible, feasible, and capable of being relied upon in a resolution or separation scenario. This reflects the central role these arrangements play in supporting continuity of critical operations where services are provided by certain related entities.
50. Clause 16 requires the Reserve Bank to approve a backup capability if it is satisfied that it will meet the requirements set out in clause 10. In practice, we expect to place weight on evidence that the arrangement would function as intended in realistic scenarios, including where access to group support may be constrained. Our considerations will include whether the proposed arrangement:
  - 50.1. provides the deposit taker with sufficient legal and practical control over the system used in the backup capability.
  - 50.2. is sustainable on an ongoing basis, rather than being limited to short-term stabilisation.
51. Clause 17 sets out the criteria for the Reserve Bank to approve an alternative arrangement. In relation to clause 17(b), we expect deposit takers to demonstrate how the proposed alternative arrangement enables the deposit taker to achieve the outcomes in clause 3 in a resolution or separation scenario. This may include evidence such as:
  - 51.1. contractual or structural arrangements that ensure continued service provision; and
  - 51.2. arrangements to ensure operational continuity, including governance, resourcing, and access to systems.

## **Approval for substitution of parallel rights (Clauses 18 and 19)**

52. Clauses 18 and 19 provide a mechanism for the Bank to approve the substitution of parallel rights with a backup capability or an alternative arrangement to backup capability.
53. Parallel rights play an important role in ensuring continuity of services provided through related entities. However, we recognise that in some cases these outcomes may be achieved through alternative mechanisms. The substitution approval process enables flexibility where this can be demonstrated.
54. Clause 19 requires the Bank to approve the substitution if it is satisfied that the substitution will not compromise its ability to meet the outcomes in clause 3. Depending on the circumstances, this may include consideration of:
  - 54.1. the speed and certainty with which the deposit taker could access and operate the critical operation under the backup capability or alternative arrangement; and
  - 54.2. the operational practicality of invoking the backup capability or alternative arrangement under stressed conditions.

## **Part 4: Temporary suspension from risk mitigation requirements**

55. Part 4 provides a mechanism for a deposit taker to seek a time-limited suspension from the requirements in Parts 2 and 3 of the Standard. The purpose is to support timely operational responses to an extreme event where entry into, or modification of, a material service provider arrangement is needed to respond to an adverse impact, and full compliance with Parts 2 and 3 cannot reasonably be achieved before the arrangement is entered into or modified.
56. We expect deposit takers to use this mechanism only where the event and its impacts could not have been reasonably anticipated and where the temporary suspension is needed to directly respond to those impacts.

## **Application for temporary suspension (Clauses 20 and 21)**

57. Clause 20 allows a deposit taker to apply for a temporary suspension where it considers it needs to enter into, or modify, a material service provider arrangement to respond directly to an adverse impact (or likely adverse impact) of an extreme event that has occurred or is likely to occur.
58. As with other applications required under this Standard, we will issue a section 450 notice under the DTA that specifies the form that must be used when applying for a temporary suspension.
59. The effect of the temporary suspension is that Parts 2 and 3 do not apply to the specific material service provider arrangement covered by the Bank's grant of a temporary suspension. This is only for the duration of the suspension granted by the Bank, and only in respect of the arrangement that is the subject of the application.
60. As per clause 21, we will decide whether to grant a temporary suspension within 5 working days of receiving an application, unless we request further information. We expect deposit takers to submit complete information to enable the Bank to make a decision within the 5 working day timeframe.

## **Grant, commencement and duration of temporary suspension (Clauses 22 - 23)**

61. Clause 22 sets out the matters the Bank must be satisfied of before granting a temporary suspension. In practice, we will look for evidence of:
  - 61.1. a clear link between the extreme event and the adverse impact on the deposit taker,
  - 61.2. why the link between the event and resulting impact could not have been reasonably anticipated
  - 61.3. why entering into a new arrangement or modifying an existing arrangement is needed to respond directly to that impact
  - 61.4. why it is not reasonable to meet the relevant requirements before entering into or modifying the arrangement, for example due to timing constraints
62. If the Bank grants a temporary suspension, clause 23 requires the Bank to specify the commencement date and duration. The duration must not exceed 6 months. We expect deposit takers to plan on the basis that a suspension is a short-term measure while the deposit taker works towards full compliance.

## **Approval of material service provider arrangement before temporary suspension expires (Clause 25)**

63. Clause 25 requires a deposit taker to obtain the Bank's approval for the arrangement under Part 3 before the temporary suspension expires. This ensures that the arrangement meets the requirements of the Standard as soon as practicable. Deposit takers should therefore treat the temporary suspension period as the window for completing any remaining work needed to support a Part 3 approval and, where relevant, to implement risk mitigations.

## **Reporting requirements (Clause 26)**

64. Clause 26 requires that, on the first working day after the expiry of a temporary suspension, the deposit taker must provide a report stating whether it complies with the Standard in respect of the relevant material service provider arrangement, or whether the arrangement has been terminated. We expect this report to briefly summarise:
  - 64.1. the steps taken to achieve compliance, including any approvals obtained under Part 3 of the Standard; or
  - 64.2. if the arrangement was terminated, confirmation of the termination date and any replacement arrangements.

## **Extension of temporary suspension (Clauses 27–30)**

65. Clause 27 allows a deposit taker to apply for approval of an extension to an existing temporary suspension. The Reserve Bank will issue a notice under section 450 of the DTA specifying the form and information required for an application for an extension of a temporary suspension.
66. Clause 27(2) requires an application to be made no later than 25 working days before the original expiry date. We expect deposit takers to apply as early as practicable if it becomes apparent that more time will be needed, including where there is a risk that a Part 3 approval will not be obtained before expiry.
67. Clause 28 requires the Bank to decide whether to grant an extension within 15 working days of receipt of the application for extension.

68. Clause 29 requires the Bank to grant an extension if it is satisfied that the adverse impact of the extreme event is continuing and it remains not reasonable for the deposit taker to meet the requirements in Parts 2 and 3.
69. Clause 30 provides that, if the Bank grants an extension, it commences the day after the original temporary suspension expires. The duration is specified by the Bank but must not exceed a period of 6 months.

## Part 5: Separation planning requirements

### Requirement for and content of a separation plan (Clauses 31 and 32)

70. Clause 31 requires a group 1 deposit taker that is part of an overseas deposit taker group to have a separation plan. Clause 32 sets out the matters that must be included in the plan.
71. A separation plan must demonstrate how the deposit taker would continue to meet the outcomes in clause 3 if it were separated from its group, including following entry into resolution. As per best practice, we expect the plan to operate as a practical playbook that sets out the actions required to maintain critical operations previously provided by a related entity, rather than as a high-level description. We therefore encourage deposit takers to:
  - 71.1. clearly explain how the business would operate following separation.
  - 71.2. structure the plan so it can be used readily by a person with limited knowledge of the deposit taker's business, such as a resolution manager.
  - 71.3. assume limited or no ongoing support from related entities, particularly at the point of failure.
  - 71.4. identify and address dependencies, constraints, and single points of failure.
  - 71.5. cover a range of separation scenarios, including whether:
    - 71.5.1. other crisis management plans are being invoked at the same time.
    - 71.5.2. a resolution manager has been appointed under the DTA.
    - 71.5.3. key members of the deposit taker's executive team have resigned.
  - 71.6. Clause 32(2)(d) requires the separation plan to include details of governance and communication plans. We would expect the governance aspects of the plan to address:
    - 71.6.1. oversight and direction of the separation plan, which we would expect to be the responsibility of the deposit taker's board.
    - 71.6.2. clear roles and responsibilities for separation, including clear ownership of each required action. We encourage deposit takers to establish an internal committee to manage execution of the separation plan if it needs to be invoked.
    - 71.6.3. how internal documents such as run sheets, playbooks, and procedure manuals will be maintained so that separation can be executed in an orderly manner.
  - 71.7. We would expect the communications aspects of the plan to address how communications with staff, customers, counterparties, and regulators will be managed during separation. As a matter of good practice, deposit takers should have a pre-

determined communication strategy for staff and customers to support an orderly separation process and avoid undermining wider confidence in the banking sector.

71.8. Deposit takers should also consider establishing clear processes for communications with other external stakeholders, including prudential and financial regulators and any appointed resolution manager.

### **Approval of a separation plan (Clauses 33 to 35)**

72. Clause 33 requires a deposit taker to obtain Reserve Bank approval of its separation plan after first receiving approval from its board of directors.

73. Under clause 34, the Reserve Bank must approve a separation plan if satisfied that it is likely to ensure the deposit taker can continue to meet the outcomes in clause 3 if it enters resolution or is separated from its overseas deposit taker group. As part of that assessment, we will consider the extent to which the plan addresses the matters set out in clause 32.

74. Clause 35 clarifies that approval of a separation plan does not provide a regulatory safe harbour. It remains the deposit taker's responsibility to ensure that the plan complies with the Standard and continues to do so.

### **Testing of a separation plan (Clauses 36 and 37)**

75. As required by clause 36, a deposit taker must test its separation plan annually. However, we encourage more frequent testing where changes in the business environment or the wider group's operating structure could affect the ability to execute the plan successfully.

76. As a matter of good practice, we would expect deposit takers to consider the following as part of separation plan testing:

76.1. feasibility of executing the separation plan within the required timeframes, including whether key actions can be carried out as assumed in the plan.

76.2. the adequacy of governance arrangements, including decision-making authorities, and escalation pathways.

76.3. the availability of staff, systems, data, facilities, and third-party services needed to execute the plan.

76.4. the effectiveness of communication arrangements with staff, customers, counterparties, regulators, service providers, and any appointed resolution manager.

76.5. the extent to which the plan supports the continued delivery of critical operations and the outcomes in clause 3 following separation.

76.6. whether impediments to separation have been identified clearly, prioritised appropriately, and translated into practical remediation actions

77. As part of testing the separation plan, deposit takers may identify impediments to separation. Clause 37 provides that where an impediment risks the deposit taker being unable to meet the outcomes in clause 3 of the Standard, it must, within 24 hours, advise the Reserve Bank of the fact of the impediment. Where possible, the deposit taker must also provide details of the cause of the impediment.

78. As soon as reasonably practicable after identifying such an impediment, and not later than 2 weeks after identification, the deposit taker must provide the Reserve Bank with details of how the deposit taker proposes to remedy the impediment. We expect that this may include measures to realign legal entities, business units and functions to improve separability. In some cases, testing may indicate that an alternative separation strategy would be more appropriate.

### **Reporting and approval of changes to a separation plan (Clause 38)**

79. Clause 38 requires deposit takers to report all material changes to its separation plan to the Reserve Bank. A deposit taker must also seek approval for the amended separation plan under clause 33.

## **Part 6: Miscellaneous provisions**

### **Deposit taker list of, and payments to, essential service providers (Clauses 39 and 40)**

80. Clause 39 requires deposit takers to prepare and maintain a list of essential service providers (as defined in clause 4) and the services that they provide. This list must be reviewed annually and provided to the Reserve Bank on request.

81. Clause 40 provides that a deposit taker must ensure that payments are made to essential service providers both before the start of the first working day after the day of failure and after that day.

### **Information required to be added to register of critical operations and material service providers (Clause 41)**

82. All deposit takers to which this Standard applies will also be subject to the Operational Resilience Standard. Clause 12 of the Operational Resilience Standard requires deposit takers to establish and maintain a register of critical operations and material service providers. Deposit takers must use the template available on the Reserve Bank website and include the information listed in schedule 1 of the Operational Resilience Standard.

83. Clause 41 of this Standard requires deposit takers to include additional information in the register that is established and maintained under the Operational Resilience Standard. The following information is only relevant to material service provider arrangements as defined in this Standard:

83.1. the total value of the material service provider arrangement, including both upfront costs and on-going expense;

83.2. if applicable, a description of the parallel rights, backup capability, or alternative arrangement that is in place for the material service provider arrangement; and

83.3. any other information specified by the Bank.

84. The template that is available on our website contains some additional guidance on how information is to be entered.

### **3-yearly advisory review (Clause 42)**

85. Clause 42 sets a 3-yearly independent advisory review requirement. The purpose of the review is to provide the deposit taker's board and the Reserve Bank with an independent, periodic

assessment of whether the deposit taker has appropriate arrangements in place to ensure that the deposit taker meets the requirements of this Standard.

86. Clause 42(2) requires deposit takers to obtain Reserve Bank approval of both the proposed independent reviewer and the terms of reference. We encourage early engagement with the Reserve Bank on proposed reviewers and scope.
87. In relation to clause 42(3)(a), we expect the reviewer to be appropriately qualified and experienced for the nature, scale, and complexity of the deposit taker, with relevant expertise (for example in outsourcing risk, operational resilience, technology and data risk, and governance).
88. As per clause 42(3)(b), we expect the reviewer to be operationally and commercially independent, with no conflicts of interest that could reasonably be expected to compromise objectivity (including self-review risk from recent material work for the deposit taker or its related entities).
89. Regarding the terms of reference, we expect these to be risk-based and appropriately scoped to support an advisory assessment of whether the deposit taker's arrangements are consistent with, and appear sufficient to support, meeting the requirements of the Standard.
90. We consider that the terms of reference would typically address:
  - 90.1. governance and oversight
  - 90.2. the deposit taker's processes and systems for identification of in-scope arrangements and how they relate to the clause 3 outcomes
  - 90.3. the design and apparent adequacy of risk mitigations (including prescribed contractual terms, parallel rights, and backup capability or alternative arrangements)
  - 90.4. assurance and testing; and
  - 90.5. the reviewer's identification and prioritisation of material gaps and weaknesses and recommended areas for improvements.
91. Deposit takers are encouraged to consider the review's recommendations and use these to support continuous improvement in terms of compliance with the Standard.

## **Schedule 1: Transitional, savings, and related provisions**

### **Part 1 Provisions relating to this standard as made**

92. Part 1 of Schedule 1 sets out transitional provisions that apply on and after commencement of the Standard. References to existing arrangements, separation plans, and suspensions are to those that existed immediately before commencement and that had received a non-objection from, or were granted by, the Reserve Bank under the Outsourcing Policy (BS11).

### **Existing arrangements, separation plans, and temporary suspensions (Clauses 1 - 3)**

93. Clause 1 grandfathers existing outsourcing arrangements that had received Reserve Bank non-objection under the Outsourcing Policy by treating them as approved material service provider arrangements under the Standard. Deposit takers do not need to re-apply solely because the Standard has commenced.

94. Similarly, clause 2 grandfathers other non-objections provided by the Reserve Bank under the Outsourcing Policy (BS11), including a robust backup capability, an alternative arrangement, a substitution of parallel rights, and a separation plan by treating them as approvals under the Standard.
95. Clause 3 provides continuity for any temporary suspension (or extension) granted by the Reserve Bank that was in place immediately before commencement, by treating it as approved under the Standard.

#### **3-yearly advisory review (Clause 4)**

96. Clause 4 clarifies how to calculate the timing of the first 3-yearly advisory review after commencement. The review cycle continues from the last review completed under the Outsourcing Policy (BS11), i.e. the first review due under the Standard is 3 years after the last review date, rather than 3 years after commencement.

#### **Pending applications (Clauses 5 and 6)**

97. Clauses 5 and 6 address applications that were submitted before commencement under the Outsourcing Policy (BS11), but the Reserve Bank had not provided a non-objection or a grant by the time of commencement of the Standard.
98. Under clause 5, pending applications for non-objection to an outsourcing arrangement, robust backup capability or alternative arrangement, substitution of parallel rights, or a separation plan are treated as applications made under the Standard. The Reserve Bank may request additional information to align with any updated form, information requirements, or approval criteria under the Standard.
99. Under clause 6, pending applications for the Reserve Bank to grant a temporary suspension (or extension to a temporary suspension) are treated as applications made under the Standard.