

# Bank of England

## Prudential Regulation Authority

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### FINAL NOTICE

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To: **Carlos ABARCA (IRN CXA01572)**

Date: **13 April 2023**

## 1. Action

- 1.1. For the reasons set out in this Final Notice, the PRA imposes a financial penalty of £116,600 on Mr Abarca pursuant to section 66 of the Financial Services and Markets Act 2000 ('the Act') for failing to comply with Senior Manager Conduct Rule 2 between 7 March 2016 and 22 April 2018 (the 'Relevant Period') or parts thereof.
- 1.2. Mr Abarca agreed to settle during the Discount Stage of the PRA's investigation, therefore he qualified for a 30% settlement discount pursuant to the PRA Settlement Policy, under which the financial penalty was reduced to £81,620.

## 2. Summary of the Grounds for Action

### Background

- 2.1. TSB Bank plc ('TSB') is a UK retail bank created by a divestment from Lloyds Banking Group ('LBG') in June 2014. It provides various services to its customers including personal current accounts; business banking; savings accounts; mortgages; insurance; loans; and credit cards. During the Relevant Period, it had approximately 5.2 million customers. TSB's customers accessed services through digital channels (both through internet-banking and through its mobile app), telephone banking and by visiting branches.
- 2.2. TSB is regulated by the PRA for prudential purposes and by the FCA for conduct matters.
- 2.3. Mr Abarca joined TSB in October 2015 and was TSB's Chief Information Officer ('CIO')

throughout the Relevant Period. Before joining TSB, Mr Abarca was Chief Process and Information Officer at Banco de Sabadell, S.A. ('Sabadell'), and at the same time, the Chief Executive Officer ("CEO") of Sabadell Information Systems, S.A. ('SABIS Spain').

- 2.4. Under the Senior Managers and Certification Regime, Mr Abarca held SMF18 (Other Overall Responsibility) from 7 March 2016 to 9 August 2019. As CIO of TSB, Mr Abarca was accountable for TSB's information technology and IT business continuity planning. He was responsible for providing leadership and strategic direction to the IT function, ensuring that the IT function was suitably experienced and qualified to carry out its responsibilities, as well as identifying, assessing, managing and reporting risks associated with the running of the IT function in line with TSB's risk appetite. He was also responsible for TSB's performance of its obligations under the PRA's Outsourcing Rules. This responsibility was split with another Senior Manager. Under that split, Mr Abarca was responsible for TSB's key outsourcing relationship with Sabadell Information Systems Limited ('SABIS UK') and accountable for the operational relationship with third parties in relation to IT.
- 2.5. The PRA requires (and throughout the Relevant Period, it required) a CIO to act reasonably in carrying out their role and responsibilities, particularly in relation to the identification and mitigation of risks from an IT perspective. Under the Senior Manager Conduct Rules, the PRA also required Mr Abarca, as a senior manager, to take reasonable steps to ensure that the business of TSB for which he was responsible complied with relevant regulatory requirements and standards. As set out in SS28/15 (Strengthening individual accountability in banking), the PRA expects persons performing an SMF to take reasonable steps to ensure that the business has operating procedures and systems which include well-defined steps for such compliance and for ensuring that the business is run prudently. This required Mr Abarca to take reasonable steps in relation to the identification and mitigation of risks relating to the readiness of TSB's contractors and subcontractors.

## IT Migration

- 2.6. Following its divestment from LBG in June 2014, TSB continued to receive its core IT services from LBG, utilising the LBG IT platform. Under its contract with LBG, TSB had the option to continue to use the LBG IT platform for a period of up to 10 years (until 2024) or it could exit the arrangement through two options. Those were either: (1) via migration; or (2) a carve-out (where a copy of the LBG IT platform would be created and then operated by a new third party service provider).
- 2.7. In March 2015, TSB received a takeover bid from Sabadell, a Spanish bank with a history of acquiring banks in Spain and integrating them onto its IT banking platform ('Proteo'). A key strategic aim of the proposed acquisition was a full migration of TSB's IT services onto the Proteo

platform. Sabadell put together a timeline which aimed for migration by the end of 2017.

- 2.8. In December 2015, TSB decided to migrate its IT services from the LBG IT platform to a new purpose built UK version of Sabadell's Proteo platform with upgraded digital capacity ('Proteo4UK Platform'). Migration was to be via a predominantly single main migration event ('MME'), with some functionality to be migrated through Governed Transition Events ('GTEs') prior to the MME. This would involve a major IT change programme, involving the design, build and testing of the new Proteo4UK Platform and migration of TSB's services to the new platform (the 'Migration Programme').
- 2.9. TSB entered into an outsourcing arrangement with Sabadell's IT service subsidiaries, SABIS Spain and SABIS UK (together 'SABIS') to design, build and operate the new Proteo4UK Platform. As with many IT projects, the arrangements provided for SABIS to engage third party service providers (external vendors to SABIS and therefore TSB's 'fourth parties') to deliver systems and services required for the Proteo4UK Platform and the migration. As set out in further detail below, Mr Abarca was responsible for TSB's outsourcing relationship with SABIS.

## Migration Incident

- 2.10. The MME took place over the weekend of 20 to 22 April 2018, and almost immediately TSB encountered serious and well publicised issues, including failures with online, telephone and mobile banking services, branch technology failures, and consequential issues with payment and debit card transactions (albeit the underlying payment systems were themselves functional) (together, the 'Migration Incident'). Whilst the data migration itself was successful, the Migration Incident resulted in a significant disruption to the continuity of TSB's provision of core banking functions (including branch, telephone, online and mobile banking) immediately post migration, with some more limited issues persisting for a sustained period of months, impacting all 550 of its branches and a significant proportion of its customers (including a proportion of those customers on the digital platform). The initial issues with digital channels, some of which were significantly improved within three days, impacted its branches and the customers seeking to access the digital platform at that time.
- 2.11. As a result of the Migration Incident and the potential impact of these on the safety and soundness of TSB and financial stability, the PRA decided to investigate whether Mr Abarca, as TSB CIO performing a senior management function ('SMF'), took reasonable steps in carrying out his responsibilities (particularly those in relation to the Migration Programme as set out in paragraphs 2.14 to 2.15 below) and in compliance with the relevant requirements in the PRA Rulebook.
- 2.12. The processes for which Mr Abarca was responsible in performance of his role as CIO were

critical to the success of the migration and to the knowledge of the risks that TSB understood it was accepting and was willing to accept.

- 2.13. The PRA required him to take reasonable steps to ensure TSB's compliance with the PRA Outsourcing Rules, including obtaining sufficient assurance from suppliers to reduce the risk of operational disruption and the potential impact on financial stability.

## Mr Abarca's responsibilities for the Migration Programme

- 2.14. According to his Senior Management Regime Statement of Responsibilities, Mr Abarca had responsibilities as CIO, for TSB's information technology and for IT Business Continuity Planning. Amongst other things, he was responsible for:

- a) Providing leadership and strategic direction to IT function and ensure alignment with overall TSB strategy;
- b) Designing and managing the Migration Programme;
- c) Being accountable for information technology within TSB to deliver the organisation's strategic goals.

- 2.15. For the Migration Programme, Mr Abarca was (amongst other things):

- a) accountable for the building of and effective implementation of the Migration Programme;
- b) responsible for TSB's key outsourcing relationship with SABIS (as part of his responsibility for TSB's performance of its obligations under the PRA's Outsourcing Rules);
- c) accountable for the overall Bank Executive Committee ('BEC') migration governance, communication and decision making process;
- d) the owner of the material risk that 'migration causes operational instability or a degradation in resilience and poor customer outcomes' under TSB's Material Risk Register.

## Migration Programme planning, re-planning and delays

- 2.16. TSB originally planned for the MME to take place on 5 November 2017. However, the Migration Programme experienced delays which resulted in the decision on 20 September 2017 to conduct a re-planning exercise. TSB announced to the public nine days later on 29 September 2017 that the MME would be re-planned into Q1 2018. Mr Abarca was instrumental in the decision to postpone the MME. TSB's announcement was almost a month before the re-planning exercise was completed and approved by the Board on 24 October 2017 (the 'Defender Plan'). The Defender Plan was premised on TSB being '*migration ready*' as soon as possible in 2018, with the earliest possible MME date being 15 March 2018 (later determined to be 22 April 2018).

- 2.17. The Defender Plan had a significant focus on testing, and incorporated guiding principles

designed to minimise operational risk. The Migration Programme quickly fell behind the Defender Plan schedule, with the result that critical testing plans and principles had to be deviated from to keep on track for MME. However the PRA acknowledges that TSB and Mr Abarca were of the view throughout the Migration Programme that no migration would take place until there was readiness to do so.

## Oversight of SABIS's readiness

- 2.18. In the course of the Migration Programme, there were issues encountered with GTEs – that is the limited number of services which had already gone live and were being run prior to MME. Despite the problems that it had experienced for each of the GTEs in the months leading up to MME, Mr Abarca did not ensure that TSB formally re-assessed SABIS's ability and capacity to deliver the migration on an ongoing basis including in light of the performance and service issues encountered with the GTEs.
- 2.19. The supply chain of service providers delivering services to TSB (i.e. through SABIS and the fourth parties) exposed TSB to operational risk. In addition, under the outsourcing arrangements in place, testing, which was critical to ensuring the readiness of the new platform, was the responsibility of SABIS, in conjunction with the fourth party providers. TSB sought to mitigate operational risk, including by obtaining formal assurance in the two weeks leading up to MME as to the readiness of SABIS (confirmation that SABIS was ready to operate the Proteo4UK Platform). This included:
- a) a letter from SABIS dated 5 April 2018 (the 'SABIS Confirmation') stating confidence as to the migration readiness of the platform, providing an early report on certain test results (noting that some tests were still to be completed) and referring to confirmations of readiness received or anticipated from fourth party suppliers whom SABIS considered to be critical ('Critical Fourth Parties'); and
  - b) a paragraph in Mr Abarca's attestation that formed part of the T3 memo (a memorandum which included a recommendation to proceed with MME), which asserted that SABIS was ready for MME and, without any further explanation, that Mr Abarca was satisfied that the SABIS Confirmation could be relied upon.
- 2.20. However, the SABIS Confirmation and the Critical Fourth Party confirmations referred to were, to some extent, forward looking statements of good intention or expectation rather than statements of fact about the completeness of readiness activities undertaken. The further tests referred to in the SABIS Confirmation were completed on 17 April 2018, and the underlying statements made by TSB's Critical Fourth Parties included caveats. While TSB continued to have ongoing dialogue in the run-up to MME with SABIS and the Critical Fourth Parties, Mr Abarca relied on the fact that fourth party confirmations had been given to SABIS without

verifying whether SABIS had critically assessed these.

### **3. Breaches and Failings**

- 3.1. The PRA's investigation identified that during the Relevant Period Mr Abarca breached Senior Manager Conduct Rule 2 of the PRA Rulebook.
- 3.2. Mr Abarca breached Senior Manager Conduct Rule 2 because he failed to take reasonable steps to ensure that TSB complied with the PRA's Outsourcing Rules in adequately managing and appropriately supervising its outsourcing arrangement with SABIS. In particular, Mr Abarca failed to ensure that he or his CIO team obtained sufficient assurance from SABIS in relation to its readiness to operate the Proteo4UK Platform.
- 3.3. SABIS's letter of confirmation, which included confirmations from the Critical Fourth Parties, were, to some extent, forward looking statements of good intention or expectations rather than statements of fact about the completeness of readiness activities already undertaken. Mr Abarca's own CIO attestation referred to SABIS's confirmation in a single paragraph, but did not annex the letter itself. Nor was the letter included in any of the papers for the Board. Mr Abarca did not give sufficient consideration to the appropriateness of relying on SABIS's confirmation without further investigation or challenge and was indeed over-reliant on that confirmation. It was insufficient for Mr Abarca to rely on the fact that the fourth parties were engaged under contracts which conformed to the PRA's Outsourcing Rules.
- 3.4. Further, Mr Abarca failed to ensure that TSB formally and adequately reassessed SABIS's capabilities on an ongoing basis, including in light of the problems experienced for each of the GTEs, or take a holistic view of the risks associated with TSB's outsourcing arrangement by considering SABIS's capabilities with respect to the remaining services to be delivered. One of those risks, of which Mr Abarca was aware, was whether SABIS's supplier management gave TSB sufficient visibility over the risks associated with the fourth parties.
- 3.5. Mr Abarca's failings undermined TSB's operational resilience and contributed to the significant disruption TSB experienced to the provision of critical functions, and potentially impacting on financial stability. These failings contributed to some of the regulatory breaches by TSB, for which the PRA took enforcement action on 20 December 2022 (see paragraph 4.3 below).

### **4. Reasons why the PRA has taken action**

- 4.1 The PRA is responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms. The PRA's role is to promote the safety and soundness of those firms. Adverse effects on the stability of the UK financial system,

including through threats to customer confidence in individual firms, may result from disruption to the continuity of financial services. The way in which a firm manages operational resilience is an integral part of the PRA's assessment of a firm's safety and soundness. The PRA therefore places high priority on embedding operational resilience in its supervisory approach to mitigate the risk of such disruption.

- 4.2 The PRA's rules on outsourcing apply whether a service provider is an independent third party or an intragroup provider. While certain limited aspects of firms' management of outsourcing arrangements can be adjusted in an intragroup situation (for instance, group policies on data protection if deemed fit for purpose), firms that enter into intragroup services and outsourcing arrangements must be prepared to comply with the PRA's Outsourcing Rules. The fact that a firm and its service provider are within the same group does not do away with the need for a careful assessment of whether the service provider has the ability, capacity, resources and appropriate organisational structure to support the performance of the outsourced functions, and for this assessment to be revisited where appropriate. Where a firm is reliant on an outsourced service provider to manage fourth parties, a sufficiently engaged and proactive approach to oversight of the outsourced service provider is required to ensure that the firm's interests and needs are met.
- 4.3 On 20 December 2022, the PRA imposed a financial penalty of £27,000,000 (reduced to £18,900,000 upon settlement) on TSB. The PRA found that TSB breached Fundamental Rule 2 because it failed to exercise due skill, care and diligence in managing appropriately and effectively the outsourcing arrangements with, and services provided by, SABIS and the risks arising from this, including operational risk. TSB's breach of Fundamental Rule 2 stemmed from an undue reliance on SABIS as an intragroup provider, which in turn led to a level of oversight that was not consistent with the importance and scale of the Migration Programme.
- 4.4 The imposition of a financial penalty on Mr Abarca supports the PRA's general objective of promoting the safety and soundness of the firms which it regulates. The action which the PRA has taken emphasises the importance of ensuring that senior individuals in a firm take reasonable steps to ensure that the firm complies with the relevant regulatory requirements and standards, in compliance with Senior Manager Conduct Rules.
- 4.5 TSB's migration to the Proteo4UK Platform and the provision of IT services and outsourcing arrangements with SABIS were critical to TSB's ability to provide continuity of banking services, and therefore to its safety and soundness. Mr Abarca's conduct fell outside the range of reasonable responses for a CIO in his position in a PRA authorised firm, and contributed to the disruptions to the continuity of TSB's core banking functions post-MME.
- 4.6 For the Migration Programme, the PRA required a CIO to act reasonably in carrying out their role and responsibilities, in a manner that was commensurate with the degree of risk of a

complex, large scale IT change management programme.

- 4.7 Mr Abarca had specific migration-related responsibilities for TSB's outsourcing relationship with SABIS. The PRA required him to take reasonable steps to ensure effective management of the migration process, including identifying and mitigating risks from an IT perspective. The PRA required him to take reasonable steps to ensure TSB's compliance with the PRA's Outsourcing Rules, including obtaining sufficient assurance from third party providers to reduce the risk of operational disruption and the potential impact on financial stability.

## 5. Sanction

- 5.1. Taking into account the facts and matters in Annex A and the relevant factors set out in the PRA's Penalty Policy, the PRA concluded that Mr Abarca's breaches of Senior Manager Conduct Rule 2 justified the imposition of a financial penalty of £116,600. That penalty was reduced by 30% to £81,620 because Mr Abarca agreed to settle with the PRA during the Discount Stage.

## 6. Annexes/Appendices and Procedural Matters

- 6.1. The full particulars of the facts and matters relied on by the PRA in its decision-making process regarding Mr Abarca can be found in **Annex A**. Mr Abarca's breaches and failings are detailed in **Annex B** and the basis for the sanction the PRA proposes to impose is set out in **Annex C**. The procedural matters set out in **Annex D** are important. The definitions used in this Notice are set out in Appendix 1 and the relevant statutory, regulatory and policy provisions are set out in Appendix 2.

**Oliver Dearie**

Head of Legal, Enforcement and Litigation Division

for and on behalf of the PRA

## Annex A – Facts and Matters Relied Upon

### 1. Background

#### TSB

- 1.1. TSB is a Category 2 UK retail bank (meaning it has the capacity to cause some disruption to the UK financial system if it were to fail) which was created by a divestment from Lloyds Banking Group ('LBG') in June 2014. It provides various services to its customers including personal current accounts; business banking; savings accounts; mortgages; insurance; loans; and credit cards. During the Relevant Period, it had approximately 5.2 million customers. TSB's customers accessed services through digital channels (internet banking and mobile app), telephone banking and by visiting branches.
- 1.2. Between 2015 and 2018, TSB undertook a major IT change programme, involving the design, build and testing of a new core banking platform (the 'Proteo4UK Platform') and associated IT systems, followed by migration of TSB's corporate and customer services data on to the new platform. The IT change programme was developed and delivered by TSB senior executives, and governed through executive and board-level committees with Board oversight.

#### Migration Incident

- 1.3 TSB undertook the Main Migration Event ('MME') on 22 April 2018, during which it migrated the majority of the operation of its corporate systems, customer services and customer data to the new Proteo4UK Platform. From an early point after the system went live on 22 April 2018, whilst the data migration itself was successful, TSB encountered serious issues which significantly impacted the ability of some customers to access and use their accounts in the first few days post MME. These included certain data breaches, failures with digital banking services, telephone banking, branch technology failures, and issues with payment and debit card transactions (together, the 'Migration Incident').
- 1.4 The direct causes of the technical problems experienced during the Migration Incident substantially related to issues with IT configuration, capacity and coding. However, as set out in the PRA's Final Notice to TSB dated 20 December 2022, there were also a number of failings at points during the Migration Programme and excessive operational risk ahead of the migration by the point of MME. These included failings relating to outsourcing.

## Migration Programme background

- 1.5 Following its divestment from LBG, TSB continued to receive its core IT services from LBG, utilising the LBG IT platform (the 'LBG IT Platform'). The arrangements were governed by an outsourcing agreement with LBG, under which TSB had the option to continue to use the LBG IT Platform for a period of up to 10 years (until July 2024), or it could serve notice to exit the arrangement. The agreement provided for the following possible exit options:
- a) Carve-out: this option would involve the creating of a copy of the LBG IT Platform which would then be operated by a third party service provider for use by TSB independent of LBG; or
  - b) Migration: this option would involve TSB either acquiring a third party bank and moving from the LBG IT Platform to the existing platform operated by that third party bank, or moving to a new build platform using customised applications from multiple vendors and the support of a specialist IT systems integrator.
- 1.6 In March 2015, TSB received a takeover bid from Banco de Sabadell, S.A. ('Sabadell'), a bank registered at the Registry of the Bank of Spain with a history of acquiring banks in Spain and integrating them onto its IT banking platform, Proteo. TSB's announcement of Sabadell's offer set out that there would be potential savings derived from *'a full migration of the IT transitional services currently provided by Lloyds onto Sabadell's proprietary Proteo technology platform'* in the third full year after completion of the acquisition. Full migration of TSB's IT services onto Sabadell's Proteo technology platform was described in Sabadell's offer document as *'expected'*. Sabadell put together a timeline which aimed for that migration to be achieved by the end of 2017. The financial returns from the migration were part of Sabadell's strategic rationale for the takeover.
- 1.7 TSB began to undertake an assessment of migration to Proteo, which involved building a UK version of the Proteo platform, migrating customer data to the new platform and operating it. From July 2015, Mr Abarca as Sabadell's Chief Process and Information Officer (and Chief Executive Officer of Sabadell Information Systems, S.A. ('SABIS Spain')) started to develop and design a migration proposal for discussion and approval by the Board in late 2015 or early 2016. Mr Abarca set out high level next steps, including the launch of a migration plan in August 2015. In October 2015 TSB formally hired Mr Abarca as its Chief Information Officer ('CIO') and to co-lead the migration project with a focus on technology and the Sabadell relationship.
- 1.8 In December 2015, TSB committed to deploying resources towards migrating its IT services from the LBG IT Platform to a new purpose built UK version of Sabadell's Proteo platform with

upgraded digital capacity, whilst retaining the carve-out option. In February 2016, Mr Abarca co-authored a memorandum explaining why the Proteo option was preferable to the carve-out option, whilst recognising that the Proteo4UK Platform would need to be *'proven at scale'*.

## Approach to migration

- 1.9 TSB appointed Sabadell's IT service subsidiaries, SABIS Spain and a new UK subsidiary, Sabadell Information Systems Limited ('SABIS UK') (together 'SABIS') to provide the required services in relation to the Proteo4UK Platform. The relevant contracts were:
  - a) the Migration Services Agreement ('MSA') between TSB and SABIS Spain (and from 18 May 2018, SABIS UK) which governed the design, build and testing of the Proteo4UK Platform, and which required SABIS Spain to implement a two year plan to build Proteo4UK and migrate TSB's data to it; and
  - b) the Outsourced Services Agreement ('OSA') between SABIS Spain, SABIS UK, and TSB, which governed the operation of the Proteo4UK Platform by SABIS following migration.
- 1.10 Sabadell's existing methodology for IT migrations was to use a 'big-bang' or single operation data migration approach, under which all data would be migrated in a single main migration event weekend. TSB opted for a predominantly single event data migration, although some functionality and data was migrated prior to the MME through Governed Transition Events (or 'GTEs') starting in 2017. This included the Faster Payments system, mobile app and ATMs.
- 1.11 Under TSB's arrangements, it was contractually required to notify LBG of its intentions to exit the agreement via migration (and thereby waive its right to the carve-out option which it would otherwise retain until 31 March 2019). Once it had done so, TSB would not be able to continue to use LBG's platform long term. In addition, following the data migration there would be a very short window to stop the LBG platform from being disabled. Consequently, after MME it was, technically speaking, essentially impossible to roll back from the changes made and revert to using the LBG platform instead of the Proteo4UK Platform.

## 2. Mr Abarca's Roles and Responsibilities

- 2.1 Before joining TSB, Mr Abarca was the Chief Process and Information Officer at Sabadell and at the same time, the Chief Executive Officer of SABIS Spain. Mr Abarca joined TSB in October 2015 and was TSB's CIO throughout the Relevant Period.
- 2.2 Mr Abarca held CF29 (Significant management) from 23 October 2015 to 6 March 2016, and

subsequently SMF18 (Other Overall Responsibility) from 7 March 2016 (the date on which the Senior Managers and Certification Regime came into force) to 9 August 2019.

2.3 Mr Abarca's CIO responsibilities included:

- a) Provide leadership and strategic direction to IT function and ensure alignment with overall TSB strategy;
- b) Design and manage the Migration Programme;
- c) Accountable for information technology within TSB to deliver the organisation's strategic goals;
- d) Establish a strong and engaged CIO function capable of delivering the potential migration of TSB from LBG to the Sabadell platform;
- e) Work with other Bank Executive Committee ('BEC') members to 'digitise TSB' and ensure an Agile culture across the organisation;
- f) Make sure that the CIO function is suitably experienced and qualified to carry out its responsibilities, and that the function's people resource is managed effectively through good organisational design, the development of Partner talent, and the fostering of Partner engagement through TSB's values;
- g) Accountable for the identification, assessment, management and reporting of risks associated with the running of the CIO business unit in line with risk appetite.

2.4 Mr Abarca also took on responsibility for TSB's performance of its obligations under the PRA's Outsourcing Rules. This responsibility was split with another Senior Manager. Under that split, Mr Abarca was:

- a) Responsible for TSB's key outsourcing relationship with SABIS which was to be managed via the OSA; and
- b) Accountable for the operational relationship with third parties in relation to IT, including managing day to day operations and relationship with LBG and SABIS. These obligations were to be met through dedicated resource within the CIO function organisational design, and more specifically the Technology Operations function.

2.5 Under TSB's Material Risk Register, Mr Abarca was the owner of the material risk that *'migration causes operational instability or a degradation in resilience and poor customer outcomes'*.

2.6 Under the Senior Managers and Certification Regime Management Responsibilities Map ('MRM'), each individual BEC member had core migration accountabilities (from at least 5 June 2016) which included:

- a) *'To own and ratify the baseline, transition and end state Target Operating Model design for the relevant function and ensure its viability is not compromised throughout the programme delivery'*;

- b) *'Ultimately accountable for ensuring the effective implementation and delivery (even where delegation has been made to a Material Risk Taker/direct report) of relevant functional dossiers, ensuring the programme delivery is monitored and controlled against the baseline plan, and that threats to progress are proactively identified and mitigated';*
- c) *'Completion of the Assurance Matrix [being a checklist of questions which BEC members had to answer, with supporting evidence stored in a virtual data room] for [the] relevant function. This will be the primary 1st line input into the T3 memo and will provide confirmation of functional readiness for the T3 Event'.*

2.7 Mr Abarca's migration-specific responsibilities (from at least 5 June 2016) under TSB's MRM included:

- a) Accountable for the building of and effective implementation of the Migration Programme;
- b) Management and assurance of process for LBG delivery within the programme;
- c) Management of the overall BEC migration governance, communication and decision making process;
- d) (With another BEC member), maintaining regular engagement with UK regulators.

### 3 Migration Programme Governance

3.1 TSB established an extensive governance framework to oversee the Migration Programme. The Board had ultimate oversight of the Migration Programme as well as of key developmental aspects of the assurance framework. Ultimately, the Board delegated authority to a sub-committee of the Board to grant approval to an *'Executive Gold Team'* to initiate MME.

3.2 The BEC was TSB's principal executive committee. Its role was to provide collective support in developing and implementing the TSB's strategy, monitoring business performance and agreeing any actions required to manage issues affecting TSB.

3.3 The BEC Design Executive ('BEC DE') was established in early 2015 and was the main executive forum through which TSB ran the Migration Programme. It reported to the BEC. The BEC DE was accountable for the economic and competitive position of TSB through prioritisation of investment and the design of change. It was also responsible for the ownership and design of the target operating model of TSB and the end state of the Migration Programme through enforcement of design principles, and the ownership and governance of the migration plan to align and deliver the strategic objectives.

3.4 Key programme-related decisions were made by the BEC members at the BEC DE. For example, under the MSA key decisions relating to the design and effective implementation of the Migration Programme (such as the migration plan) were approved by the BEC DE.

3.5 Mr Abarca was a member of both the BEC and the BEC DE, as well as other Migration Programme-specific committees and working groups, including the Migration Delivery Committee. The Migration Delivery Committee was established under the MSA and reported to the BEC DE and was chaired by Mr Abarca. Its role was to provide an over-arching governance and decision making forum for the design and effective implementation of the migration. It delivered the migration plan to the BEC DE for approval and oversaw the delivery of migration and the end-to-end progress of the build, testing, implementation and Go Live (i.e. going live with the Proteo4UK Platform).

## Risk Management

3.6 TSB used its Risk Management Framework to manage risk generally, using a *'three lines of defence'* model outlined in the framework.

3.7 The first line of defence was the business areas ('Business Areas') (also known as the BEC business functions), which were headed by BEC members (one of which was Mr Abarca) and supported by Business Unit Control Functions. Business Areas had primary responsibility for risk decisions and actions as well as measuring, monitoring and controlling risks within their areas of accountability. They were responsible for identifying, assessing, managing and mitigating the risks relevant to their areas, and for establishing controls to ensure compliance with TSB's policies and the risk appetite parameters set out and approved by the Board.

3.8 The second line of defence was TSB's risk oversight function ('Risk Oversight'), which was responsible for providing independent oversight and challenge and TSB-wide risk reporting. It recommended risk strategy and TSB's risk appetite to the Board, as well as advising the business and facilitated design and embedding of policy and compliance. As part of the migration Risk Oversight was responsible for undertaking independent oversight of TSB elements of the Migration Programme, facilitating the creation of remedial activities to mitigate gaps, and monitoring, reporting and escalating as required.

3.9 From August 2017, an external consultancy firm operating in the Business Areas moved to assist Risk Oversight in the run-up to Go Live, including making assessments of the risks associated with the migration and conducting deep dive reviews on migration build and test activities.

3.10 The third line of defence was its internal audit function ('Internal Audit'), which provided independent and objective assurance over the Business Areas' management of risk and control, and Risk Oversight's supervision of TSB's risks. It also reported on the effectiveness of TSB's risk management activities to the Board and senior management. For the Migration Programme, its focus was on whether the key risks were being adequately addressed and reported, and the

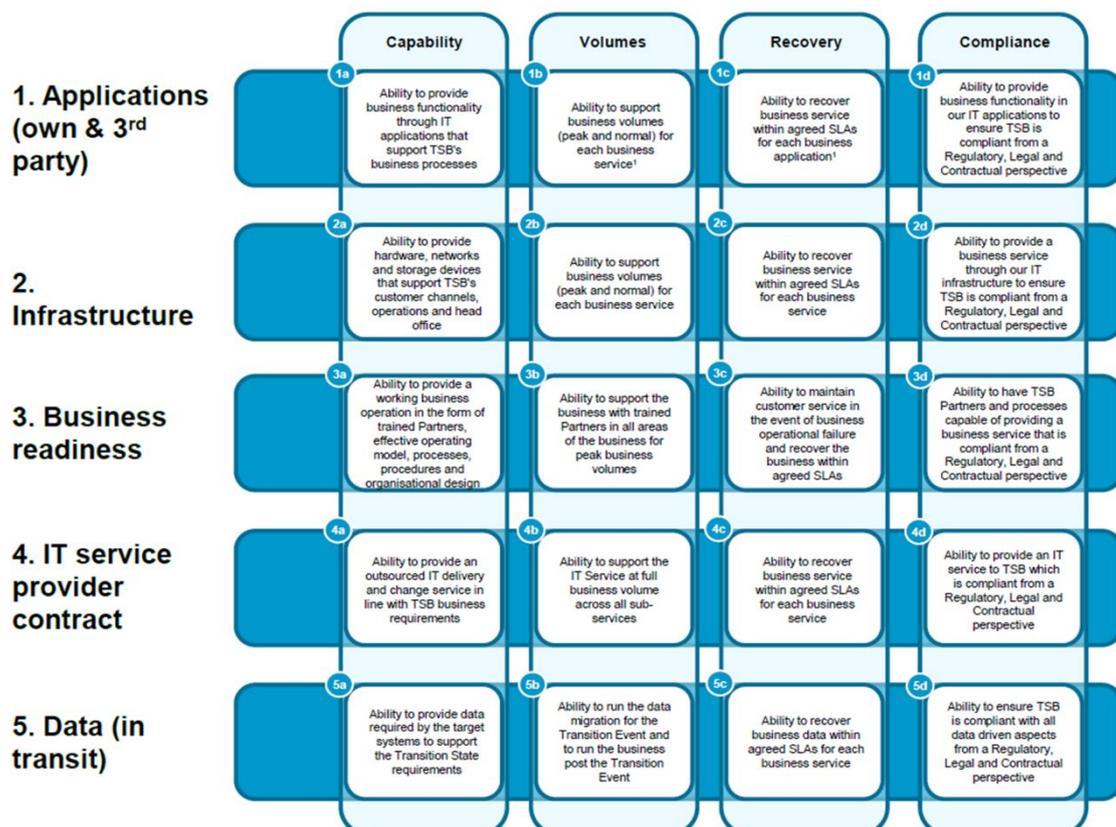
information presented to decision-makers was fair, balanced and reasonable; reviewing the design and effectiveness of key programme controls, and challenging executive management to improve risk management, governance and control.

3.11 TSB also supplemented risk management resource with extensive support and involvement from external consultants, who initially operated in certain Business Areas. The external consultants also attended the Board and the BAC at key points throughout the programme. The consultants undertook a broad range of reviews, producing over 40 reports across planning, management controls and governance, solution design and code quality and target state for completeness, as well as to provide general observations on the Programme, as well as later support to Risk Oversight.

## Assurance Matrix

3.12 TSB developed the Assurance Matrix which was first presented by Mr Abarca and another TSB executive to the Board at its 18 May 2016 meeting as a 'framework for the first line to give a comprehensive overview of all the assurance parameters required for first line validation of the Migration Programme deliverables' and that it would be used for the GTEs and the MME 'to inform the go/no go decision to go live'.

Figure 2:



- 3.13 The Assurance Matrix comprised a grid made up of five horizontal rows (the 'horizontal') and four vertical columns (the 'verticals'). The horizontal rows related to programme components (applications and infrastructure for platform build, business readiness, the IT service provider contract with SABIS, and the data which would populate the new system). The verticals related to the performance standards required of each programme component.
- 3.14 Underlying the intersections, or 'cells', were assurance questions to ensure the collection and assessment of appropriate evidence. The evidence that was gathered and reviewed was stored in a virtual data room.
- 3.15 BEC business functions were responsible for completing the Assurance Matrix (that is, ensuring there were answers to the questions underlying each cell and that evidence supporting those answers was documented) and providing a written attestation confirming the readiness of their business functions for the MME, along with residual risks. All the BEC business function attestations were identical apart from Mr Abarca's attestation which contained an additional paragraph regarding SABIS readiness.

## The T3 Memo

- 3.16 Along with the Assurance Matrix, the T3 Memo (a memorandum which included a recommendation to proceed with MME) was a key tool used by TSB to assess the readiness to Go Live with migration. The T3 Memo dated 14 April 2018, which was presented to the Board on 18 April 2018, consisted of 972 pages and set out in broad terms:
- a) an overview of the governance, executive accountabilities and various committees/forums of the Migration Programme;
  - b) the recommendation to proceed with the MME;
  - c) copies of attestations from BEC members (including Mr Abarca) testifying to the readiness of BEC business functions, including residual risks, as required by the Assurance Matrix;
  - d) Risk Oversight's opinion on the Business Areas' interpretation of the facts, the risks to the business of proceeding with the MME and the effectiveness of the mitigating actions; and
  - e) Internal Audit's opinion on the Business Areas' interpretation of the facts, the risks to the business of proceeding with the MME and the effectiveness of the mitigating actions.

## 4 Programme Planning and Execution

- 4.1 On 15 March 2016, Mr Abarca and a TSB executive presented to the Board the Integrated Master Plan ('IMP') as the overall plan for the Migration Programme. The IMP envisaged 5 November 2017 as the date for the MME. Between May 2016 and May 2017, there were a number of delays under the IMP, including work streams in testing. By September 2017, it was apparent that there was little chance that TSB would be ready to migrate by November 2017. The Board therefore resolved to *'ask the executive to start taking now the steps necessary to re-plan'* the migration for a possible MME taking place in either early/mid-February 2018 or on another date that was consistent with its safe and effective delivery.
- 4.2 TSB's re-planning exercise resulted in the presentation of a new plan (the 'Defender Plan') at the Board deep dive meeting on 24 October 2017. The Defender Plan was accompanied by a re-plan memo which set out the approach to the re-plan, a high level summary of the new plan with risks and recommendations. Mr Abarca presented on a number of areas in the re-plan, including 15 guiding principles ('Guiding Principles') which were designed to minimise operational risk. The Defender Plan envisaged a migration date in March or April 2018, with TSB to be *'migration ready'* by 15 March 2018.
- 4.3 As had happened with the IMP, the Defender Plan quickly fell behind schedule. On 18 January 2018, as part of its monthly Risk Oversight review of Migration Programme risks, Risk Oversight opined to the BEC if MME were to be achieved in April 2018, *'it will be difficult to avoid increased levels of parallel activity, to achieve a clean MAC cycle before commencement of dress rehearsals, or to allow an explicit regression phase after completion of UAT and MDT'*. This meant that there would be deviation from three of the Guiding Principles put in place as risk mitigants in the Defender Plan if TSB wished to migrate as planned in April.

## 5. Oversight of SABIS readiness

### Mr Abarca's outsourcing responsibilities

- 5.1 Mr Abarca held the responsibility for TSB's performance of its obligations under the PRA's Outsourcing Rules. In particular, Mr Abarca was responsible for TSB's key outsourcing relationship with SABIS.

### SABIS's roles and responsibilities

- 5.2 SABIS was TSB's principal outsourced provider for the Migration Programme. The services that

SABIS was providing to TSB were critical to the success of the migration and to the stability and operation of TSB's banking services on the Proteo4UK Platform. Under the MSA the services included the design, build and testing of the Proteo4UK Platform and data migration software, as well as being a systems integrator responsible for setting up two UK data centres, managing and coordinating the design and delivery of data centre components from vendors, and configuring and integrating the components to work together. SABIS's responsibilities under the OSA were to operate the Proteo4UK Platform and meet agreed performance thresholds or service level agreements.

- 5.3 These services were critical to the performance of TSB's regulated activities and TSB was required by the regulatory regime to take reasonable steps to avoid undue additional operational risk.
- 5.4 Under both the MSA and OSA, SABIS relied extensively on third parties (TSB's fourth parties) to deliver the systems and services required for the migration and its operation, which required it to act as a service aggregator. The MSA and OSA identified that TSB would obtain the services of 85 fourth parties through SABIS (11 of which were 'Material Subcontractors', i.e. suppliers of critical or important functions under the regulatory outsourcing requirements). SABIS remained contractually responsible to TSB for the work of its subcontractors. As a result of SABIS's aggregator role, and TSB's lack of contractual relationships with the fourth parties delivering services under the MSA and OSA, TSB was exposed to significant operational and regulatory risk.
- 5.5 In October 2017, a concern was raised in the monthly CRO report to the Board that TSB was still not able to understand the risk exposure of the full SABIS IT service provision (i.e. services to be provided under the OSA), including in relation to fourth parties. SABIS acknowledged that TSB might not have enough visibility over risks posed to it by fourth parties.
- 5.6 By February 2018, TSB had still not ensured that SABIS's supplier management model (including a service risk assessment methodology and framework) was fully developed and complied with TSB Group Outsourcing policy. SABIS acknowledged there was a gap in the control environment which was proving difficult to close. Although TSB and SABIS took steps to address that gap, the issues were not fully resolved before MME. TSB subsequently deemed SABIS to be migration ready (in the context of procurement oversight) on the basis of there having been '*sufficient tasks completed ahead of MME on a prioritised basis*', subject to further steps being taken after migration.
- 5.7 The fact that SABIS was still developing its supplier management model so close to MME could have raised a question as to the sufficiency of its control environment earlier in the programme. However, Mr Abarca did not appear to have considered whether he needed further information from SABIS in relation to any assurances they gave that relied upon fourth parties.

## SABIS's operational readiness for MME

- 5.8 A report produced in October 2017 by BEC members (one of whom was Mr Abarca) found several issues in respect of GTEs – that is the limited number of services which had already gone live and were being run prior to MME. This report also found that where there were incidents, in some cases the root cause was a build defect that was not identified in testing, such as configuration issues, and recovery from those incidents was too slow.
- 5.9 Issues with the performance and availability of various GTE services (including faster payments, mobile banking, and ATMs) continued, albeit with some improvement during January and February 2018.
- 5.10 Despite the problems that it had experienced for each of the GTEs in the months leading up to MME, TSB did not re-assess SABIS's capability to deliver the migration in light of the performance and service issues encountered with the GTEs.

## SABIS and fourth party confirmations

- 5.11 As described in paragraph 5.4 above, there were 85 fourth parties, of which 11 were Material Subcontractors. Four of the Material Subcontractors were suppliers whom SABIS considered to be critical ('Critical Fourth Parties'). On 5 April 2018, Mr Abarca received a letter from SABIS (the 'SABIS Confirmation') confirming non-functional readiness for migration, in response to a request for 'comfort regarding the ability of the new Platform to meet the Service Level Agreements between SABIS and TSB'. The SABIS Confirmation covered two areas: (i) testing undertaken to prove resilience and performance and (ii) confirmations of readiness dated 4-5 April 2018 from three of four Critical Fourth Parties that SABIS had requested on 4 April 2018. These fourth party confirmations of readiness were not directly passed to TSB at the time, but were referenced in the SABIS Confirmation.
- 5.12 The SABIS Confirmation stated that:

*'In the few exceptions where there are further tests that need to be completed in the next week or so, because of different circumstances, we feel comfortable that we will not find any cause for concern towards being 'migration ready' by the 19<sup>th</sup> of April. Also, from the point of view of critical Third Parties ('fourth parties' in the case of TSB), I have received positive written confirmation from [three Critical Fourth Parties] that they are confident that their infrastructure is fit for purpose and therefore that they are prepared for the expected volumes [...]. I am awaiting written confirmation from [one Critical Fourth Party], but I do not expect any issue in receiving it from conversations on the subject.'*

- 5.13 The outstanding confirmation from the final Critical Fourth Parties was received on 10 April 2018, the same day that the Board was meeting to determine whether to serve the Definitive Notice of Migration on LBG and thereby commit TSB to the migration option and to forego the back-up LBG carve-out option.
- 5.14 SABIS's Confirmation and the confirmations from the Critical Fourth Parties were, to some extent, forward looking statements of good intention or expectations rather than statements of 'readiness'. Moreover, all but one were caveated with a number of outstanding tasks or tests which had not yet been completed. Mr Abarca did not ask SABIS to obtain further formal comfort from the Critical Fourth Parties in the period from 4-5 or 10 April 2018 to the MME decision on 18 April 2018 to confirm that they were ready. Nor did Mr Abarca request an updated SABIS Confirmation of readiness to support his CIO attestation given to the Board.

## Mr Abarca's attestation

- 5.15 Although the SABIS Confirmation was uploaded to the virtual data room in which Assurance Matrix evidence was stored, it was not contained in the papers for Board meetings prior to MME. Instead, the TSB executive and Board relied upon Mr Abarca to attest to SABIS readiness. This was covered in a single paragraph in his attestation dated 17 April 2018:

*'Sabadell Information Systems S.A.U. (SABIS), as key supplier, is prepared for the T3 Event. SABIS has confirmed to me that it will have performed its obligations as set out in the Master Services Agreement between TSB and SABIS (the MSA) and Contract Change Note no. 1 to the MSA dated 10 April 2018 (the CCN) (to the extent that these are required to be performed ahead of the T3 Event) and will be ready to perform its remaining obligations under the MSA and CCN as well as its obligations under the Outsourced Services Agreement between TSB, SABIS and Sabadell Information Systems Limited from the T3 Event. I am satisfied that this confirmation can be relied upon.'*

- 5.16 This paragraph of Mr Abarca's attestation repeated SABIS's expectation that it will have performed its obligations under the MSA ahead of MME and that it will be ready to perform its obligations under the OSA from MME, but did not constitute an attestation as to any steps that had been taken by SABIS to perform its contractual obligations, other than the provision of SABIS's confirmation to him.

## Annex B: Breaches and Failings

### 1. Breaches

- 1.1 During the Relevant Period, as a result of the facts and matters set out at Annex A to this Notice, Mr Abarca breached relevant requirements of the PRA's Rulebook – Senior Manager Conduct Rule 2 ('SMCR 2').
- 1.2 SMCR 2 requires that a senior manager must take reasonable steps to ensure that the business of the firm for which you are responsible complies with the relevant requirements and standards of the regulatory system.
- 1.3 The rule is included at **Appendix 2**.

### 2. The PRA's expectations

- 2.1 The PRA's expectations of how relevant firms and individuals performing a senior management function ('SMF') should comply with the Senior Managers Regime are set out in SS28/15 (Strengthening individual accountability in banking). SMF18 (Other Overall Responsibility) applies where a senior executive is the most senior person responsible for an area of the firm's business but they do not perform any other SMF. Mr Abarca was the most senior executive responsible for TSB's information technology and IT business continuity planning.
- 2.2 The PRA's general objective is to promote the safety and soundness of firms which it regulates, and one of its strategic goals is to build greater operational resilience in the financial system. Operational resilience is the ability to prevent, adapt and respond to, and recover and learn from operational incidents, including but not necessarily limited to those relating to cyber and technology. Managing operational resilience adequately is a way firms can reduce the number and impact of IT or operational incidents. The way in which a firm manages operational resilience is an integral part of the PRA's assessment of a firm's safety and soundness. The PRA expects the CIO of a UK bank, who is approved to perform an SMF, to take an active role in ensuring the safety and soundness of the firm. This includes ensuring that the firm complies with the relevant regulatory requirements and standards.
- 2.3 The PRA's rules on outsourcing apply whether a service provider is an independent third party or an intragroup provider. While certain limited aspects of firms' management of outsourcing arrangements can be adjusted in an intragroup situation (for instance, group policies on data protection if deemed fit for purpose), firms that enter into intragroup services and outsourcing

arrangements must be prepared to comply with the PRA's Outsourcing Rules. The fact that a firm and its service provider are within the same group does not do away with the need for a careful assessment of whether the service provider has the ability, capacity, resources and appropriate organisational structure to support the performance of the outsourced functions, and for this assessment to be revisited where appropriate.

- 2.4 Further, firms must have visibility of the supply chain and consider whether extensive outsourcing could compromise their ability to oversee and monitor an outsourcing arrangement. In addition, they must ensure that the service provider has the ability and capacity on an ongoing basis to appropriately oversee any material sub-outsourcing in line with the firms' relevant policy or policies. Where firms are reliant on an outsourced service provider to manage fourth parties, a sufficiently engaged and proactive approach to oversight of the outsourced service provider is required to ensure that the firm's interests and needs are met.
- 2.5 However, firms must do more than negotiate outsourcing agreements intended to support their compliance with the PRA's Outsourcing Rules. Whilst the effort involved in negotiating such agreements must be acknowledged, the firm's actual oversight of the outsourcing must also live up to the intent of the contract.
- 2.6 The PRA's expectation that a CIO acts reasonably in carrying out their role and responsibilities is central in the context of a large scale, high risk change management project such as the Migration Programme.
- 2.7 Indeed, one of the specific hypothetical scenarios set out in SS28/15 illustrating where executive SMFs may potentially be accountable is where a firm's management fails to monitor the provision of services by a third party under an outsourcing agreement resulting in an operational risk crystallising in breach of PRA's Outsourcing Rules.
- 2.8 Individuals performing SMFs cannot outsource their responsibilities. Mr Abarca had specific migration-related responsibilities for, among other things, TSB's outsourcing relationship with SABIS. The PRA required him to take reasonable steps to ensure effective management of the migration governance process, including identifying and mitigating risks from an IT perspective. The PRA required him to take reasonable steps to ensure TSB's compliance with the PRA's Outsourcing Rules, including obtaining sufficient assurance from third party providers to reduce the risk of operational disruption and the potential impact on financial stability.
- 2.9 For the reasons stated in paragraph 3 below, Mr Abarca's conduct fell outside the range of reasonable responses for a CIO in his position in a PRA authorised firm, and contributed to the disruptions to the continuity of TSB's core banking functions post-MME.

### 3. Failings

- 3.1 The PRA has concluded that during the Relevant Period, Mr Abarca breached SMCR 2.
- 3.2 Mr Abarca was responsible for TSB's key outsourcing relationship with SABIS. He failed to take reasonable steps to ensure that TSB adequately managed and supervised appropriately TSB's outsourcing arrangement with SABIS, in compliance with the PRA's Outsourcing Rules. These rules apply even where the outsourcing arrangement is with an intragroup service provider.
- 3.3 The SABIS Confirmation, which included confirmations from fourth parties, were, to some extent, forward looking statements of good intention or expectations rather than statements of fact about the completeness of readiness activities already undertaken. Mr Abarca was aware that there were outstanding tasks or tests which had not been completed at the time of the confirmations, yet he failed to ensure that further formal assurance was obtained from SABIS and fourth parties. In addition, Mr Abarca's own CIO attestation referred to SABIS's confirmation in a single paragraph, but did not annex the letter itself. Nor was the letter included in any of the papers for the Board.
- 3.4 Mr Abarca's failings were that:
- a) When managing the arrangement for services and outsourcing to SABIS, he did not ensure that TSB formally and adequately reassessed SABIS's ability and capacity on an ongoing basis including in light of service level breaches encountered with the GTEs;
  - b) He did not ensure that he or his CIO team obtained sufficient assurance regarding: (i) the completeness of readiness activities undertaken by it or the Critical Fourth Parties; and (ii) SABIS's management of the Critical Fourth Parties (including whether SABIS had robust testing, monitoring and control over the Critical Fourth Parties).
  - c) In the lead up to MME, he did not take a holistic view of the risks associated with the outsourcing arrangement by considering further SABIS's capabilities with respect to the remaining services to be delivered. In particular, Mr Abarca did not give sufficient consideration to the appropriateness of relying on SABIS's confirmation without further investigation or challenge, and was indeed over-reliant on that confirmation. It was insufficient for Mr Abarca to rely on the fact that fourth parties were engaged under contracts which conformed to the PRA's Outsourcing Rules.
- 3.5 Mr Abarca's failings undermined TSB's operational resilience, resulting in significant disruption to the provision of critical functions, and potentially impacting financial stability. These failings contributed to a situation in which TSB did not:

- a) have sufficient regard to the risks to which it was exposed through the supply chain. TSB's approach to its oversight of SABIS was not sufficiently engaged and proactive given that TSB was reliant on SABIS to manage fourth parties to ensure that its interests and needs were met. As TSB did not have the necessary visibility of the supply chain risks, TSB could not have been confident that SABIS was overseeing fourth party service delivery in a way that was commensurate to the criticality of the service or overall complexity and scale of the Migration Programme;
- b) engage adequately with the indications in late 2017 that SABIS was not fully ready to operate the platform after migration. This included failing between October 2017 and January 2018 to re-assess SABIS's capabilities in light of the problems that TSB had experienced for each of the GTEs (which in some cases had led to slow recovery from incidents), or take a holistic view of the risks associated with its outsourcing arrangement by considering SABIS's capabilities with respect to the remaining services to be delivered;
- c) ensure that SABIS's supplier management model (including a service risk assessment methodology and framework) was fully developed and complied with TSB Group Outsourcing policy, or consider whether a formal re-assessment was required to have a full picture of the operational risks presented by the Migration Programme; and
- d) give sufficient consideration to the appropriateness of relying on the SABIS Confirmation which was, to some extent, a forward looking statement of good intention or expectations, rather than a statement of fact about the completeness of readiness activities already undertaken.

## Annex C: Penalty Analysis

### 1. Financial Penalty

- 1.1. The PRA's Penalty Policy for imposing a financial penalty is set out in *'The PRA's approach to enforcement: statutory statements of policy and procedure'* (September 2021), in particular in the *'Statement of the PRA's policy on the imposition and amount of financial penalties under the Act'* (the 'PRA Penalty Policy') and *'Statement of the PRA's settlement decision-making procedure and policy for the determination of the amount of penalties and the period of suspensions or restrictions in settled cases'* (the 'PRA Settlement Policy').
- 1.2. Pursuant to paragraphs 12 to 36 of the PRA Penalty Policy, the PRA applies a five-step framework to determine the appropriate level of financial penalty.

#### Step 1: Disgorgement

- 1.3. Pursuant to paragraph 17 of the PRA Penalty Policy, at Step 1 the PRA seeks to deprive a person of any economic benefits derived from or attributable to the breach of its requirements, where it is practicable to ascertain and quantify them. There is no evidence to suggest that Mr Abarca derived any economic benefit from the breaches, including profit made or loss avoided. The Step 1 figure therefore is **£0**.

#### Step 2: The seriousness of the breach

- 1.4. Pursuant to paragraph 18 of the PRA Penalty Policy, at Step 2 the PRA determines a starting point figure for a punitive penalty having regard to the seriousness of the breach by the relevant individual, including any threat or potential threat it posed, or continues to pose, to the advancement of the PRA's statutory objectives. Pursuant to paragraph 20 of the PRA Penalty Policy, the PRA will ordinarily determine a figure at Step 2 based on the individual's annual income. 'Annual income' means the gross amount of all benefits, including any deferred benefits received by the individual from the employment in connection with which the breach of the PRA's requirements occurred. The PRA ordinarily calculates an individual's annual income during the tax year preceding the date when the breach ended ('relevant income').
- 1.5. In this instance, the breaches ended on 22 April 2018. Therefore, the tax year preceding this date is from 6 April 2017 to 5 April 2018 ('the 2017 -18 tax year'). The PRA consider Mr Abarca's relevant income to be **£777,356.86**.

## Step 2 Factors

- 1.6. Pursuant to paragraph 20(d) of the PRA Penalty Policy, the PRA will apply an appropriate percentage rate to the individual's relevant income to produce a figure at Step 2 that properly reflects the nature, extent, scale and gravity of the breach. In determining a percentage rate reflecting the seriousness of the breach, the factors to which the PRA may have regard include, as appropriate, the factors set out at paragraph 21 of the PRA Penalty Policy.
- 1.7. The PRA considers the percentage rate applied to Mr Abarca's relevant income should be 15% for the following reasons:
  - a) As the CIO of TSB, Mr Abarca held the SMF18 function and had responsibility for TSB's performance of its obligations under the PRA's Outsourcing Rules. He was the most senior executive responsible for TSB's information technology and IT business continuity planning. In respect of the Migration Programme, he was responsible for designing and managing the Migration Programme, the overall BEC migration governance, communication and decision making process, as well as TSB's key outsourcing relationship with SABIS.
  - b) Firms' operational resilience is fundamental to the PRA's ability to advance its general objective of promoting the safety and soundness of the firms it regulates. This is made explicit by section 2B(3)(a) of the Act which provides that the PRA's general objective is to be advanced by seeking to ensure that the business of the PRA-authorized firms is carried on in a way which avoids any adverse effect on the stability of the UK financial system. Further, section 2B(4) of the Act defines such adverse effect as including those that may result from the disruption of the continuity of financial services. Therefore, the PRA's priorities since 2016 have included a strong focus on operational resilience.
  - c) The role of senior management is integral to the PRA's focus on operational resilience. The ability of firms to prevent, adapt and respond to, and recover and learn from operational incidents depends upon appropriate reporting and accountability to be in place throughout the firm. Where limitations are identified, firms' senior management is essential to leading the change required to improve operational resilience.
  - d) The Migration Incidents resulted in a significant and protracted disruption to the continuity of TSB's critical services, affecting all of its banking channels and a significant number (1.9m) of its customers, which took at least 8 months (22 April to 10 December 2018) to resolve.
  - e) The Migration Incidents occurred in circumstances where the PRA had put TSB, including Mr Abarca, on notice that, as a non-systemic growing bank, it might be more vulnerable to

operational disruption than peers with more established brands.

- f) Mr Abarca had full responsibility for and demonstrated errors of judgements in failing to:
  - i. ensure that he or his CIO team obtained sufficient assurance from SABIS in relation to its readiness to operate the Proteo4UK Platform;
  - ii. supervise SABIS with the degree of rigour and diligence to be expected given the significance of the relationship with SABIS and the risks and threats to TSB's operational resilience in the event of disruption arising from that relationship.
- g) Consequently, Mr Abarca's failings contributed significantly to the disruptions to the continuity of TSB's core banking functions post-MME.
- h) The breaches lasted throughout the planning and execution of the Migration Programme and culminating in the Migration Incidents during and after the MME.

1.8. However, the PRA has made no finding that Mr Abarca deliberately or recklessly breached regulatory provisions, nor any findings as to dishonesty or lack of integrity. In addition, Mr Abarca's has not previously breached the PRA's regulatory requirements.

1.9. Therefore, the Step 2 figure is 15% of **£777,356.86 = £116,600**.

### **Step 3: Adjustment for any aggravating, mitigating or other relevant factors**

1.10. Pursuant to paragraph 24 of the PRA Penalty Policy, the PRA may increase or decrease the Step 2 figure to take account of any factors which may aggravate or mitigate the breaches. The factors that may aggravate or mitigate the breach include those set out at paragraphs 25 and 26 of the PRA Penalty Policy. Any such adjustments will normally be made by way of a percentage adjustment to the figure determined at Step 2.

1.11. The PRA considers that the following factors are relevant in determining whether such adjustment should be made:

- a) Mr Abarca co-operated with the PRA investigation team.
- b) Mr Abarca has no previous disciplinary or compliance record with the PRA.

1.12. The PRA does not consider that, in the circumstances, these factors are sufficient to justify an

adjustment to the Step 2 figure.

1.13. The Step 3 figure is therefore **£116,600**.

## **Step 4: Adjustment for deterrence**

1.14. Pursuant to paragraph 27 of the PRA Penalty Policy, if the PRA considers the figure arrived at after Step 3 is insufficient to effectively deter the firm that committed the breach, or others, from committing further or similar breaches, then the PRA may increase the penalty at Step 4 by making an appropriate adjustment to it.

1.15. Taking into account all the circumstances, the PRA does not consider an adjustment for deterrence is necessary in this matter.

1.16. The Step 4 figure is therefore **£116,600**.

## **Step 5: Application of any applicable reductions for early settlement or serious financial hardship**

1.17. Pursuant to paragraph 29 of the PRA's Penalty Policy, if the PRA and the individual upon whom a financial penalty is to be imposed agree the amount of the financial penalty and any other appropriate settlement terms, the PRA Settlement Policy provides that the amount of the penalty which would otherwise have been payable may, subject to the stage at which a binding settlement agreement is reached, be reduced.

1.18. The PRA and Mr Abarca reached an agreement to settle during the Discount Stage, therefore a 30% settlement discount applies to the Step 4 figure.

1.19. The Step 5 figure is therefore **£81,620**.

## **Conclusion**

1.20. The PRA has therefore imposed on Mr Abarca a financial penalty of **£116,600** (before the Discount Stage) reduced to **£81,620** (after the Discount Stage) for his breaches of Senior Manager Conduct Rule 2.

## Annex D: Procedural Matters

### Decision maker

1. The settlement decision makers made the decision which gave rise to the obligation to give this Notice.
2. This Notice is given under and in accordance with section 390 of the Act.

### Manner and Time for Payment

3. Mr Abarca must pay the financial penalty in full to the PRA by no later than 12 May 2023. If all or any of the financial penalty is outstanding on 13 May 2023, the day after the due date for payment, the PRA may recover the outstanding amount as a debt owed by Mr Abarca and due to the PRA.

### Publicity

4. Sections 391(4), 391(6A) and 391(7) of the Act apply to the publication of information about the matter to which this Notice relates. Under those provisions, the PRA must publish such information about the matter to which this Notice relates as the PRA considers appropriate. However, the PRA may not publish information if such publication would, in the opinion of the PRA, be unfair to the persons with respect to whom the action was taken or prejudicial to the safety and soundness of PRA-authorized persons or prejudicial to securing an appropriate degree of protection to policyholders.

### PRA contacts

5. For more information concerning this matter generally, please contact Press Office ([press@bankofengland.co.uk](mailto:press@bankofengland.co.uk)).

## Appendix 1: Definitions

### The definitions below are used in this Notice:

1. The 'Act' means the Financial Services and Markets Act 2000 (as amended);
2. 'Assurance Matrix' means a risk assessment tool used by TSB to assess its readiness for going ahead with the migration of data from the LBG IT platform to the Proteo4UK Platform;
3. 'BEC' means TSB's Bank Executive Committee;
4. 'BEC DE' means TSB's BEC Design Executive;
5. 'Board' means the board of directors of TSB Banking Group plc;
6. 'Business Areas' or 'BEC business functions' means the first line of defence, responsible for risk decisions and actions as well as measuring, monitoring and controlling risks within their areas of accountability;
7. 'CIO' means Chief Information Officer;
8. 'Critical Fourth Parties' means the third party suppliers whom SABIS considered to be critical as set out in the SABIS Confirmation;
9. 'Defender Plan' means a memo presented to the Board on 24 October 2017 which sets out the Firm's decision to postpone the IT migration from 5 November 2017 to Q1 2018;
10. 'Definitive Notice of Migration' means a notice TSB served to LBG on 12 April 2018 which terminated the carve-out option and committed TSB to the migration option;
11. 'Discount Stage' means, as provided for in the PRA Penalty Policy and PRA Settlement Policy, the early period of an investigation during which the subject of an investigation will qualify for a 30% discount to the proposed financial penalty if they enter into a settlement agreement with the PRA;
12. 'FCA' means the Financial Conduct Authority;
13. 'TSB' mean TSB Bank plc;
14. 'Go Live' means a weekend over which data would be migrated from the LBG IT Platform to the

Proteo4UK Platform;

15. 'Governed Transition Events' or 'GTEs' mean phased transition of functionality to the Proteo4UK Platform;
16. 'Guiding Principles' mean 15 Guiding Principles relating to testing which had been designed to minimise operational risks and were a key feature and risk mitigant of the Defender Plan;
17. 'IMP' means Integrated Master Plan which sets out the overall migration plan presented to the Board on 15 March 2016;
18. 'Internal Audit' means the third line of defence, responsible for independent and objective assurance over the Business Areas' management of risk and control, and Risk Oversight's supervision of TSB's risks;
19. 'LBG' means Lloyds Banking Group;
20. 'LBG IT Platform' means the IT platform used by LBG, which was also used by TSB until its migration on to the Proteo4UK Platform;
21. 'Material Risk Register' means a register recording all material risks which deserve prominence at Board and BEC level;
22. 'Material Subcontractors' mean suppliers of critical or important functions under the regulatory outsourcing requirements as defined in the MSA and OSA;
23. 'MDT' means Migrated Data Testing;
24. 'Migration Incident' mean serious and well publicised issues, which took place immediately after the MME, that resulted in a significant disruption to the continuity of TSB's provision of core banking functions including data breaches, failures with online, telephone and mobile banking services, branch technology failures and issues with payment and debit card transactions;
25. 'Migration Programme' means major IT change programme, involving the design, build and testing of the new Proteo4UK Platform and associated IT systems, followed by migration of TSB's corporate and customer services on to the new platform;
26. 'MME' means Main Migration Event at which TSB migrated its corporate systems, customer services and customer data from the LBG IT Platform to the Proteo4UK Platform over the weekend of 20 to 22 April 2018;

27. 'MRM' means Senior Managers and Certification Regime Management Responsibilities Map;
28. 'MSA' means the Migration Services Agreement entered into between TSB and SABIS which governed the design, build and testing of the Proteo4UK Platform, and the migration of TSB's data to it, by SABIS;
29. 'Notice' means this Final Notice, together with its Annexes and Appendices;
30. 'OSA' means the Outsourced Services Agreement entered into between TSB and SABIS which governed the operation of the Proteo4UK Platform by SABIS;
31. 'PRA' means the Prudential Regulation Authority;
32. 'PRA Penalty Policy' means 'The Prudential Regulation Authority's approach to enforcement: statutory statements of policy and procedure (effective from September 2021), Appendix 2 – Statement of the PRA's policy on the imposition and amount of financial penalties under the Act';
33. 'PRA Rulebook' means a rulebook which contains provisions made by the PRA that apply to PRA-authorized firms;
34. 'PRA Settlement Policy' means 'The Prudential Regulation Authority's approach to enforcement: statutory statements of policy and procedure (effective from September 2021), Appendix 4 - Statement of the PRA's settlement decision-making procedure and policy for the determination of the amount of penalties and the period of suspensions or restrictions in settled cases';
35. 'Proteo' means Sabadell IT banking platform;
36. 'Proteo4UK Platform' means a new version of Proteo platform adopted for TSB and the UK market;
37. 'Relevant Period' means the period between 16 December 2015 to 22 April 2018;
38. 'Risk Oversight' means the second line of defence, responsible for independent oversight and challenge and TSB-wide risk reporting;
39. 'Sabadell' means Banco de Sabadell, S.A.;
40. 'SABIS' means both SABIS Spain and SABIS UK;
41. 'SABIS Confirmation' means a letter from SABIS, dated 5 April 2018, stating confidence as to the migration readiness of the platform, providing an early report on certain results (noting that some tests were still to be completed) and referring to confirmations of readiness received or anticipated

from Critical Fourth Parties;

42. 'SABIS Spain' means Sabadell Information Systems, S.A;
43. 'SABIS UK' means Sabadell Information Systems Limited;
44. 'SMF' means Senior Management Function specified by the PRA or FCA for employees performing a certification function and directors of authorised persons;
45. 'SMCR' means Senior Manager Conduct Rules in the PRA Rulebook which apply to SMFs;
46. 'T3 memo' means the memorandum to the TSB Banking Group dated 14 April 2018 which included a recommendation to proceed with MME, attestations testifying to the readiness of BEC business functions and opinions from Risk Oversight and Internal Audit on the Business Areas' interpretations of the facts, the risks to the business of proceeding with the MME and the effectiveness of the mitigating actions;
47. 'Three lines of defence' means the risk management framework that incorporates the Business Areas (first line), Risk Oversight (second line) and Internal Audit (third line).

## Appendix 2: Relevant Statutory and Regulatory Provisions

### 1. Relevant Statutory Provisions

- 1.1. The PRA has a general objective, set out in section 2B of the Act, to promote the safety and soundness of PRA-authorized persons. The PRA seeks to advance this objective by seeking to ensure that the business of PRA-authorized firms is carried on in a way which avoids any adverse effect on the stability of the UK financial system.
- 1.2. Section 66 of the Act provides that the PRA may take action against a person, including imposing a penalty on them of such amount as the PRA considers appropriate if it appears to the PRA that they are guilty of misconduct and the PRA is satisfied that it is appropriate in all the circumstances to take action against them. The conditions under which a person is guilty of misconduct for the purposes of PRA action are set out in section 66B of the Act.

### 2. Relevant Regulatory Provisions

- 2.1. The PRA has two sets of conduct rules for individuals falling within the Senior Managers and Certification Regime:
  - a. Individual Conduct Rules apply to all individuals performing senior management functions or certification functions;
  - b. Senior Manager Conduct Rules apply only to individuals performing senior management functions.
- 2.2. Senior Manager Conduct Rule 2 states that: *'You must take reasonable steps to ensure that the business of the firm for which you are responsible complies with the relevant requirements and standards of the regulatory system.'*

### 3. Relevant Statutory Policy

#### Approach to enforcement

- 3.1. *The Prudential Regulation Authority's approach to enforcement: statutory statements of policy and procedure, April 2013* (as updated in September 2021) sets out the PRA's approach to exercising its main enforcement powers under the Act.

- 3.2. In particular, the PRA's approach to the imposition of penalties is outlined at Annex 2 *Statement of the PRA's policy on the imposition and amount of financial penalties under the Act*; and the PRA's approach to settlement is outlined at Annex 4 - *Statement of the PRA's settlement decision-making procedure and policy for the determination of the amount of penalties and the period of suspensions or restrictions in settled cases*.