

ANNEX 3

Summary of existing business continuity planning work

Introduction

1 This annex seeks to put the work of the Task Force into the broader context of the substantial body of business continuity work that has already been undertaken:

- clarifying the role of the financial authorities;
- safeguarding communications during a crisis;
- encouraging market co-operation in business continuity planning;
- promoting individual firms' resilience; and
- ensuring the resilience of telecoms and physical infrastructure.

Clarifying the role of the financial authorities

2 The financial authorities — HM Treasury, the Bank of England and the Financial Services Authority — work together, under a Memorandum of Understanding (MoU), towards the common objective of financial stability¹. As set out in that MoU, there is a Tripartite Standing Committee on financial stability, comprising senior representatives of the three authorities. This meets monthly to consider issues relevant to financial stability.

3 Following the events of 11 September 2001, the Standing Committee set up a sub-group on resilience and contingency planning to co-ordinate the work being done by the authorities and by other bodies in this area. Recognising that the primary responsibility for contingency arrangements lies with the private sector, the authorities' aim was to share information and facilitate work to address any overlaps or gaps. In the event of major operational disruption to the financial system, the authorities' main objectives would be to:

- keep financial markets open and functioning except where this is impractical or where by so doing there would be a material threat to financial stability; and
- facilitate an early return to normal trading, for example by seeking to ensure the availability of reliable information.

4 Further details on the roles of the authorities and the Standing Committee's Event Response Framework outlining the process the financial authorities would follow in the event of a major incident can be found in Chapter 4 of the report.

Safeguarding communications during a crisis

5 The co-ordination and communications roles of the financial authorities during a crisis will be crucial. A number of mechanisms have been put in place to try and ensure the authorities could maintain communication with market infrastructures and market participants:

- **Financial Sector Continuity web site:** This would be one of the main means of communication following major operational disruption. The web site — www.financialsectorcontinuity.gov.uk — was established in April 2002 and provides an overview of the main organisations involved in this work within the financial sector, their responsibilities and activities, and gives a brief summary of the key issues being addressed.
- **Financial Sector Continuity Information Line:** This is a recorded information service provided on a freephone telephone number. During a period of operational disruption, it would contain information about the nature of the operational disruption and where further information could be found.
- **Financial Sector Continuity Conference Call Facility:** This was established in July 2003 to allow the financial authorities and key market infrastructures and firms to communicate in a crisis. The facility underwent a successful industry-wide test with 65 representatives of major firms, markets infrastructures, and exchanges, trade associations and public authorities in October 2003.
- **Contacts database:** This has been set up by the FSA to enable the authorities to have access to accurate and up-to-date contacts details for key personnel for the major firms and financial

¹ The MoU is available at: http://www.financialsectorcontinuity.gov.uk/home/uk_fin_auth/mou.html

infrastructure providers in the UK. It includes 24-hour contact details, including those at firms' contingency sites.

Encouraging market co-operation in business continuity planning

Market liaison

6 The Standing Committee and its sub-group works with a wide range of bodies within the three key areas of:

- **Exchange-traded markets:** The FSA has set up a sub-group of the Markets and Exchanges Regulatory Liaison Information Network (MERLIN), which brings together recognised exchanges, clearing houses, and their supervisors, to examine and co-ordinate business continuity planning issues. This sub-group has, for example, looked at the geographical distribution of primary and back-up sites to assess concentration risk, has exchanged emergency contact details and has carried out walk-through exercises.
- **OTC markets:** Existing market liaison committees have taken on a co-ordination role in respect of contingency planning:
 - *Foreign Exchange Joint Standing Committee*, covering participants in the London foreign exchange and foreign currency money markets, which has created an operations sub-group to focus on technical operational issues including contingency planning;
 - *Money Market Liaison Group*, which performs the same role in the sterling money markets;
 - *Stock Lending and Repo Committee*, covering the stock lending and repo markets; and
 - trade associations for participants in OTC markets, such as the International Swaps and Derivatives Association and the Bond Market Association, would also play an important co-ordinating role in a crisis.
- **Market infrastructures:** For clearing houses and settlement systems, work on contingency planning is co-ordinated through the MERLIN sub-group. For payment systems, the Bank of England is the overseer and works with individual systems and the Association of Payment Clearing Services (APACS), which acts as the co-ordinating body for a number of the major systems. All the payment,

clearing and settlement systems have their own contingency plans, including mechanisms to communicate in a crisis with member firms and the authorities.

7 The Standing Committee sub-group also liaises with other trade associations, such as the London Investment Banking Association (LIBA) and the British Bankers Association (BBA) as well as industry groups established specifically to address contingency issues, notably the Securities Industry Business Continuity Management Group. The BBA has issued a Guide to Business Continuity Management for financial services.

Cross-market testing

The financial authorities have worked closely with market infrastructures and participants on cross-market business continuity testing: A range of different tests have been conducted including:

- **CSFB exercise:** in June 2003 a crisis “role-play” exercise was held under the auspices of the Tripartite Standing Committee. The exercise, which was designed and facilitated by CSFB, involved a wide range of market participants, including representatives of the authorities and major infrastructure providers. The participants met to simulate their responses to the scenario that bombs had disabled key market players and market infrastructures in London. The exercise identified a number of key lessons including the importance of maintaining up-to-date contact details for counterparties and the authorities, and clarifying the role that the UK financial authorities would play in crisis management.
- **MERLIN desk-top exercises:** in September 2003 a desk-top exercise was undertaken to examine how the financial markets would respond to a three-day power failure at one of London's key market infrastructures. The exercise demonstrated that the impact of such disruption would depend on its timing and the volatility of the market and that risk management for market infrastructure would be a key concern. Throughout the whole process the importance of regular and accurate communication was emphasised. MERLIN is planning to undertake a similar desk-top exercise using a different scenario involving another market infrastructure.
- **APACS exercise:** in October 2003 APACS organised an exercise based on the scenario that a

small number of CHAPS payments were misdirected, and that BACS output was delayed. Participants included APACS, CHAPS, BACS, Cheque & Credit Clearing, the Bank of England, and a number of commercial banks. Again the importance of good communications was amongst the key lessons learnt from the exercise. The exercise was judged to be useful and worth repeating with a different scenario.

Promoting individual firms' resilience

8 As the regulator, the FSA works on their contingency planning with individual firms. It has been engaged on a substantial programme of work in this area since 2001, guided by a set of high-level regulatory principles for financial sector business continuity which can be summarised as follows:

- primary responsibility rests with firms' senior management, who should be able to demonstrate that the relevant issues and risks have been identified and addressed;
- the FSA will not take a prescriptive approach but will facilitate market solutions to issues and risks wherever possible;
- there will be ongoing dialogue with firms' management about their continuity arrangements, with a frequency and intensiveness determined by the FSA's judgement of the potential impact on consumers' interests and on the financial system of disruption to a firm's activities;
- there should be sufficient information and transparency about the facilities offered by external providers of business continuity services for firms to be able to make sound judgements about the likely adequacy of their back-up facilities;
- the FSA will focus in particular on the adequacy of contingency arrangements in the event of potentially systemic disturbance, with the ability of the financial system as a whole to continue to operate as its principal concern.

9 The highlights of the FSA's recent work on business continuity planning are:

- a consultation paper dealing with the management of operational risk — *CP142: Operational risk systems and control* — published in July 2002. It included a section on Business Continuity Management (BCM) and some draft guidance;
- a summary of the responses received, and the FSA's

feedback on them, was provided in a policy statement issued in March 2003. It is expected that a near-final version of this draft guidance will be issued later in the year, in time for its implementation in 2004;

- following on from this, the FSA reviewed BCM practice at twelve major financial groups. The purpose of the review was to assess the preparedness of firms for major disruption and to identify examples of good practice. These examples formed the basis of a BCM matrix which was included with the published report in September 2002; and
- in November 2002, the FSA followed up that review with a letter to the CEOs of major firms asking them to benchmark their firm's contingency plans against the BCM matrix and report the outcome back to the FSA. The responses have been reviewed and are being followed up as part of the FSA's ongoing supervision of each firm.

Ensuring the resilience of telecoms and physical infrastructure

10 The Standing Committee liaises closely with wider Government on business continuity issues including with the Ministerial Committee on Defence and Overseas Policy (International Terrorism) and the related committees at official level. These are serviced by the Cabinet Office Civil Contingencies Secretariat, which co-ordinates public sector work on resilience and contingency planning. The Standing Committee's work in this area contributes to the Government's Capabilities Programme, covering the full range of contingency planning work.

11 In addition, a London Resilience Forum is composed of representatives from the emergency services, utilities, transport, local authorities, the NHS, HM Treasury and the Bank of England. It established the London Resilience Team, which has been responsible for assessing the level of resilience of physical infrastructure in the capital, and co-ordinating initiatives to maintain and develop that resilience.

12 However, the financial authorities identified a need to take a different approach to the telecoms infrastructure in the financial sector, given both its critical importance to the functioning of financial markets and the interdependencies between telecoms suppliers and firms. The authorities have therefore established a group of the financial and telecoms

authorities and service providers, chaired by HM Treasury, to examine the specifics of telecoms infrastructure as it relates to the financial sector. This group has carried out a survey of major financial firms' telecoms arrangements and is intending to publish a Good Practice Guide on telecoms procurement by financial firms in early 2004.