

DEVELOPMENTS IN FINANCIAL SECTOR CRISIS MANAGEMENT

On Monday 28 November 2005, the tripartite authorities held the second of their series of annual market-wide exercises. This was the largest exercise yet undertaken in the UK to test the financial sector's ability to respond effectively to a major operational disruption. The exercise was organised by the Financial Services Authority (FSA), in conjunction with the other tripartite authorities - HM Treasury and the Bank of England.

The exercise was part of a tripartite programme to strengthen the authorities' arrangements dealing with both financial crises (typically where the initial trigger is a financial as opposed to physical event), and major operational disruption. A report on the main lessons emerging from the exercise will be published in the New Year.

The authorities believe it is important that market participants should understand the main institutional arrangements that have been put in place to ensure that the authorities coordinate their activities effectively when handling a crisis while at the same time discharging their individual responsibilities. The continuing work programme also involves an updating of the Tripartite Memorandum of Understanding to reflect developments since it was originally signed in October 1997. This is expected to be published early in the New Year.

The Framework

The crisis management framework centres on the Tripartite Standing Committee, chaired by the Treasury. The Committee comprises, at principals level, the Chancellor, the Governor of the Bank and the Chairman of the FSA. In normal circumstances, Standing Committee meets on a monthly basis at deputies (official) level to discuss individual cases of significance and other developments relevant to financial stability. In a crisis it meets at deputies or principals level as appropriate.

In a crisis, each authority will carry out its own role in support of the Standing Committee:

- The Treasury provides the link between the authorities and wider government. In a major operational disruption, it sits in the Cabinet Office Briefing Room (COBR), which coordinates the central government response to such events. *In extremis*, the Chancellor would decide whether or not to commit public funds, in the light of systemic assessments by the Bank and the FSA.
- The Bank, in addition to managing its own counterparty risks, is responsible for: assessing the overall robustness of financial markets, both domestic and international; ensuring as far as possible the normal functioning of payments systems; and, as necessary and with the approval of the Treasury, operating to provide emergency financial assistance to individual firms or to the market as a whole. The Bank also has responsibility for assessing the potential systemic implications of a crisis, as does the FSA (see below);

- The FSA has statutory responsibility for the regulation of authorised firms and Recognised Bodies under the Financial Services and Markets Act and facilitating so far as possible private sector resolution of crises. The FSA also has responsibility for assessing the potential systemic implications of a crisis.

During a crisis, the authorities have several means of communication with the financial sector:

- FSA supervisors can establish regulated firms' status and disseminate information through their normal contacts;
- the Bank can provide updates based on information flowing to and from its banking, trading and operational counterparties and institutions involved in the payments system;
- the authorities' three press offices would coordinate their public statements;
- the Bank chairs various committees of market participants - covering money markets, foreign exchange and the Cross-Market Business Continuity Group (see below) – that can meet in a crisis;
- the authorities and the private sector can use the Financial Sector Continuity website (www.fsc.gov.uk) to share financial sector specific information in either public or secure areas;
- the authorities can initiate market-wide conference calls and post messages on the tripartite telephone information line (0800 328 3477).

In addition to this general framework, the authorities have introduced two groups that would have a key role in a financial crisis and major operational disruption respectively.

Financial Crisis Management: Joint Crisis Co-ordination Team (JCCT)

In a financial crisis the JCCT has operational responsibility, under the Tripartite Standing Committee, for the detailed management of a financial crisis. The JCCT is chaired by the FSA and comprises staff from the Bank and FSA with expertise relevant to the particular nature of the crisis, together with an observer from the Treasury. The functions of the JCCT include gathering and assessing relevant information and co-ordinating contacts with firms, market participants and overseas authorities as well as joint workstreams on crisis resolution.

Major Operational Disruption Crisis Management: Cross-Market Business Continuity Group (CMBCG)

In a major operational disruption, the CMBCG, chaired by the Bank and including the FSA and HM Treasury, provides a forum for establishing senior-level practitioner views on specific issues such as the capacity of markets to continue to trade, the nature and type of infrastructure services which can be readily provided, the location of particular pressure points and other considerations relevant to the effective functioning of the core financial system. Views and information provided by the CMBCG will complement that received from the above-mentioned sources. Its role is advisory: decisions will be for the relevant official or market authorities or for firms themselves either individually or collectively through the agency of the CMBCG. The CMBCG may also have a role in pooling information to help facilitate private sector decisions and workarounds to alleviate pressures on the system.