PAYMENTS RISK COMMITTEE

Business Continuity Planning: Lessons from a Communications Exercise

July 9, 2013

The Payments Risk Committee (PRC) is a private sector group of senior managers from U.S. banks that is sponsored by the Federal Reserve Bank of New York. The Committee identifies and analyzes issues of broad industry interest related to risk in payments and settlement systems. It also seeks to foster broader industry awareness and discussion, and to develop input on public and private sector initiatives. The current members of the Committee are Bank of America , The Bank of New York Mellon, Bank of Tokyo-Mitsubishi UFJ, Citibank , Deutsche Bank, Goldman Sachs, HSBC Bank USA, JP Morgan Chase, Morgan Stanley, State Street Bank and Trust Company, UBS, and Wells Fargo.

FOREWARD

Today banking is more globally and systemically integrated than ever before. It is very difficult to find a business that is fully self-contained, as evidenced by the 2008 financial crisis. While technology has enabled more efficient access to liquidity, it has also magnified the impacts of systemic disruptions. Global financial institutions are interconnected through the millions of transactions sent by each firm and cleared and settled through the multiple financial market utilities around the world.

While firms individually conduct their own business continuity and resilience exercises, exercises that reach across multiple industry participants create different learning and relationship-building opportunities. The more that financial institutions understand their abilities to respond under stressful circumstances, the more the industry participants will be prepared to respond to actual events.

The Payments Risk Committee (PRC) is pleased to present the lessons learned by its members during a business continuity exercise held in October 2012. These lessons proved useful just a few weeks later, when the metropolitan New York area had to confront the extreme weather condition now known as Superstorm Sandy. We trust that these lessons will be of use to other firms.

The PRC would like to acknowledge the Business Continuity Planning (BCP) Working Group members for their efforts in planning the BCP exercise. The planning involved cooperation between numerous volunteers from PRC member firms and staff from the Federal Reserve Bank of New York, over the course of many months. The PRC also acknowledges The Clearing House and the Financial Services Information Sharing and Analysis Center for their contributions and assistance in developing and facilitating the exercise.

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EXECUTIVE SUMMARY

INTRODUCTION

As part of the Payments Risk Committee's (PRC) continuing objective to strengthen the clearing and settlement of financial transactions and support risk-reducing practices, the Committee organized a business continuity planning (BCP) simulation exercise for its members that focused on identifying the various types of communications that could be necessary in the event of a significant disruption to payments, clearing, and settlement (PCS) activities in the U.S.

Financial institutions (FIs) routinely conduct BCP exercises to support continuing business needs. The PRC exercise focused on ensuring effective communications protocols in the event of a market-wide disruption related to PCS activities. The exercise examined communications:

- within participating FIs across appropriate parts of an organization and, as needed, escalated to senior management,
- across firms to other FIs, and
- with financial market utilities (FMUs) and regulators.

The scenario was designed to trigger discussion of issues associated with communications with clients, regulators, and the media regarding payments and settlement services.

The scenario involved a software data corruption, originating from an external service provider, affecting wholesale payments. The simulated corruption resulted in firms reporting apparent discrepancies in the expected funds received from originating financial institutions. The simulated problem was assumed to have affected payment activities at all PRC member firms.

The exercise followed a distributed-tabletop simulation approach, in which facilitators at each firm were responsible for execution of the hypothetical scenario within their firms. The exercise was conducted over several days in October 2012. The enclosed report summarizes the primary findings that may be of use to the public and other interested firms to promote emergency preparedness.

The conclusions and recommendations of this report do not necessarily represent the policies or views of the participating institutions, the Federal Reserve Bank of New York, or the Federal Reserve System.

OVERALL FINDINGS

The 2012 BCP exercise proved to be a learning opportunity for all participating organizations. The simulation was designed to require engagement across multiple areas within each participating member firm, specifically, operations, legal, compliance, risk management, business management, and client-facing and customer service personnel. Key findings from the exercise include:

- Management, communication structures, and central coordinators are in place at all participating firms to address a PCS-disruption. The contact points, levels of escalation, and associated practices differed among firms.
- Participants rely on communication from affected FMUs during a disruption. Effective communication facilitates participants' understanding of the "root cause" of a PCS disruption, providing information useful in considering their own actions and communications.
- Communication through multiple channels (e.g., email, phone, Internet, etc.) was viewed as beneficial, as were arrangements that permitted two-way communications (that is, discussion or other type of questions and responses).
- Common industry messages could be beneficial, for example, when addressing shared issues.
- Having a convening and coordinating body as a venue for discussion in an emergency situation is considered helpful.
- Opportunities for senior executives to discuss cross-industry PCS risk concerns add value and may help clarify issues and risks to the broader industry, market and clients.
- Communication from FMUs to affected customers should occur through multiple channels (e.g., email, Internet website posts, and telephone calls) and allow two-way engagement.
- Firms should continue to ensure that they maintain a broad and up-to-date roster of representative contact information and communication protocols with critical FMUs to facilitate appropriate communication during an event that may affect PCS activity. Note that many PCS systems operate around the clock, so contact arrangements should have an "off" hours component.

SUPPLEMENTARY LESSONS FROM SUPERSTORM SANDY

After the completion of the BCP simulation exercise, PRC member banks' business continuity plans were tested when Superstorm Sandy struck the New York metropolitan area on Monday, October 29th, with sustained wind speeds reaching 90 mph and storm surges up to 11 feet above high tide levels. As part of their own post-event procedures, PRC member firms compiled lessons from their experiences. The summary below is based on selections from those lessons that pertain to the effectiveness of contingency planning for PCS activity during and after Superstorm Sandy.

LESSONS LEARNED

Overall, member firms reported that existing contingency plans enabled businesses to operate through the storm and aftermath with minimal disruption to PCS activities. Some member firms reported experiencing brief interruptions to the availability of their internal systems for a small number of applications. Firms also reported that, given backup procedures that were implemented, the interruptions did not have significant adverse effects on PCS activities. While these lessons reinforce the importance of effective communication protocols within FIs as well as between FIs and external service providers, they are not limited to this topic.

Specific feedback from PRC firms:

- Reduce reliance on paper files.
- Increase capacity of staff to work remotely or from virtual desktops.
- Assess critical buildings for physical infrastructure weakness.
- Develop multiple channels for both internal and external communications as part of business continuity plans.
- Continuously engage FMUs and service providers to understand their business continuity plans ahead of time.
- Provide staff contingency contacts lists and sites sufficient to accommodate the influx of calls to back-up facilities.
- Consider centralized and bilateral communication mechanisms to "push" information and updates to clients, enabling efficient means for clients to track provider statuses

APPENDIX A: PARTICIPATING FIRMS

Bank of America

Bank of New York Mellon

Bank of Tokyo Mitsubishi

Citibank

Deutsche Bank

FS-ISAC

Goldman Sachs

HSBC

JP Morgan Chase

Morgan Stanley

SIFMA

State Street

The Clearing House

UBS

Wells Fargo

Federal Reserve Bank of New York

Board of Governors of the Federal Reserve System