

Implementation of Sound Practices

Cost-Benefit Considerations. The agencies recognize the importance of cost-effective business continuity planning. The costs associated with implementing the sound practices can vary substantially depending on the extent to which incremental improvements may be needed to address the risks of a wide-scale disruption. Some firms that play significant roles in critical markets may find that they need to implement only relatively minor improvements to their back-up arrangements. Other firms may find it necessary to adopt a more robust technology or upgrade software applications in order to achieve recovery objectives identified by the sound practices. To mitigate the costs of these enhancements, firms may wish to integrate them into the strategic planning process (e.g., coordinate with planned enhancements to facilities, information system components and architecture, and business processes).

Firms should recognize that adoption of the sound practices will help to reassure their counterparties and customers that they can rapidly regain their ability to clear and settle transactions in critical markets. Similarly, firms participating in the financial system would enjoy greater assurance that critical market participants will be able to withstand a wide-scale disruption and meet their payment and settlement obligations, thereby minimizing the potential for cascading fails and resulting systemic risk. Firms report that market forces clearly recognize the interdependent nature of the financial system, and customers and counterparties increasingly expect firms to demonstrate their ability to continue operations should a wide-scale disruption occur.

Implementation by core clearing and settlement organizations. Core clearing and settlement organizations should continue their accelerated efforts to develop, approve, and implement plans that substantially achieve the sound practices by the end of 2004. Plans should provide for back-up facilities that are well outside of the current synchronous range that can meet within-the-business-day recovery targets. On a case-by-case basis, core clearing and settlement organizations can be given additional time to complete implementation of back-up facilities that are well outside the current synchronous range, so long as they take concrete, near-term steps that result in substantially improved resilience by the end of 2004. The amount of flexibility will be measured

against factors such as board of directors and senior management's commitment to approved budgets, and adherence to aggressive timetables and interim milestones. Plans should include measurable milestones to assess progress in achieving the sound practices.

Implementation by firms that play significant roles in critical markets. Firms that play significant roles in critical financial markets should develop, approve and implement plans that call for substantial achievement of the sound practices as soon as practicable, but generally within three years of publication of this paper.¹¹ In some cases, a firm may find it necessary to provide for a longer implementation period in light of its respective risk profile, level of resilience, and unique business circumstances. All plans should incorporate interim milestones against which progress can be measured and should provide for ongoing consideration of the costs and benefits of achieving greater geographic diversification of back-up facilities.

Role of Senior Management and Boards of Directors. The agencies believe, and industry participants confirm, that incorporation of the post-September 11 business continuity objectives and sound practices discussed in this paper raises numerous short- and long-term strategic issues that require continuing leadership and involvement by the most senior levels of management. These issues must be considered in light of a firm's dependencies on other market participants and the need to achieve a consistent level of resilience across firms. Boards of directors should review business continuity strategies to ensure that plans are consistent with the firm's overall business objectives, risk management strategies, and financial resources. Decisions about overall business continuity objectives should not be left to the discretion of individual business units.

Conclusion

After September 11, financial industry participants initiated a significant review of lessons learned with a view towards strengthening their business continuity plans. The agencies believe that it is important for financial firms to improve recovery capabilities to address

the continuing, serious risks to the U.S. financial system posed by the post-September 11 environment. Financial industry participants have demonstrated a keen commitment to ensuring the continued viability of the U.S. financial system by strengthening their own business continuity plans to address the risk of a wide-scale disruption. Over the past year, significant short- and longer-term improvements have been made to business recovery plans. Financial industry participants recognize the importance of continuing senior management involvement in achieving the sound practices discussed in this paper. Firms also are participating in industry initiatives aimed at improving private-sector coordination and ensuring that business recovery plans are compatible and that an appropriate level of robustness is achieved among peers.

The agencies recognize that achievement of the sound practices could be a multi-year endeavor for some organizations and that it is not necessary or appropriate to prescribe any specific technology solution for implementing the sound practices. The agencies urge all financial system participants to continue efforts over the long term to ensure that critical U.S. financial markets have appropriately robust recovery capabilities and can respond to a wide-scale disruption by adopting the sound practices to the fullest extent practicable. Finally, the agencies encourage financial firms that are not deemed to be a core clearing and settlement organization or a firm that plays a significant role in critical markets to review and consider implementation of the sound practices, particularly if a firm's transactions levels approach those deemed to be significant.

By order of the Board of Governors of the Federal Reserve System, April 7, 2003.

Jennifer J. Johnson,

Secretary of the Board.

Dated: April 7, 2003.

John D. Hawke, Jr.,

Comptroller of the Currency.

By the Securities and Exchange Commission.

Dated: April 7, 2003.

Margaret H. McFarland,

Deputy Secretary.

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¹¹ The agencies will contact each firm that appears to meet the market share thresholds and, if they conclude that the firm plays a significant role in one or more critical markets, will review the firm's plans for implementing the sound practices. The agencies also will monitor implementation of those plans.