# Contingency Planning

*Issues and Recommendations*

On Tuesday, September 11, 2001, the destruction of the World Trade Center resulted in widespread damage throughout the financial community. Both front- and back-offices at many downtown financial firms were destroyed or evacuated. Affected firms quickly shifted to contingency facilities to restore operations, however, and the importance of robust contingency planning for all firms was highlighted.[1]

Although the events of September 11 resulted in some disruption of business in the foreign exchange market, the market continued to function, thanks, in part, to comprehensive contingency planning by financial firms in preparation for Y2K. On the whole, market participants were well-equipped to initiate contingency operations and communication channels with one another. Consequently, the foreign exchange industry responded quickly and efficiently to events as they unfolded, and the scope of disruptions among foreign exchange participants was surprisingly narrow. Yet the disruptions of September 11 highlighted several risks specific to the foreign exchange market that foreign exchange providers should note as they reassess their preparedness for future market events.

As an advisor to the foreign exchange community, the Foreign Exchange Committee (the Committee) serves as a forum for offering guidance during market disruptions. Toward this end, the Committee has summarized below some of the issues reported in the foreign exchange marketplace on September 11 and subsequent

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days. The majority of these issues affected a relatively limited subset of market participants, but they provide an opportunity for all market participants to consider their firm's preparedness for such events. In addition to other Committee documents such as the *Guidelines for Foreign Exchange Trading Activities*, the Committee offers supplementary guidance for firms' business continuity planning efforts and encourages foreign exchange providers to review their contingency preparedness in light of them.

### SETTLEMENT AND PAYMENT

- Systems problems reportedly resulted in delayed settlement for some proprietary foreign exchange trades.
- Third-party payment delays constrained some payment flows, resulting in additional payment delays.
- Some firms reported elevated levels of trade fails on September 11 and 12. The number and size of failed trades diminished in subsequent days. No firms reported alarming levels of fails.

Recommendation: Market participants' business continuity plans should incorporate the business recovery capabilities of their internal foreign exchange transaction-processing facilities, as well as those of their critical service providers—particularly clearing and third-party settlement banks.

### LIQUIDITY

- Interdealer liquidity was reportedly constrained at times by disruptions in electronic trading systems.
- Connectivity to interdealer electronic trading systems was reportedly intermittent in New York. Many firms, however, accessed these systems in other locations, such as London.
- Some foreign exchange providers did not have electronic trading systems at their contingency locations.
- Dealers reported that liquidity for dollar-based currency pairs did not migrate to alternative electronic trading systems as rapidly as it had during past service disruptions.
- Many dealers reported difficulty reaching voice brokers in New York during the week of September 11.

Recommendation: Market participants' business continuity plans should reflect their liquidity requirements and the business continuity capabilities of their critical liquidity providers, including disaster recovery site access to electronic trading services.

Market participants should be mindful of the contingency arrangements made available by their key liquidity providers.

### CONFIRMATIONS AND NETTING SERVICES

- Participants reported some disruptions in confirmations, netting, and settlement services.
- Affected firms reportedly netted trades manually.
- Firms concentrated on reconciliations—ensuring that reconciliations were completed before authorizing additional trades.

Recommendation: Market participants' business continuity plans should take into consideration the

[1]Several regulatory bodies offer guidance on firmwide contingency planning. Federal Reserve guidance can be found at http://www.newyorkfed.org/bankinfo/circular/10952.pdf. Broker dealers may look to several documents from the Securities and Exchange Commission for guidance, including http://www.sec.gov/divisions/marketreg/lessonslearned.htm and http://www.sia.com/business_continuity/pdf/bestpractices.pdf.

technical support requirements of their critical processing systems, including contingency site access to critical confirmation and netting systems and increased manual trade processing requirements.

Business continuity plans should incorporate the contingency arrangements made available by critical confirmation and netting systems.

### INDUSTRYWIDE AND FIRMWIDE COMMUNICATION

- Industrywide conference calls served as a forum for exchanging information and highlighting trading and settlement issues.
- Conference calls between the Federal Reserve Bank and the foreign exchange community were an important means of communication.
- Participants composed a contact list of emergency contact information for trading, legal, and operations staff.
- Participants recommended that banks re-evaluate contingency plans to ensure that front- and back-office staffs are trained and prepared for evacuation. Operational redundancy should include staff cross-training in the event of an emergency.

Recommendation: Market participants should ensure that business continuity plans are properly integrated with business continuity plans across their organization—particularly in operations, treasury, and technology.

Market participants should ensure that their business continuity plans address the ability of personnel to relocate during the crisis.

Market participants should maintain emergency contact information for their primary counterparties. Information records should include contingency site phone numbers and key personnel contact information. Market participants should periodically monitor updated contact information made available on the Foreign Exchange Committee's web site (www.newyorkfed.org/fxc).

### INDUSTRY GROUP COORDINATION

- The Foreign Exchange Committee coordinated with the Singapore Foreign Exchange Market Committee (SFEMC) on best practices regarding the Taiwan dollar (see statement at http://www.newyorkfed.org/fxc/taiwan.pdf).

Recommendation: During market disturbances, market participants should pay special attention to guidance published by industry groups such as the Foreign Exchange Committee and the Singapore Foreign Exchange Market Committee.

Regional foreign exchange committees should exercise best efforts to communicate market recommendations to one another prior to their public release.