

Outline of Types of Information that would be Useful in an Emergency Situation

As the situation of a financial conglomerate worsens, the nature and scope of the problems being encountered will influence the types of information supervisors will be interested in accessing. As such, specific types of information needs cannot be anticipated in advance and will need to be determined on a case-by-case basis. Supervisors' needs will only be met if the conglomerate has in place good information systems which will permit accurate and detailed information to be retrieved in a timely and reliable manner.

In an emergency, supervisors' information needs will often be sharply focused and potentially very detailed. Supervisors may not seek the same types of information as set out below for any given emergency. While the primary information needs in an emergency will be firm-specific, there may also be a need for information relating to depositories, exchanges and clearing organisations. In order to respond to emergency situations in a timely and effective way, the information requirements of supervisors can be characterised as follows:

- Updates of information that should be on hand or readily available to supervisors;
- Information that supervisors will likely want to obtain during the course of an emergency;
- Information that will permit supervisors to assess the impact of an emergency on other financial firms under their supervision; and
- Information that provides the context of the emergency and its potential course.

In some unusual emergency circumstances, such as a major fraud or operational failure, the quality of some information from a supervised entity may be compromised. In such circumstances, supervisors will need to develop alternative sources of information or a strategy with which to obtain approximations of the financial and risk exposure information needed.

In an emergency, supervisors need to establish communication with a representative of their supervised entity (or entities) who can act as the contact person to provide requested information to the supervisors and to act as the primary liaison between the supervisors and the supervised entity. This person, which in unusual circumstances could be appointed from outside the supervised entity, should be designated as soon as possible once the emergency is detected.

The more familiar the supervisor is with the conglomerate's operations, the better positioned it will be to act in an emergency situation. Completing the Conglomerate Questionnaire and matrix in advance of an emergency can be a useful supervisory tool.

A. Information That Should Be On Hand or Readily Available to Supervisors

Supervisors' ability to gather and accurately interpret necessary financial and operational information about the conglomerate is critical to effective supervision in an emergency. Either through ongoing supervisory work or as a result of having carried out a mapping exercise using the Conglomerate Questionnaire, relevant supervisors should be familiar with the key management information reports available at the conglomerate and knowledgeable of where information gaps or weaknesses may exist. Examples of the types of information which supervisors will generally need are set out below.

- An organisational chart or other descriptive material that depicts the supervised entity and any material holding companies, subsidiaries, or affiliates, the business line organisation structure, with the supervised entity's place in the business line(s), and the location of relevant business line management.
- Financial information on the supervised entity and its ultimate holding company, if applicable, including balance sheets and income statements and the capital structure.
- The liquidity and funding profile of the supervised entity. This information would include:
 - the liquidity of the material assets, the nature and stability of the entity's current funding sources and the availability of alternative funding, and intercompany funding arrangements;
 - large payables, including securities payables, aggregate insurance claims payments, and out-of-the-money over-the-counter derivative and foreign exchange contracts; and
 - other significant cash and securities needs associated with exchange activities or clearing and settlement, and significant clearing and settlement arrangements through or for other firms.
- The principal market risk and credit risk exposures of the supervised entity, which should include: on- and off-balance sheet positions, as well as significant counterparty exposures; and insurance underwriting risk, interest rate risk and investment risk.

An up-to date organisation chart would provide supervisors with the ability (1) to verify their understanding of the entire organisation's legal entity structure and how the supervised entity fits into that overall structure and (2) to facilitate, given the nature and scope of an emergency situation, the identification of affiliates that may cause the supervised entity to be at risk. Updating information briefly describing the primary activities of the supervised entity, the geographic and legal entity location of the business heads of those activities, the supervisors of all material entities and, where not obvious from financial information, the scale of the activities would also be useful.

Current financial information, including the balance sheets and income statements, would allow supervisors to analyse and assess the supervised entity's current financial condition and results of operations and to gain insight into the potential impact of current risk exposures on the entity's financial condition.

A current liquidity and funding profile of the supervised entity would enable supervisors to determine the entity's cash needs to cover liabilities and settlement obligations, how quickly the entity can generate cash from its existing assets, liquidation of collateral, where appropriate, or through additional liabilities, and how effectively the entity can access credit-sensitive trading markets. Since counterparties to banking and securities firms are likely to assess their credit exposure to the firm across the full range of funding, counterparty exposures and settlement arrangements, a comprehensive assessment of liquidity will normally require access to information on all these elements. Given the importance of liquidity in emergencies, specifically with regard to banks and securities firms, the supervisor's liquidity information needs can be quite detailed, including a day-by-day breakdown of the liquidity profile and of assets, liabilities and other obligations.

Current market risk and credit risk information would provide supervisors with insights into the supervised entity's major exposures which may not be readily apparent from the financial statements. It also gives supervisors the ability to seek out additional information, such as large credit exposures by customer or counterparty or exposure to a specific counterparty. In most cases, this information should be current as of a day or two of generating the information for a periodic or requested report. For banks and securities firms, credit risk exposure information should include estimates of direct exposure (lending or placements of funds), counterparty credit exposures through over-the-counter contracts or large receivables, and clearing and settlement exposures. For insurers, market and credit risk exposure information should include the current constitution of the portfolio of insurance policies (including reinsurance protection), the composition of assets covering technical provisions and liabilities, the interest rate applied in the calculation of the

mathematical provisions, how these insurance liabilities have been assessed, and an estimate of the firm's exposure to large insurance risks.

B. Information that supervisors will likely want to obtain during the course of an emergency situation

In contrast to basic financial and operational information generally available to supervisors, the information that a supervisor will likely want to obtain from a supervised entity during the course of an emergency situation would not necessarily be available to the supervisor prior to an emergency situation. It would be the particulars of the emergency -- the nature and scope of the problem -- that would indicate what information would be required by supervisors. However, the supervised entity's risk-taking, risk management, financial, operational, and control systems should be sufficient to capture and provide the desired information. Although the nature and scope of the emergency situation will determine specific information needs, those needs would generally include the following:

- What is the nature and severity of the emergency situation within the supervised entity?
- How is the supervised entity responding to the emergency situation?

This information could include the person(s) managing the emergency situation within the firm with their location, the use of any contingency plan or other set of general instructions to managers of the firm during the emergency, and the awareness and involvement of the firm's board of directors.

- What is the impact of the emergency situation on the supervised entity's exposure to counterparties, including customers, depositories, exchanges, and clearing organisations?
- How has the emergency affected the supervised entity's liquidity and funding profile?

This information could include the exposure of counterparties, including customers, depositories, exchanges, and clearing organisations, to the supervised entity, their reaction to the emergency, including willingness to enter into new funding or trading transactions with the supervised entity, upcoming settlements, and actual and expected margin and collateral calls.

- Are customer assets sufficiently safeguarded from the effects of the emergency situation and these assets fully accessible to customers?

This information could include the location of client account information, the amount of client securities and client money by custodian or manager, whether assets can be transferred, liquidated or otherwise offset, whether custodial or cash account services are provided by the supervised entity or its affiliates, and, if so, the use of customer cash or securities to obtain funding for the supervised entity or an affiliate. Information about custodial or fiduciary services provided by the supervised entity may also be of interest. Additionally, it may be useful for insurance companies to provide information about assets that are held to cover insurance company technical provisions, as these assets generally have to be held apart from other assets of the group in accordance with national law.

- To what extent are affiliates of the supervised entity affected by the emergency situation and to what extent do the affected affiliates pose a risk to the supervised entity?

This information could include whether the supervised entities' affiliates are in compliance with their regulatory capital requirements and the size and nature of intercompany balances or exposures, current flows of funds, prospective cross-entity funding or capital needs, unusual flows of funds or impediments to flows of funds.

- What is the extent, if any, of operational or support functional difficulties resulting from the emergency situation?

This information could include strains in processing transactions in securities or processing of insurance claims, or other operations, such as backlogs, unusual number of fails to deliver, trade matching or reconciliation problems, the geographic and legal entity location of major operational centres, location of back-up operational personnel and contact names, and for outsourced arrangements, any change in the relationship between the supervised entity and the outsourcer.

- To what extent are the firm's shareholders willing to support the firm during the emergency situation?

This information could include data on the level of daily trading volume in the firm's stock since the announcement of the emergency situation compared with the level of daily trading volume for some period prior to the announcement. Information regarding the change in the firm's stock price since the announcement could also be relevant.

- What options are available regarding the sale of the entire supervised entity or part of its business to another company?

This information could include the number of serious offers (if any) that have been extended by other entities to purchase all or part of the entity since the announcement of the emergency situation.

- How has the media reacted to the emergency situation?

This information could include any articles printed in newspapers or trade journals that refer to the emergency situation. Any relevant press releases issued by the supervised entity would also be of interest.

- What plans have been made to restore the firm to sound financial condition?

This information could include details on any plans that have been developed and any specific measures that have already been taken in response to the emergency situation. It is important that the impact any such plans could have on other entities (e.g., if the implementation of the plan could affect another entity's financial position) should be considered.

The information received from supervised entities in response to requests by supervisors for information will, in turn, usually lead to more specific, detailed and in-depth questions based on the specifics of the emergency situation and the involvement of the supervised entity. A contact person should be identified at a supervised entity to act as the primary liaison between the supervisor and the supervised entity during an emergency.

C. Information That will Permit Supervisors To Assess the Impact of An Emergency On Other Financial Firms Under Their Supervision

The nature and scope of an emergency situation will usually indicate to supervisors which financial firms would likely be affected by the emergency. Gathering and updating financial and operational data along with emergency situation-specific information from one or more firms most deeply involved in the emergency situation may allow supervisors to ascertain what additional information is needed from other financial firms. In other circumstances, however, the supervisor will seek to collect information from a broad group of supervised entities in its jurisdiction in order to expedite the assessment of the emergency's impact.

For those other supervised entities within a supervisor's jurisdiction, the supervisor could choose to obtain financial and operational information as well as the emergency-specific information. Alternatively, the supervisor can choose to obtain only

information specifically relating to the emergency (such as specific market or credit risk exposures).

D. Information That Relates to Actions That Could Influence the Course of the Emergency

Finally, supervisors may also collect information from other supervisors and a variety of other sources in order to better understand the context of an emergency and how the course of events might develop.

- A calendar of key dates for the emergency, including important settlement dates, maturities of major funding arrangements, planned public announcements, contract announcements, and court decision dates.
- The role and involvement of other supervisors, including the existence of any actual or emerging situation that would have the potential to trigger action by the supervisor, such as a capital shortfall in another legal entity.
- Laws, regulations, bylaws and operating procedures that could be triggered as a result of technical or actual default by a supervised entity or its counterparty in an emergency.

In an emergency situation, supervisors will also need to consider the circumstances under which other supervisors and government agencies need to be contacted about the emergency.