



TC NOTES

PRACTICAL **LEADERSHIP**
AND **GUIDANCE** FROM
TORONTO CENTRE

CRISIS BINDER

AN ESSENTIAL TOOL FOR CRISIS
PREPAREDNESS

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TABLE OF CONTENTS

- I. Introduction**
- II. What is a crisis binder?**
- III. Why is it important to have a crisis binder?**
- IV. What makes a crisis binder useful?**
- V. Preparing a crisis binder**
 - A. Where to start
 - B. How to craft it and ensure it remains useful
- VI. Content of a crisis binder**
 - A. Overview Note
 - B. Crisis checklist
 - C. Action plan for the first 24 hours
 - D. Legal topics
 - E. Communications
 - F. The financial sector in a nutshell
 - G. Intervention options
 - H. Products or businesses that may complicate the crisis or may be difficult to resolve
 - I. Corporate governance issues
 - J. Lender of last resort issues
 - K. Payment system issues
 - L. Cross-border issues
 - M. Deposit insurance and insurance policyholder protection issues
 - N. External resources
 - O. Templates
 - P. Address book
 - Q. War room
- VII. Conclusions**

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CRISIS BINDER

AN ESSENTIAL TOOL FOR CRISIS PREPAREDNESS

Introduction¹

A crisis binder is an essential tool to enhance crisis preparedness. It is a comprehensive compilation of strategic information on crisis management politics, policies, powers and tools, and on the financial sector, presented in an easy-to-use format. Its goal is to help the authorities make decisions in turbulent times and to allow crisis management teams to spring into action with no delay, act effectively, and communicate assertively with all the stakeholders when a crisis erupts.

An effective crisis binder is part of a solid action plan to deal with a crisis and must always be kept up to date. Its usefulness is further enhanced by being applied when running successive crisis simulation exercises and being updated to reflect the lessons learned from these exercises. Important input will also come from within-agency and inter-agency discussions of financial sector vulnerabilities and policy options.

Crafting a crisis binder and running crisis simulation exercises helps build trust, lower the barriers to inter-agency co-operation, and facilitate crisis management. A financial crisis is the time for authorities to co-operate effectively.

Working on a crisis binder is an opportunity to build a common vision on crisis management, not only within different departments in each supervisory and regulatory authority, but also across supervisory and regulatory authorities, the Ministry of Finance, the central bank, the deposit protection and insurance policyholder protection schemes (where they exist), and resolution authorities.

The binder should also reflect the cross-border angle of crisis management, identifying relevant stakeholders, any gaps and vulnerabilities, and the best ways to address cross-border challenges in times of crisis.

Crisis binders are particularly useful when regulatory and supervisory agencies face high staff turnover or there are frequent changes at the helm.

The main supervisory objectives of a crisis binder are to:

- enhance crisis preparedness
- support the authorities' decision-making processes when faced with a crisis
- provide the authorities with easy-to-use input based on cold-headed analysis conducted in peaceful times
- build a common vision on crisis management in all supervisory and regulatory agencies
- facilitate co-ordination and co-operation by setting up inter-agency teams to craft and keep updated the crisis binder

¹ This Note was prepared by Ruth de Krivoy on behalf of Toronto Centre.

What is a crisis binder?

A crisis binder is a comprehensive compilation of strategic information on the financial sector and on crisis management policies, powers, and tools, logically organized by chapters and sections and presented in an easy-to-use format to help the authorities make decisions in turbulent times. It is the go-to document for crisis management teams when a crisis erupts.

The crisis binder is a component of the contingency planning process. Contingency planning is a means to think ahead; identify vulnerabilities in the banking, securities, insurance, and pensions sectors, and in the payment system; analyze possible triggers and contagion processes; identify crisis mitigation tools; determine the type of actions the authorities may need to take to manage a crisis; and lay out the policies, skills, legal powers and practical arrangements that may be needed to manage the crisis and mitigate its cost.

The crisis binder may be visualized as an actual “binder” that holds physical documents and information, separated by tabs to help users quickly find what they are looking for. Nowadays, it will most likely be a set of electronic files, conveniently organized in folders, password protected, hosted in a secure server or in the cloud, and accessible from a remote or backup site.

Its content must be easy to find, easy to use, properly organized, and always kept up to date. All interested parties must know where and how to find it, know the passwords, and be confident that its content is current and accurate.

The crisis binder content must be treated as a strictly confidential matter. It identifies financial sector vulnerabilities and problem institutions, and sets out how depositors, insurance policyholders, bank shareholders, and taxpayers might share the cost of a crisis.

The content of the crisis binder tends to be leaner as crisis preparedness becomes embedded in the organizational culture of regulatory and supervisory agencies. In effect, the crisis binder may become “decentralized” in the sense that different members of the crisis management team (and/or their deputies) would bring the relevant parts of the binder with them when summoned to deal with the crisis. However, this is only likely to happen as a result of a series of crisis simulation exercises that identify key roles and responsibilities within the crisis management teams and clearly define how these responsibilities can be articulated internally.

A joint crisis management team spanning the different authorities brings together the heads of all agencies involved in crisis management, their deputies, and additional membership covering five critical areas: supervision, enforcement, legal, communications, and international affairs. Each authority in turn appoints its crisis management team, chaired by the head of the agency and with a broader membership covering (at least) supervision, enforcement, legal, communications, international affairs, human resources, and IT, with clearly nominated and trained deputies for each area.

In the event of a crisis, the crisis management teams should be aware of the risks and should bring with them the relevant legislation and other legal texts, a full understanding of financial vulnerabilities and key challenges to financial stability and the payment systems, knowledge of how any powers or tools could be exercised in practice, and their view on how best to deal with the crisis.

When the crisis erupts it is critical to have the right people in the room, supported by an effective crisis binder.

Why is it important to have a crisis binder?

It is often said that each crisis is different and planning ahead is a futile exercise. But, having a plan is better than having no plan, even if the plan will have to be adapted to specific circumstances.

In the event of a crisis, the authorities must spring into action immediately because time is of the essence. They are expected to restore trust in the financial system quickly and at the lowest possible cost for taxpayers. They must speak with a single voice and communicate effectively with all relevant stakeholders, following a carefully crafted communications plan.

Difficult decisions must be made under enormous political, financial, and social stress. Decision-makers will inevitably be exposed to criticism, political attacks, and even lawsuits because crisis management decisions have an impact on depositors, insurance policyholders, shareholders of financial institutions, investors, and taxpayers. The poor, and especially women and girls, are hit the most by a financial crisis.

A crisis binder helps the authorities address issues promptly with a steady hand instead of improvising under pressure when banks begin closing, money flees the country, investors suffer losses in the value of their investments and pensions, and depositors and insurance policyholders bang at the doors of Parliament, the Ministry of Finance, and the central bank asking for their money.

Decisions are sounder and actions are more effective when the authorities have access to strategic information, cold-headed analysis, and even pre-written templates of contracts and press releases prepared in peaceful times.

Crafting a crisis binder is a step in the process of building up crisis preparedness; it is not an end in itself. The crisis binder becomes more useful as contingency planning becomes ingrained in the organizational culture of the regulatory and supervisory agencies, and evolving views of the crisis management teams feed back into the crisis binder. Periodic crisis simulation exercises enrich the crisis management teams' understanding of the challenges they may face in a crisis.

Over time, crisis management teams may feel they become less dependent on a crisis binder. The "knowledge" will be carried around in the heads of people who have done many simulation exercises, particularly when staffing is stable and trusted by the heads of the regulatory and supervisory agencies, and the contingency planning culture is well-rooted.

When a crisis erupts, the summoned crisis management teams will probably know the crisis binder content by heart. However, both the crisis management teams and the heads of the agencies will always benefit from having at hand a well-structured and up-to-date crisis binder with the salient legal, financial, and operational challenges clearly spelled out, and the list of names and contact information needed in times of crisis at hand, an issue that is often overlooked.

Crisis binders are particularly useful when regulatory and supervisory agencies face high staff turnover or there are frequent changes at the helm.

What makes a crisis binder useful?

A crisis binder is useful when it fulfills these six conditions:

- has the buy-in of the authorities and all crisis management teams
- contains all the information required for sound decision making when a crisis erupts
- is easy to use
- is up to date
- has been tested in crisis simulation exercises
- is strictly confidential and restricted to the crisis management teams.

Preparing a crisis binder

A crisis binder should ideally be crafted by a group of high-level staff from all agencies involved in crisis management who come together as an inter-agency task force (the Crisis Binder Task Force) with the goal to produce a draft. In the event that each regulatory and supervisory agency has a crisis binder, the task force should ensure that they are all consistent.

Where a country has established some sort of Financial Stability Board/Committee comprising (at least) the Ministry of Finance, the central bank, and supervisory authorities, the responsibility for crisis management planning and work on the crisis binder could be led, overseen, encouraged, and promoted by that board or committee.

The leader of the task force should be a high-level official of the agency with the strongest financial and political stakes in crisis management. They should be a respected member of the regulatory/supervisory community, with moral and official authority, and the leadership skills needed to make things happen.

The task force leader should assign responsibilities over content to the task force members and ensure that all agencies have ownership over the binder. Task force members are accountable to the leader, and they are accountable to the authorities.

The task force should follow an action plan with milestones and deadlines. Each agency representative should be in charge of clearing their agency's input to the crisis binder.

Once cleared by the task force, the crisis binder draft should be submitted to the heads of the agencies for approval.

Specific individuals should be given the responsibility of updating the crisis binder regularly and the head of the task force should ensure that this is done.

This process is particularly useful to lower the barriers of silo mentality that often affect regulatory and supervisory agencies, hindering exchange of information, and slowing the response to critical situations.

The crisis binder must contain all the information required for sound decision-making when a crisis erupts and must be easy to use. This is not the place for long stories, complex memos, research papers, or reams of data. Texts should not be too long to read when necessary. They must be short, to the point, and action oriented.

Data on financial institutions, insurance companies, pension funds, and other financial institutions must be relevant and up to date. An institutional profile (fact sheet) should be prepared for each major financial institution following a common template. The fact sheet should include information on ownership (especially in closely held institutions), solvency, liquidity, key vulnerabilities, cross-border issues, and the potential financial, social, and political impact of a failure. Information on financial institutions should be strategically prioritized in order to sharpen the authorities' view on the more vulnerable and systemically important institutions that need urgent attention.

Crisis management teams should reflect on lessons learned from past crises in the country and abroad, paying attention to what went well, what went wrong and what can be improved. They should analyze the gaps in crisis management processes that need to be addressed, discuss the country's political actors' views on crisis management and consider the regulators' and supervisors' risk appetite and perceptions about their own legal protection. The teams should also review and prioritize intervention options including stabilization, taking control, winding up, resolution, providing liquidity, and directions for compliance.

Intervention options must be thought about in advance and reflected in the crisis binder. Options must be clearly spelled out, including private sector solutions (market/third party solutions) which are often the first-best option, provided that a private sector third party is prepared to take on a financial institution in trouble. This is the time to discuss ways to encourage and facilitate private sector solutions should the need arise. In the heat of the crisis, the authorities will have to find the best available option under stress.

Cross-border aspects of crisis management merit special attention. Touch points with foreign regulators and supervisors must be identified ahead of time and relationships must be cultivated in order to build trust. Foreign-owned financial institutions, overseas operations of domestic financial institutions, possible foreign investors in failing institutions, and a host of other issues need to be taken into account when planning how to manage a crisis. Regulatory and supervisory powers and rules at both the host and home country as well as personal relationships must be included in the relevant section of the binder.

Last but not least, relevant parties must know where to find the crisis binder and be able to access it, including remotely if necessary. A binder hidden in a vault or buried in a server is useless.

Where to start

Contingency planning is the time when the authorities:

- think ahead
- identify vulnerabilities in the banking, securities, insurance, and pensions sectors and in the payment system
- analyze possible triggers and contagion processes
- identify crisis mitigation tools
- determine the type of actions they may need to take
- conduct stakeholder analysis
- lay out policies
- identify skills and resources needed to deal with problems
- gauge their legal powers and risks
- assess the practical arrangements needed to manage the crisis

The content of the crisis binder shapes up as these conversations proceed, fostered by crisis simulation exercises covering a range of different types of crisis such as financial failures of one or two large financial institutions, multiple failures of smaller firms, failure of a key component of the payment system, sharp falls in key asset and commodity prices, natural disasters, pandemics, and terrorist attacks.

Box 1. How to craft a crisis binder and ensure it remains useful?

Set up a crisis binder task force

- Be inclusive: ideally all agencies involved in crisis management should be represented. Otherwise, they should be aware that a crisis binder is being prepared by a specific team in order to avoid the crisis binder project from being labeled as a secretive and elitist endeavor.
- Build the sense of ownership by all participants in the task force.
- Encourage task force members to share the importance of their work with their peers in their respective agency to build ownership in the agency as a whole.
- Define the task force's mission.
- Agree on the structure and content of the crisis binder.
- Set a timeline, milestones, and deadlines.
- Define the roles and responsibilities of its members.
- Appoint the task force leader; choose a person with authority and leadership skills.
- Draft a budget and secure funding for the task force.

Groundwork

- Understand the financial system: high-level view of key features and vulnerabilities, and the potential fallout of a financial crisis.
- Understand the political context and the views of political leaders on financial stability and crisis management.
- Identify key stakeholders and carry out a stakeholder analysis for crisis management.
- Clearly state the legal powers of regulators and supervisors, and how powers and tools could be used in practice, including evenings, weekends, national holidays and bank holidays.
- Define the financial resources available for crisis management:
 - sources of funds
 - amounts potentially available
 - process for application, approval, and disbursements
- Outline a crisis plan
 - who is part of the crisis management team and their deputies?
 - additional human resources required in the event of a crisis
 - early warning indicators
 - who "declares" the crisis?
 - crisis resolution options: objectives and summary of cost-benefit analysis.
 - what comes next?
 - legal
 - operational
 - Communications

Drafting the crisis binder

- Table of contents
- Responsibility for each section
- Timeline, milestones, and deadlines
- The synthesis note and the crisis checklist are usually the last sections to be written (see Table of Contents).

Approval process

- Task force prepares the crisis binder draft,
- Task force leader circulates the draft for approval by authorities,
- Appropriate officials sign off, then
- Final version is dated and thereafter kept current.

Keeping the crisis binder up to date

- Responsibility is assigned.
- Monthly/quarterly updates should be enforced.
- Periodic checks should be made to ensure the information is up to date.

Crisis simulation exercises: putting the crisis binder to the test

- Use the crisis binder to inform participants' actions in crisis simulation exercises.
- Ask participants to use the crisis binder as the guiding document throughout the simulation.
- Identify opportunities for improvement and recommend changes to the crisis binder.
- One task force member is given the responsibility to centralize comments arising from the simulation exercise and report back to the task force.
- Post-mortem: task force analyses the recommendations and updates the crisis binder as appropriate.

Box 2. Role and responsibilities of the task force leader

The leader of the task force is the champion of inter-agency co-ordination for financial stability and a key enabler for crisis preparedness; they lead the crisis binder drafting process. The quality and depth of the drafting process will largely determine its outcomes and the crisis binder's usefulness for the country.

The task force should be a vehicle for debate, consensus building, and practical conclusions. It will benefit from trust building activities conducted by inter-agency working groups that facilitate the exchange of information in normal times and in times of crisis. The working groups help establish transparent rules on access to information and confidentiality, agree on information sharing protocols and templates, and minimize the risk of duplications.

While drafting the crisis binder, the task force will be helping operationalize the country's crisis preparedness plan, with milestones, deadlines, and clear responsibilities, ready for implementation.

Content of a crisis binder

A crisis binder covers five key areas: legal framework, relevant procedures, communications, templates for critical documents and press releases, and an address book with the names and contact information of all the parties who may need to be contacted in a crisis.

A. Overview Note

This section has five sets of information:

- The authorities' crisis management philosophy and critical political concerns to bear in mind. This section contains high-level suggestions that serve as useful reminders for those leading a crisis management team: lessons learned from past crises in the country and abroad in terms of what went well, what went wrong, and what needs to be improved. It will be informed by the views of the country's political actors on crisis management and the risk appetite of regulators and supervisors
- Organizational responsibilities: who declares the crisis, who is involved in crisis management, and the roles and responsibilities of the members of the crisis management team
- Supervisory priorities: liquidity, actions to gain control over financial institutions, guidelines to estimate the losses in the system and the potential amount of financing the authorities may need to raise
- Map of the financial system
 - Systemically important financial institutions
 - Why they are important?
 - Who decides on them?
 - Is size an issue?
 - Other considerations
 - Interconnections/spillover effects
- A brief summary of the key topics in the binder indicating the section where they can be found

B. Crisis checklist

- A short list of basic questions that need to be answered in order to start managing the crisis and handle problem financial institutions:
 - signs of trouble
 - runs on banks
 - signs of looting by insiders
 - stress in the interbank market
 - payment system problems
 - lender of last resort issues hindering liquidity support
 - speed of events
 - imperiled financial institutions
 - systemically important or not
 - foreign owned or domestic
 - banks, insurance companies, pension funds
 - contagion risks
 - potential impact on the payment system
 - potential political impact
 - potential impact on politically sensitive constituencies
 - systemic crisis management steps

C. Action plan for the first 24 hours

- Information gathering activities
- Template for the institutional profile (fact sheet) of financial institutions, insurance companies, securities firms, and pension funds that must be immediately updated by each agency. This template is approved by the crisis binder task force
- Summary of critical systemic issues, lender of last resort issues, cross-border issues, and payment system issues needing immediate attention
- Decision-making and information sharing procedures across key authorities
 - who can “call” a crisis
 - who does what
 - what comes next
 - what decision-making processes and procedures differ from those in peace time because of the need to act swiftly and decisively

D. Legal topics

- Summary of relevant laws, regulations, and policy documents in an easy-to-use format
 - regulatory powers in the crisis toolkit
 - how powers and tools could be used in practice, including evenings, weekends, national holidays, bank holidays, and parliamentary/congressional recess
 - intervention options and key impediments

- Legal responsibilities of key players in a financial crisis
 - president of the country
 - parliament/congress
 - Minister of Finance
 - governor of the central bank
 - head of the deposit insurance agency (as applicable)
 - head of the insurance policyholder protection agency (as applicable)
 - head of the integrated supervisory agency or heads of the specialized regulatory/supervisory agencies (as applicable)
 - head of the resolution authority (as applicable)
 - inter-agency committees for financial stability (as applicable)
 - parliamentary committees (as applicable)

- Legal protection issues
 - legal risks for regulators and supervisors
 - risk mitigation options and recommendations

E. Communications

- Executive summary of the crisis communications plan and where to find it
 - internal communications
 - external communications

- Key stakeholders at home and abroad

- Complete contact information (including assistants, vacation homes, etc.)

- Pre-developed templates for formal statements and news releases

- Critical communications challenge
 - a single voice
 - a commonly-agreed narrative explaining at the outset why the authorities believe the shock is systemic (or not) and the policy response

F. The financial sector in a nutshell

- Fact sheets for systemically important financial institutions
 - shareholders
 - political connections
 - key indicators

- Vulnerabilities: what worries you about the impact of the failure of a particular institution or the financial system as a whole?

- Prioritize: rank institutions according to their importance for financial stability and their strengths and weaknesses regarding management, finances, and operational capabilities
- Identify key financial interconnections and contagion channels
- The most recent regulatory report for each systemically important financial institution
- Key liquidity and solvency indicators, such as heat map
- Individual contingency plans and living wills (if financial institutions are mandated to have one)

G. Intervention options

- Summary of all intervention options clearly spelled out and prioritized: stabilization, taking control, winding up, resolution, providing liquidity, directions for compliance, etc., including private sector solutions
- Detailed actions
 - liquidity support
 - capital support
 - criteria on when to let financial institutions fail
 - too-big-to-fail issues
 - foreign ownership issues
 - political factors

H. Products or businesses that may complicate the crisis or may be difficult to resolve

- List of potential challenges, for example risky behaviors, risky operations, political connections, cross-border complications, and payment system challenges
- Vulnerabilities
- Contagion risks

I. Corporate governance issues

- Interaction with boards and shareholders

J. Lender of last resort issues

- Summary of the regulatory framework and critical issues
- Role of each regulatory and supervisory agency in lender of last resort operations

K. Payment system issues

- Summary of the regulatory framework
- Critical financial and operational challenges

L. Cross-border issues

- Touch points with foreign regulators and supervisors
- MOUs and other obligations
- Foreign ownership of financial institutions
- Types of institutions
- Contact list

M. Deposit insurance and insurance policyholder protection issues

- Summary: what is covered, what is not?
- Is there implicit full coverage for social or political reasons?
- Steps to be followed to activate deposit insurance and policyholder protection

N. External resources

- Experts needed to assist on specific issues (e.g., legal, accounting, credit, asset management) ranked by capabilities and strengths
- Technical assistance sources
- Funding sources: International Monetary Fund, World Bank, European Central Bank, regional development banks

O. Templates

- Legal documents
- Contracts
- Press releases

P. Address book

- Names and contact information of all the counterparties to be contacted in a crisis
 - government officials
 - foreign authorities
 - financial sector interlocutors
 - external advisors, auditors, etc.
 - multilateral organizations: International Monetary Fund, European Central Bank, regional development banks, etc.
 - national and international media

Q. War room

- Staff
- IT
- Offices/location
- Telecommunications
- Call centers
- Logistics

Conclusions

Having a crisis binder is not an end in itself, it is only one step on the road to crisis preparedness.

The crisis binder is a tool aimed at helping the authorities act effectively. It is the go-to document for crisis management teams, drafted in peaceful times and enriched by the cold-headed analysis that simulation exercises help generate.

Drafting a crisis binder, keeping it up to date, and feeding it with the lessons learned in crisis simulation exercises enhances inter-agency coordination for financial stability in the country. This process helps build trust among regulatory and supervisory agencies and improves their readiness to act. Crisis binders are particularly useful when regulatory and supervisory agencies face high staff turnover or there are frequent changes at the helm.

The challenge is to embed contingency planning and simulation exercises in the culture of financial regulatory and supervisory agencies, to raise awareness about the dire consequences of a financial crisis and helping the authorities to seek proactively to improve the regulatory framework, to have the powers needed to manage a crisis, and to build the political support and the goodwill that are critical when and if a crisis erupts.