Council of Inspectors General on Financial Oversight

Guidance in Preparing for and Managing Crises

June 2022

CIGFO-2022-01

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June 2022

The Honorable Janet Yellen
Chair, Financial Stability Oversight Council
Washington, D.C. 20220

Dear Madam Chairwoman:

I am transmitting to you the Council of Inspectors General on Financial Oversight (CIGFO) report titled, *CIGFO Guidance in Preparing for and Managing Crises*

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) authorizes CIGFO to convene working groups of its members to address issues within its jurisdiction. Accordingly, CIGFO convened a Working Group in August 2020 to compile forward-looking guidance for the Financial Stability Oversight Council (FSOC) and its members to consider in preparing for and managing a crisis. This effort was undertaken at a critical time in our nation, precipitated by the COVID-19 pandemic.

This guidance is intended to be a compilation of lessons learned drawn from the experiences of federal agencies during prior crises and any learned during the current pandemic. This forward-looking guidance will facilitate effective crisis response as FSOC fulfills its mission to identify threats to the financial stability of the country, promote market discipline, and respond to emerging threats to the stability of the U.S. financial system.

This guidance does not assess the degree to which the FSOC member agencies employ any of the actions presented herein. Rather, the purpose of this guidance is to compile information and activities that agencies and CIGFO Offices of Inspector General identified as integral to pre-crisis planning and crisis management so that FSOC and its member agencies can evaluate its existing efforts and initiate new ones, as needed, consistent with each organization's mission. We are not making any recommendations to FSOC as a result of this effort.

I would like to take this opportunity to thank the FSOC members for their support, especially those Treasury officials who assisted with this effort.

CIGFO looks forward to working with you on this and other issues. In accordance with the Dodd-Frank Act, CIGFO is also providing this report to Congress.

Sincerely,

/s/

Richard K. Delmar
Acting Chair, CIGFO
Deputy Inspector General, Department of the Treasury

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Guidance in Preparing for and Managing Crises

The Council of Inspectors General on Financial Oversight (CIGFO) provides oversight of the Financial Stability Oversight Council (FSOC). CIGFO members include nine Inspectors General (IG) with oversight authority for the federal member agencies of FSOC.[1] In August 2020, CIGFO convened a Working Group to develop guidance for FSOC and its member agencies to consider in preparing for and managing future crises.

CIGFO derived this guidance from the crisis response experiences of both the contributing CIGFO Office of Inspector General (OIG) Working Group members (CIGFO Working Group) and the federal agencies they oversee.[2] CIGFO OIGs identified practices and lessons learned by their respective agencies from prior crises and the current pandemic.[3] The CIGFO Working Group analyzed these submissions and summarized the practices and lessons learned from the financial regulators into this guidance. In addition, the Working Group reviewed previous reports issued by the International Monetary Fund (IMF) and the U.S. Government Accountability Office (GAO) regarding crisis preparedness actions and recommendations for FSOC. The Working Group also interviewed FSOC officials. This guidance does not assess the degree to which the FSOC member agencies employ any of the actions presented herein. Rather, the purpose of this guidance is to compile information and activities that agencies and OIGs identified as integral to pre-crisis planning and crisis management so that FSOC and its member agencies can evaluate their existing efforts and initiate new ones, as needed, consistent with each organization's mission.

In 2010, in the wake of the 2007-2009 Great Recession, the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) was enacted to "promote the

1 The nine CIGFO members include the Inspectors General from the Board of Governors of the Federal Reserve System (FRB), Commodity Futures Trading Commission (CFTC), U.S. Department of Housing and Urban Development (HUD), Department of the Treasury (Treasury), Federal Deposit Insurance Corporation (FDIC), Federal Housing Finance Agency (FHFA), National Credit Union Administration (NCUA), Securities and Exchange Commission (SEC), and the Special Inspector General for the Troubled Asset Relief Program (SIGTARP).

2 The Working Group project was performed in accordance with CIGIE's Quality Standards for Federal Offices of Inspector General (Silver Book). These quality standards, as contained in the Agile Products Toolkit https://www.pandemicoversight.gov/media/file/agile-products-toolkit0pdf), include independence, analysis, evidence review, indexing and referencing, and supervision.

3 The CIGFO Working Group collected information from the OIGs for the FRB (including information relating to the Consumer Financial Protection Bureau (CFPB)), CFTC, Treasury, FDIC, FHFA, NCUA, SEC, and SIGTARP.

financial stability of the United States."[4] As a part of this effort, the Dodd-Frank Act created the FSOC, whose members include the federal financial regulatory agencies.[5] The Act conferred upon FSOC the authority to respond to emerging threats and to identify risks to the financial stability of the United States.[6] To meet these responsibilities, the Dodd-Frank Act assigned FSOC with, among other duties: (1) collecting information from member agencies; (2) facilitating information sharing and coordination among the member agencies; and (3) recommending to the member agencies general supervisory priorities and principles that reflect member agency discussions.[7]

During the past two years, FSOC has served as a forum for federal and state regulators to collect information, analyze risks, share information, and coordinate their responses to the economic shock caused by the Coronavirus Disease 2019 (COVID-19).[8] However, FSOC's coordination role is not limited to responding to emerging threats, such as COVID-19. FSOC is also authorized to identify risks to the United States' financial stability that could arise outside of the financial services marketplace, such as those that could arise from a future crisis. FSOC has an opportunity to serve in this coordination role by collecting and sharing information relating to crisis preparedness and then identifying the risks to the financial stability of the United States associated with the failure to prepare for future crises. Using this coordination role to focus on crisis preparedness and identifying risks associated with agencies' crisis preparedness is a role that FSOC has not undertaken -- notwithstanding multiple recommendations by different oversight authorities.

For example, both the IMF and GAO have recommended that FSOC enhance its crisis preparedness role. In 2015, the IMF recommended that FSOC assume a formal crisis preparedness and management role. This recommendation remains unimplemented, and the IMF reiterated this recommendation to FSOC in its August 2020 *United States Financial System Stability Assessment* [9] In addition, GAO recommended in a December 2020 report that FSOC conduct scenario-based exercises intended to evaluate capabilities for responding to crises.[10] FSOC neither agreed nor disagreed with the GAO recommendation. On January

4 Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. No. 111-203, 124 Stat. 1376 (2010).

5 FSOC is composed of 15 members: 10 voting members and 5 nonvoting members. Voting members include the chair of FSOC (Treasury Secretary); heads of FDIC, FRB, OCC, NCUA, SEC, CFTC, FHFA, and CFPB; and an independent insurance expert appointed by the President. Nonvoting members include the directors of Treasury's Office of Financial Research (OFR) and Federal Insurance Office (FIO), and state regulatory representatives, one each for insurance, banking, and securities. 12 U.S.C. § 5321.

6 Section 112(a)(1) of the Dodd-Frank Act, 124 Stat. at 1394 (codified at 12 U.S.C. § 5322(a)(1)).

7 Section 112(a)(2) of the Dodd-Frank Act, 124 Stat. at 1395 (codified at 12 U.S.C. § 5322(a)(2)).

8 Treasury Department, Press Release, *Financial Stability Oversight Council Releases Annual Report* (Dec. 3, 2020).

9 International Monetary Fund, *United States Financial System Stability Assessment* (August 2020) at 80, App. VII at 105 (reiterating the 2015 IMF recommendation to assign a formal crisis preparedness and management coordinating role to FSOC and noting that the earlier recommendation remains unimplemented).

10 U.S. Government Accountability Office, *Financial Stability: Agencies Have Not Found Leveraged Lending to Significantly Threaten Stability but Remain Cautious Amid Pandemic* (GAO-21-167) (Dec. 2020) at 58.

26, 2021, the CIGFO Working Group requested information regarding the actions that FSOC had taken or intended to take to address the IMF and GAO recommendations.

Subsequent to the issuance of a Discussion Draft of this guidance on June 7, 2021, FSOC informed the CIGFO Working Group that it was in the process of compiling its Article IV responses to the IMF recommendations[11] and would share them with the CIGFO Working Group when the IMF report is published. On July 22, 2021, FSOC shared the U.S. Authorities' Article IV responses[12] with the CIGFO Working Group. FSOC asserted that its role "is not intended to serve as the primary responder during times of financial crisis. Rather, its purpose is to identify potential vulnerabilities and emerging threats to financial stability, and to develop recommendations for addressing those risks." On June 14, 2021, FSOC also reiterated its earlier statements regarding the GAO report (December 2020)[13] in letters to various congressional committees but did not describe any additional specific actions that FSOC had initiated or intended to initiate to address the GAO recommendation.[14]

FSOC and its member agencies have an opportunity to work together to plan for future crises. Our guidance outlined herein can serve as a reference tool for both FSOC and its member agencies. For FSOC, this information can be used to assist in fulfilling its coordination role and to help it identify risks to the financial stability of the United States by considering: (1) the type of crisis planning materials that are available for collection and dissemination to and from member agencies, (2) the threats posed to the United States' financial stability relating to potential gaps in crisis planning activities, and (3) the appropriateness of prioritizing crisis planning, consistent with member agencies' discussions. For member agencies, this guidance provides information about crisis readiness practices that can be used to: (1) reinforce and supplement current crisis readiness practices; (2) identify potential gaps in current crisis readiness plans; and (3) assist in designing and managing future crisis programs.

11 Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. FSOC's Article IV responses are included in the IMF report.

12 International Monetary Fund, *United States 2021 Article IV Consultation – Press Release; Staff Report; and Statement by the Executive Director for the United States* (July 2021); Appendix IV "*Implementation of 2020 FSAP [Financial Sector Assessment Program] Recommendations*" contains the U.S. Authorities' self-assessment of the status of implementation for the recommendations of the 2020 FSAP and is not necessarily the assessment of IMF staff. https://www.imf.org/en/Publications/CR/Issues/2021/07/22/United-States-2021-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-462540

13 The GAO report recommended that FSOC, in consultation with its members, "should incorporate regular scenario-based exercises designed to evaluate individual FSOC member and collective capabilities for responding to crises into its risk-assessment activities. These could include tabletop exercises that assume increased financial risks under plausible macroeconomic and financial conditions that may require multiple regulators to respond." GAO, *Financial Stability: Agencies Have Not Found Leveraged Lending to Significantly Threaten Stability but Remain Cautious Amid Pandemic*, at 58 (GAO-21-167) (December 2020). In its December 2020 response to the GAO recommendation, FSOC explained that it leverages the work and expertise of its member agencies (i.e., heads of federal and state financial regulatory agencies) and that a number of financial regulators organize tabletop exercises in which FSOC staff regularly participate. FSOC further noted that it initiates additional activities, beyond those of its individual member agencies, including rigorous analyses for interagency discussion. *Id*. at 82.

14 Instead, FSOC's correspondence to six congressional committees reiterated that it participates in tabletop exercises organized by its member financial regulators and engages in independent activities to supplement the work of member agencies, including generating rigorous analyses for interagency discussion.

Prudent crisis preparedness can help agencies manage an array of potential crises. According to the World Economic Forum, risks that could affect the world economy and the financial stability of the United States include environmental risks caused by extreme weather events such as floods and hurricanes; natural disasters such as earthquakes and tsunamis; climate change that could amplify credit, liquidity, and counterparty risk that challenge financial management; technological risks such as large-scale cyberattacks or malware causing economic damages; violent protests; and geopolitical risks such as terrorist attacks and the deployment of nuclear, chemical, biological or radiological weapons.[15] At the FSOC meeting on March 31, 2021, the Chair of FSOC, the Secretary of the Treasury, stated during the Open Session:

> Climate change is obviously the big one. It is an existential threat to our environment, and it poses a tremendous risk to our country's financial stability. . . . Our financial system must be prepared for the market and credit risks of these climate-related events . . . . On all these fronts, the [Financial Stability Oversight] Council has an important role to play, helping to coordinate regulators' collective efforts to improve the measurement and management of climate-related risks in the financial system.[16]

Such events could lead to the disruption of key infrastructure elements for extended periods of time, including:

- Limited or no electrical power,
- Limited or no email or internet communications,
- Disrupted food and water supplies, and
- Disrupted transportation routes.

In particular, the current COVID-19 pandemic environment has highlighted the financial system's reliance on electrical and cyber connections where human contact is limited. It is important for FSOC and the financial regulators to be able to respond to such emerging threats, but also be prepared to identify risks that may exist relating to the organizations' overall crisis preparedness.

The crisis preparedness and management practices identified and summarized by the CIGFO Working Group OIGs were based upon agency planning documents to address market disruptions; contingency and crisis plans; stress tests; testing of market coordination procedures; retrospective analyses of regulator responses to prior crises; business resiliency management analyses; a prioritized supervision framework

15 The World Economic Forum is an international organization established in 1971 for public-private cooperation. The Global Risks Report 2018 identified a list of hazardous risks that could affect the world economy and thereby potentially affect insured depository institutions.

16 Secretary Janet L. Yellen, Financial Stability Oversight Council meeting (Mar. 31, 2021) https://home.treasury.gov/news/press-releases/jy0092

in response to the COVID-19 pandemic; crisis management plans; economic impact analyses following a crisis; plans for cyber incident response; lesson learned reviews; strategic plan initiatives to improve crisis management and response capabilities; audits of agency responses to emerging risks; international peer reviews of agency approaches to supervision and regulation following financial crises; and audits to assess regulatory activities under Presidential Policy Directive 21.[17] The guidance derived from these sources broadly fall into the following categories:

1. Collaboration and Pre-Crisis Planning Activities
   - Define agency mandates, roles, and responsibilities
   - Facilitate information sharing proactively
   - Strive for a shared view of market conditions
   - Implement continuous monitoring activities

2. Agencies' Crisis Readiness Plan Elements
   - Establish individual roles and responsibilities related to plans
   - Describe triggering events
   - Identify relevant legal authorities and tools, and potential emergency actions
   - Develop communication plans and options
   - Prioritize system capacity, and cyber and information security (aligned with existing continuity capabilities)
   - Provide for testing, evaluation, review, revision, and training
   - Provide for reporting

3. Agencies' Crisis Management
   - Implement leadership response
   - Coordinate among member agencies
   - Communicate to internal and external stakeholders
   - Assess resources
   - Supervise markets and regulated entities
   - Deploy response programs
   - Evaluate lessons learned

CIGFO intends this guidance to assist FSOC and its member agencies with coordinating and planning for future crises in order to help identify and mitigate risks to the financial stability of the United States associated with potential gaps in crisis preparedness. We provide this guidance in support of FSOC and its member agencies' ongoing efforts, recognizing that some activities are already broadly in practice, while other activities presented here can promote new initiatives that enhance the wider crisis planning effort. A list of the documents collected from the FSOC federal member agencies and their OIGs that were considered by the CIGFO Working Group in compiling the guidance is provided in Appendix III.

17 The Presidential Policy Directive 21, released on February 12, 2013, established a national policy on critical infrastructure security and resilience, which is a shared responsibility among federal, state, local, tribal, and territorial entities, and public and private owners and operators of critical infrastructure. The policy's goals are to enhance overall coordination and collaboration and clarify the functions, roles, and responsibilities related to critical infrastructure.

Collaboration and Pre-Crisis Planning Activities

A proactive crisis readiness effort involves working collaboratively to coordinate crisis readiness efforts across federal and state agencies and consulting with international agencies and organizations as needed. Pre-crisis preparations rely on: (1) identifying risks and conducting scenario analyses on options for how best to contain them before they escalate into crises, and (2) developing plans ahead of time that outline how an agency will respond to crises in case they materialize, known as crisis readiness planning. Member agencies may have different but overlapping missions, goals, responsibilities, and communication strategies. For these reasons, pre-planning and coordination among FSOC members is critical and includes the following actions:

- ***Define Agency Mandates, Roles, and Responsibilities***. Having a well-defined mandate and clear roles and responsibilities ensures the broad coverage of different risk categories while preventing the duplication of agency efforts, both prior to and during a crisis. Clarity in such roles and responsibilities is critical, especially because of the complexity and overlapping responsibilities among FSOC member agencies. Documenting and understanding agency mandates and roles during pre-crisis planning can assist FSOC and member agencies in conveying consistent messages to regulated entities during a crisis.

- ***Facilitate Information Sharing Proactively.*** Promoting proactive information sharing relating to crisis preparations among the agencies facilitates coordination and prevents duplication of efforts.

- ***Strive for a Shared View of Market Conditions.*** Striving to share a common view of the overall condition and risks within the financial markets is essential (including as emerging risks are identified). Coordination of interdisciplinary subject matter experts enables agencies to: (1) take a holistic view of oversight areas and associated risks; (2) develop focused guidance; (3) share information across internal and external components; and (4) communicate consistently when a crisis arises.

- ***Implement Continuous Monitoring Activities.*** Monitoring vulnerabilities to the stability of the U.S. financial sector is critical.[18] The goal of pre-crisis monitoring activities in preparing for a crisis is to limit and mitigate risks. Such monitoring activities include:

  » Establishing risk committees to proactively evaluate risks to the financial system by capturing the collective views of multiple agencies, categorizing risks by severity, and reporting the consensus perspective

18 Financial Stability Oversight Council, Department of the Treasury, 2020 Annual Report (2020).

throughout the FSOC community;

» Conducting market surveillance to monitor for market disruption risk and requiring regulated entities to disclose market disruptions;[19]

» Monitoring and updating counterparty credit risk to enable FSOC and member agencies to quickly and accurately assess risk exposures;

» Performing stress tests to identify sources of strain and establish strategies for addressing liquidity shortfalls in emergencies;

» Generating risk assessments that account for a range of crisis scenarios that could affect financial stability and their impact and probability; and

» Conducting supervisory reviews of regulated entities' preparedness and resilience to crisis events.[20]

Thereafter, using the results of these monitoring activities helps to identify the array of risks to be addressed in crisis readiness plans.

Agencies' Crisis Readiness Plan Elements

Crisis readiness plans outline how an agency will operate in, and respond to, an array of crisis scenarios. Crisis readiness plans create an overarching crisis management framework for strategic decision making, communication, and coordination. Such a plan or management framework can include: (1) an agency-wide, all-hazards readiness plan, and (2) agency-wide hazard-specific readiness plans, as needed, that integrate divisional plans containing requirements unique to certain types of crises. Effective crisis readiness planning includes input from and consultation with relevant agency stakeholders. Some agencies have made crisis preparedness an explicit goal in their strategic plans. At a minimum, these plans achieve greater impact when they include the following elements:

- ***Establish Roles and Responsibilities.*** Identify and establish the roles and responsibilities of the individuals and groups involved in a crisis response. This includes identifying a high-level crisis leadership team and describing its responsibilities. A crisis leadership team that includes an organization's senior leadership can achieve greater impact. This team is equipped with both an enterprise-wide perspective and

19 Market surveillance includes a broader view of how risks and interconnections tie to nonfinancial businesses and the real economy.

20 Supervisory reviews should be founded on detailed written standards for cyclical, process-oriented reviews of a regulated entity's preparedness and business resiliency plans to ensure that the regulated entity has a clearly defined path to continue mission critical operations during a widespread disruption, such as a natural disaster or the loss of a critical computer system.

the authority to facilitate the efficient sharing of relevant information during a crisis and in managing the operational readiness tasks. Prior to crises, agencies also designate the staff responsible for implementing each aspect of a crisis response plan to ensure that relevant staff understand how to execute their roles and are prepared to do so when the need arises.

- ***Describe Triggering Events***. Defining what constitutes a crisis that would trigger initiation of the crisis response plan is important. When triggering events activate the crisis plan, the responsible crisis leadership officials would then undertake affirmative steps to initiate the plan.

- ***Identify Relevant Legal Authorities and Tools, and Compile a List of Potential Emergency Actions.*** Prior to a crisis, it is important to document a list of available legal tools and authorities to assist in crisis response. During a crisis, agencies may not have the luxury of time and resources to identify their relevant legal tools and authorities. Therefore, it is beneficial during steady state that an agency conducts scenario planning and analysis that thoroughly vets all legal authorities. This list of available legal authorities can include potential emergency actions that leadership may consider in response to various crisis events, as well as regulatory authorities available to, among other things, provide liquidity to financial institutions, support financial market infrastructures, facilitate the restructuring of troubled institutions, and provide regulatory relief. Such preparedness efforts also can include considering legal authorities that empower agencies with multiple options and flexibility to award and administer contracts and hire and deploy staff in response to a crisis. Agencies can also identify any legal authorities or tools they do not have but may need to manage risk or respond to a crisis and take action to seek those additional legal authorities or tools.

- ***Develop Communication Plans and Options***. A checklist of potential internal and external communication actions for leadership to consider in response to a crisis can be included in the plan. Communication both during and after the crisis event is integral to a crisis response. The checklist can include options for: (1) developing and implementing a communications strategy to promote transparency (i.e., statements by the agency head, Frequently Asked Questions, webcasts, interviews, links to temporary relief, exemptive orders, and staff guidance); (2) creating communication templates or leveraging existing communication templates; and (3) identifying potential communication media – for example creating or using existing public-facing websites, creating call centers, and preparing training materials and/or a library of program response materials.

- ***Prioritize System Capacity, and Cyber and Information Security (Aligned with Existing Continuity Capabilities)*** Crisis readiness plans can also include an evaluation of mission critical systems and equipment to assess the agency's ability to handle a crisis. An effective information security program that meets federal standards includes an incident response plan that establishes procedures for staff to follow during cyber incidents. The information security response plan documents the triggers, procedures, roles and responsibilities, including forming an incident assessment group, and resources for eradicating and/or limiting the expansion of an information security incident and minimizing its effects. The incident response plan includes an incident recovery plan that identifies individuals responsible for initiating the recovery plan, defines criteria that must be met to return compromised services and technology to the network, and explains how to document the decisions and actions taken for future reference. The incident response plan also addresses how to coordinate communication with internal and external stakeholders about response and restoration activities. These plans and options are aligned with agencies' business continuity plans and encompass forecasting budget and staffing resources to address crisis response activities prospectively before a crisis occurs.

- ***Provide for Testing, Evaluation, Review, Revision, and Training***. Crisis readiness plans can also include a process to review, test, and revise crisis readiness plans on a recurring basis.[21] Training can ensure that agency personnel have the requisite knowledge, skills, and abilities to execute the crisis management tasks. Training can explain the delegations of authority and options for potential actions. It is important that an agency establish feedback mechanisms to assess the lessons learned from training, simulation exercises, and actions undertaken during an actual crisis event to systematically incorporate improvements into the crisis readiness plans. Periodic reviews and readiness plan updates can also reflect any changes in the operational environment, system resources, leadership structure, and the evolution of industry standards, laws, and regulations.

- ***Provide for Reporting***. Plans can also provide a mechanism to regularly report to key decision makers about the agency's crisis readiness.

Agencies' Crisis Management

Crisis planning and crisis management work in tandem. Once agency leadership determines that a crisis exists, senior agency leaders consult and modify, as needed, the crisis readiness plans developed during the

21 For example, agencies can conduct exercises of the crisis readiness plan under different emergency scenarios. These periodic exercises, usually occurring at least annually, are followed by an after-action review to capture observations and identify areas for improvement.

pre-crisis planning period. These actions equip FSOC member agency leaders to create the crisis management strategy. The crisis management strategy dictates the response to a crisis. Key elements that contribute to effectively managing a crisis include clear leadership response, coordination, communication, resource assessments, supervisory activities, and implementation of response or rescue programs.

- ***Implement Leadership Response.*** Consistent with the roles and responsibilities outlined in their crisis readiness plans, agencies deploy a leadership response in which strategic decision-making and coordination occur at the senior agency level, and operational and tactical authorities remain within appropriate business areas to ensure efficient management of incidents. The senior crisis management team can serve to provide strategic leadership, set response priorities, inform and/or consult with key governance bodies, and escalate policy issues as appropriate. Meanwhile, a crisis communication team may coordinate with crisis leadership and support consistent, timely, and effective communication with stakeholders.

- ***Coordinate Among Member Agencies***. For specific crises, using pre-existing working groups or establishing interagency working groups and sub-working groups fosters the exchange of ideas, and helps to facilitate decision-making and determine plans for action and communications. Working groups can assist leadership by providing crisis support and helping to facilitate the crisis management process, gather status updates, develop situation reports, facilitate an understanding of business functional and operational impacts across the organization, gather information from external subject matter experts and government authorities, and provide situational awareness. The working group, or sub-working group, also can include a team to review available data, assumptions, and methodologies in use and recommend a consistent analytical framework across agencies. Standardizing data is critical to the agencies' collective analysis of the economic and financial impacts of the crisis, including the effects of the policy actions taken in response to the crisis.

- ***Communicate to Internal and External Stakeholders***. Publicly communicating individual agency's responses to the crisis promotes transparency. Public communications provide insight into each agency's efforts and how it is continuing to fulfill its mission. Agencies consider the options for communicating to agency employees, regulated entities, and the public. Internally, agencies may consider interdivisional instructions for team notifications in the event deployments become necessary on short notice. Internal communication provides updated information relevant to employees via direct communication and/or a webpage. Communications are coordinated with crisis leadership, as previously noted.

External communication provides for statements by agency leaders, interviews, guidance, websites, and call centers as potential communication channels. In addition, interagency guidance and interagency statements can be effective tools to clarify a supervisory approach and convey that message clearly to institutions and markets.

- ***Assess Resources.*** Managing surge staffing by onboarding new employees at a pace that aligns with the crisis demands on workforce capacities is essential. Senior leaders responsible for crisis management consider the need to meet both budget and staffing increases, commensurate with crisis demands. Understanding the possible options available in advance can help to expedite the potentially large-scale hiring and onboarding of new staff to address crisis response activities, such as administering response programs or responding to institutional failures. Leaders use flexible hiring and staffing approaches, as presented in the crisis planning phase. This may also necessitate flexible hiring and contracting processes during crisis management. Pay, benefit, and interim work schedule flexibilities, for example, can be useful in expediting the hiring process during a crisis. As a part of the resource assessment, if changes to the workforce occur as a result of the crisis, like it did during the COVID-19 pandemic, it is important to design training that could be quickly transitioned to virtual sessions and to provide remote access to all employees. Supporting a remote workforce required agencies to provide technical guidance to assist in securely connecting to agency systems. Future crises may present different challenges requiring agencies to assess additional support alternatives for their workforce.

- ***Supervise Markets and Regulated Entities.*** Coordinating and prioritizing supervisory activities on those markets and entities that pose the greatest risk is critical.[22] Adapting supervisory approaches, such as: (1) focusing on monitoring and outreach to help financial institutions and market participants understand the challenges and risks of the environment, and (2) allowing temporary changes to examination activities to minimize disruptions. Such changes might include granting additional time to resolve existing noncritical supervisory findings. During a crisis, agencies can communicate with other federal and state regulators to avoid duplicative efforts and to coordinate efforts in executing revised supervisory approaches. Notably, large interconnected financial institutions often require heightened supervisory attention due to the greater complexity of their operations and the outsized risks that they can pose to the U.S. economy.

22 To accomplish the goal of focusing supervisory activity on those markets and entities that pose the greatest risk, an agency conducting prioritized assessments ranks the risks under its jurisdiction and analyzes staff capacity to prioritize how to deploy limited resources. Another goal of this approach is to increase the efficiency and effectiveness of information flow collected by the agencies related to operational changes and regulatory challenges, and to coordinate with other federal and state regulatory agencies.

- ***Deploy Response Programs.*** Response programs typically involve government investments, loans, guarantees, or repayment modifications, and are designed to address the unique circumstances of a particular crisis. Programs should be transparent, and decisions relating to them should be documented to ensure that the process is clear and understandable, and that there is an appropriate level of oversight. Having specific, measurable goals for federal rescue programs, and aligning funding accordingly, is necessary. Effective program design clearly identifies the metrics by which success will be measured and how management will monitor and report the agency's progress in meeting these goals. In managing the program, agency managers also monitor the program's activities, which ensures that funds are used as intended. Regular assessments and communication, to include the exit path and end date for response programs, are also useful.

- ***Evaluate Lessons Learned.*** Following a crisis and return to steady state, initiating after-action reviews to examine the cause(s) for any implementation issues, analyzing the effectiveness of the agency's crisis management process, identifying opportunities for improvement, and acting on those opportunities for improvement is helpful. It is important that agencies coordinate these efforts and collaborate to produce post-event analyses and reports. Based on the observations in the after-action reviews, agency leadership should consider initiating improvement planning. Improvements should consider the applicability to all crisis readiness plans, not just to the hazards and crisis plans utilized during the preceding crisis.

Conclusion

The foregoing guidance is intended to assist FSOC and its member agencies in coordinating, sharing information, and planning for future crises. For FSOC, this guidance can be used to collect and disseminate crisis readiness information to member agencies as well as to assist with assessing the risks to the United States' financial stability associated with agencies' crisis readiness preparedness. For member agencies, this guidance can be used to assist with planning for future crises. The crisis preparedness and management practices identified and summarized in this guidance as well as the crisis preparedness actions previously recommended by the IMF and GAO can inform FSOC and its member agencies and help to preserve the financial stability of our nation during future crises.

On March 23, 2022, FSOC provided a written response to this guidance document.[23] FSOC's response is included as Appendix II.

23 Prior to issuance of this report, CIGFO and FSOC engaged in pre-decisional discussions to ensure a full understanding of the report's guidance before CIGFO received FSOC's final management response.

APPENDIX I

Abbreviations

Act/Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
COVID-19	Coronavirus Disease 2019
CFPB	Consumer Financial Protection Bureau
CFTC	Commodity Futures Trading Commission
CIGFO	Council of Inspectors General on Financial Oversight
FDIC	Federal Deposit Insurance Corporation
FHFA	Federal Housing Finance Agency
FIO	Federal Insurance Office
FRB	Board of Governors of the Federal Reserve System
FSOC	Financial Stability Oversight Council
GAO	U.S. Government Accountability Office
HUD	U.S. Department of Housing and Urban Development
IG	Inspector General
IMF	International Monetary Fund
NCUA	National Credit Union Administration
OCC	Office of the Comptroller of the Currency
OFR	Office of Financial Research
OIG	Office of Inspector General
SEC	U.S. Securities and Exchange Commission
SIGTARP	Special Inspector General for the Troubled Asset Relief Program
Treasury	Department of the Treasury

APPENDIX II

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

March 23, 2022

The Honorable Richard K. Delmar
Acting Chair, Council of Inspectors General
on Financial Oversight
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Re: Audit Follow-Up Regarding Financial Stability Oversight Council

Acting Chair Delmar:

I write in response to the Council of Inspectors General on Financial Oversight's (CIGFO) report containing draft guidance to the Financial Stability Oversight Council (FSOC) and its member agencies on preparing for and managing crises.

As noted in CIGFO's draft "Guidance in Preparing for and Managing Crises," FSOC plays an important role in promoting information sharing and collaboration to address potential risks to financial stability.

It is vital for the government to be prepared to act in the event of unpredictable crises that affect the financial sector. For that reason, banking and market regulatory agencies regularly engage with their domestic and international counterparts in many of the activities described in CIGFO's guidance, to prepare for financial crises. Their efforts since the financial crisis in 2008-09 have considerably strengthened the mechanisms for coordination and crisis planning. This work now occurs across many venues at all levels of the agencies' seniority, including tabletop exercises for how to respond and recover to financial and cyber incidents; discussions at FSOC regarding potential financial stability risks; participation in crisis management groups with domestic and foreign supervisors; and information-sharing regarding cyber resilience at the Financial and Banking Information Infrastructure Committee. We applaud these existing efforts by the agencies.

FSOC has the statutory authority to facilitate information sharing and coordination among financial regulators regarding threats to U.S. financial stability. In implementing this authority, FSOC has avoided duplicating regulators' existing planning processes related to potential crises. Instead, FSOC's work to fulfill its mission complements the efforts of its members. FSOC's activities in response to the financial market dislocations early in the COVID-19 pandemic are a prime example of how FSOC can help agencies respond to a crisis and share information about evolving developments at financial firms and in financial markets. During that period of market instability, FSOC convened frequent meetings among staff and principals of member agencies to share information about agencies' actions to support market functioning and ease liquidity constraints. FSOC also plays an important role in addressing climate-related financial risks;

FSOC's recently published *Report on Climate-Related Financial Risk*[1] is another example of FSOC fulfilling its information-sharing and collaboration role. FSOC recently fulfilled the first recommendation in the climate report by forming a new staff-level committee, the Climate-related Financial Risk Committee, to coordinate, share information, and facilitate the development of common approaches and standards in order to increase the resilience of the financial sector to climate risks.

To address the issues raised by the draft CIGFO guidance, Treasury will recirculate the guidance to all of the FSOC member agencies and will encourage agencies that have not developed an approach to crisis management to do so and to coordinate, as appropriate, with other federal or state regulators. In addition, when the Council discusses potential responses to mitigate potential risks to financial stability, we will seek to collaborate regarding agencies' crisis-management planning and tools that are relevant to those risks. We will also remain vigilant in fulfilling FSOC's statutory purposes of identifying risks to financial stability, promoting market discipline, and responding to emerging risks to the stability of the U.S. financial system.

We appreciate your support of FSOC and its member agencies' work in this area, and we remain committed to working closely with CIGFO on this and other reviews.

Sincerely,

Sandra Lee Digitally signed by Sandra Lee Date: 2022.03.23 20:51:04 -04'00'

Sandra Lee
Deputy Assistant Secretary
Financial Stability Oversight Council

[1] The report is available at https://home.treasury.gov/system/files/261/FSOC-Climate-Report.pdf.

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APPENDIX III

SOURCES USED BY THE CIGFO WORKING GROUP TO DEVELOP GUIDANCE

COLLABORATION AND PRE-CRISIS PLANNING ACTIVITIES

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APPENDIX IV

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