

CODISE

*Working Group for operational crisis management coordination
in the Italian financial marketplace*

GUIDE

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1 Introduction

CODISE¹ is responsible for operational crisis management coordination in the Italian financial marketplace. It is chaired by the Banca d'Italia and includes representatives of the Italian Securities Commission (CONSOB) and the systemically important financial operators.

CODISE was formed in 2003, reflecting among other things the greater attention paid by international monetary authorities to systemic operational crises. It has gradually extended the scope of its coordination to some geographically events (such as earthquakes) and crises affecting specific financial segments (e.g. payment card schemes).

CODISE works together with counterpart working groups and committees abroad. It organizes and takes part in national and European tests and simulations. As a forum for regular encounters between members it helps to foster analysis of the threats to business continuity and study of risk prevention and control methods, including cyber security.

This Guide sets out CODISE's objectives and membership, its roles and responsibilities, activities and procedures.

¹ CODISE is the acronym of the Italian "continuità di servizio" (business continuity).

2 Objectives

The purpose of CODISE is to facilitate coordination among operators that are relevant in the Italian financial marketplace in the case of events that may threaten the system's continuous operation, put the resilience and functioning of financial infrastructures at risk, and undermine public confidence in the currency.

To this end CODISE makes available to Italian financial operators a set of mechanisms and procedures for the immediate interchange of information, the coordination of actions to recover normal operations and orderly communications and relations with other authorities.² The events that may require CODISE's intervention can be:

- **systemic**: originating in incidents with major, even only potential, impact on systemically important processes (see annex 7.1), for which the member declares a state of crisis;³
- **international**: in connection with incidents reported by other central banks or international authorities;
- **local**: consequent to natural disasters or other events affecting a circumscribed territory;
- **sectorial**: originating in incidents with minor impact on systemically important processes, with only sectorial relevance or such as to severely impede even only potentially the operations of individual members for at least four hours or to prevent the orderly closure of the business day.

To attain these objectives, CODISE:

- i. **calls for interchange** of expertise and urges the diffusion of a culture of business continuity and security among operators and authorities;
- ii. **represent the requests** of the financial industry in terms of business continuity and security in national and international forums;
- iii. **promotes coordination** with other bodies and authorities, including internationally;
- iv. **organizes and manages exercises** (tests and simulations) to check the effectiveness of the plans for crisis prevention, management and recovery.

² CODISE may also make communications to financial operators that are not members.

³ A situation in which there is a formal declaration of interruption or deterioration of one or more critical or systemically important processes as a consequence of incident or disaster. The member's business continuity plan must also specify its procedures for declaring a state of crisis.

3 Legal basis

- Consolidated Law on Banking (Legislative Decree 385/1993 as amended), Article 146
- Banca d'Italia Circular 263 ("New regulations for the prudential supervision of banks"), 15th update, 2 July 2013 (temporarily available only in Italian), Chapter 9 ("Business continuity")
- Banca d'Italia, *Guidelines on business continuity for market infrastructures* (May 2014)
- CPSS-IOSCO, Principles for Financial Market Infrastructures (April 2013), Principle 17 and Annex F.

4 Membership

CODISE is composed of the Banca d'Italia and financial operators to which the special requirements for systemically important processes apply (hereafter “members”). The Securities Commission (CONSOB) also intervenes, coordinating its action with the Banca d'Italia in the matters falling within their respective competences, as well as other bodies or institutions with which agreements have been subscribed (e.g. the Civil Protection Agency).

The list of members is published on the Banca d'Italia website.

5 Roles and responsibilities

The Banca d'Italia chairs CODISE. It supplies the infrastructures and the procedures for the efficient cooperation among the members. . Specifically:

- it ensures the availability, even outside working hours, of the personnel needed for its tasks;
- it sets up a crisis room with the infrastructure for communication among members;
- it keeps the list of contacts updated;
- it supplies the dedicated telephone numbers for reporting incidents and disasters that require exceptional technical and operational measures for the prompt recovery of normal operations;
- it assigns its branches to serve as liaison among local financial operators and the operations centers set up by the authorities to deal with local crises;
- it serves as liaison with other entities and authorities, including in other countries;
- it operates a restricted-access website for exchange of documents among members.

The members notify the Banca d'Italia who their representatives are and empower them to commit their respective organizations in case of crisis and to activate the relevant corporate functions, including by means of an immediate process of escalation to the top officers.

The members' representatives:

- must report any events that are potentially relevant to CODISE;
- must be reachable, even outside normal working hours, and capable of immediately mobilizing the officers in charge of the functions involved in the crisis, including communications officers, so that the information communicated is, in general, agreed on and consistent.

The members:

- must institute appropriate legal, organizational and technical safeguards to prevent unauthorized persons from acquiring information about CODISE, even after their membership in CODISE has been terminated;
- must promptly report to the Banca d'Italia any improper circulation of documents or information concerning CODISE.

6 Activities

6.1 Crisis management

In the case of events with even potentially significant impact on systemically important processes, members must call the Extreme Emergency Number (EEN) and submit an initial assessment of the impact on their own operations and on other market operators (see Annex 7.2). The EEN can also be called in the case of less serious incidents or locally circumscribed disasters, even in the absence of a state of crisis.⁴

After the call, the Banca d'Italia may activate the CODISE, where necessary bringing in CONSOB, and select members to convene for a conference call.

During the crisis, the members and the Banca d'Italia:

- exchange information on the crisis that is as timely, accurate and complete as possible (Annex 7.2);
- cooperate to get over the operational emergency and minimize the impact on the financial system;
- cooperate to make sure communications are consistent.

Before concluding its activities, the members and the Banca d'Italia must ascertain that:

- systemically important processes have been restored to regular operation;
- events are under control, including from the communications standpoint;
- the work backlog built up during the crisis is being handled by members with no significant impact on customers and counterparties;
- there is agreement on what final information to disclose.

6.2 Exercises

CODISE plans and conducts exercises to verify the adequacy of its procedures, enabling members, if they wish, to test their own business continuity systems.

CODISE's exercises consist in:

- connectivity exercises;⁵
- walkthrough exercises;⁶

⁴ Banks that are not members of CODISE can also signal situations that could block or severely damage the operation of their distribution networks or a significant part of it for at least four hours or prevent the orderly closure of the business day by calling the number (local crisis number) notified by the competent Banca d'Italia branch. They shall report the impact on their operations and on other market operators in order to favor the exchange of information and the coordination of recovery actions.

⁵ With no advance notice and generally outside working hours, the exercise checks the reachability of the designated members and their ability to take part in a teleconference at short notice.

⁶ In a walkthrough exercise, members examine, from a theoretical standpoint, the most likely outcomes of an event, beginning from a given set of circumstances and considering the effects of simulated decisions. Walkthrough exercises, typically carried out in a single room, focus on strategy decisions.

- simulation exercises.⁷

Exercises may also involve entities outside CODISE, possibly in the financial systems of other countries.

6.3 *The CODISE forum*

The members and the Banca d'Italia can propose themes for discussion based on their experiences with business continuity and security, possibly involving other authorities, entities, universities, corporations and other institutions, including foreign institutions.

The Banca d'Italia plans and organizes meetings, ordinarily twice yearly, studies and workshops and conferences on topics relating to business continuity and operational risk, security, corporate organization and institutional communication.

The CODISE forum examines crisis outcomes and the results of exercises in order to pinpoint areas for improvement in the members' internal procedures, in information exchange, and in coordination.

⁷ Simulation exercises test the effectiveness of the procedures for communication and for the coordination of the corporate support functions. They are conducted in decentralized fashion at the individual members, who are given a scenario that is updated in the course of the exercise, to which they must react in real time.

7 ANNEXES

7.1 A1 - Systemically important processes⁸

Processes that are critical to the Italian financial system, those that by contagion can cause a blockage of the entire domestic marketplace, are concentrated in the payment systems and the procedures for access to the financial markets.

For the purposes of the present provisions, these processes are defined as “systemically important processes” for business continuity of Italian financial system. The Banca d’Italia notifies each operator of the systemically important processes pertaining to it. They represent a structured set of activities directed to the provision of the following services:

- services in connection with the real-time gross settlement systems in central bank money (Target2), the central securities depositories, the central counterparties, and the securities settlement systems (Express II). They also comprise daily matching services for pre settlement of securities transactions;
- services in connection with access to markets relevant for the financial system’s liquidity. They comprise: multilateral systems for the exchange of money deposits in euro (e-MID), ECB open market operations, Italian Treasury's auctions, and the wholesale REPO market on government securities (the REPO segment of MTS);
- retail payment services widely used by the general public. They comprise: postal money orders, payment of social pensions, cash provisioning;
- services strictly functional to the basic liquidity needs of economic agents, blockage of which has major negative impact on their operations. They comprise: the management of ICT infrastructures for cash dispensing via ATMs, support for applications and services under the SITRAD (Italian interbank data transmission network) convention.

7.2 A2- Impact assessment

In order to share impact assessments, the members must supply at least the following information:

1. How the member has been affected by the crisis
 - a. Indirectly
 - b. Directly
2. The processes on which the crisis has impacted:
 - a. TARGET 2 gross settlement in central bank money;
 - b. settlement of financial instruments (Express II);
 - c. repositories of financial instruments;
 - d. daily match and rectification systems;
 - e. central counterparty services;
 - f. multilateral interbank deposit trading (e-MID);
 - g. ECB auctions;

⁸ Banca d’Italia - Circular 263 (“New regulations for the prudential supervision of banks”), 15th update, 2 July 2013, Chapter 9 (“Business continuity”) Annex A, Section III, para. 2.1 and Guidelines on business continuity for market infrastructures (May 2015), Annex A, Section III, para. 2.1.

- h. Treasury security auctions;
 - i. wholesale repos in government securities (PCT segment of MTS);
 - j. postal deposit slips;
 - k. payment of social pensions;
 - l. disbursement of cash;
 - m. management of ICT infrastructures for cash dispensing via ATMs;
 - n. support for applications and services under the SITRAD convention (interbank data transmission network);
 - o. other (specify).
3. Activation of disaster recovery procedure
 - a. No (specify);
 - b. Yes, but processes not yet carried out by standby facilities;
 - c. Yes, processes carried out by the standby facilities.
 4. Evacuation procedure
 - a. Not activated;
 - b. Yes, evacuation under way;
 - c. Yes, evacuation completed.
 5. Expected recovery of processes
 - a. Within four hours (specify);
 - b. Beyond four hours (specify; see Chapter 3).
 6. Estimated impact on customers and counterparties
 - a. General public;
 - b. Corporates;
 - c. General government bodies;
 - d. Branches open to the public;
 - e. Counterparties, including foreign;
 - f. Other (specify).
 7. In case of indirect effects, severity of impact
 - a. Severe: processes severely deteriorated;
 - b. Very severe: processes blocked.

7.3 A3 - Crisis monitoring

As events unfold, members must gather the information needed to monitor the course of the crisis. What follows is a possible framework for data collection:

1. State of processes::
 - a. Blocked;
 - b. At minimum acceptable level, but deteriorated;
 - c. Regular.
2. State of activities:
 - a. Recovery of building usability;

- b. Recovery of support infrastructure (electricity, water, security, environmental controls, etc.);
 - c. Recovery of functionality of hardware, software, firmware;
 - d. Restoring connectivity and interfaces with networks and external systems;
 - e. Test/check of full system functionality;
 - f. Recovery of operational data from backup;
 - g. Deactivation of standby facilities;
 - h. Re-entry of staff, return to normal activity;
 - i. Other (specify).
3. Strategy and actions for data replication in case of “promotion” of standby facility to primary facility.
 4. Communication of information.
 5. Actions to adapt to the new arrangements where they differ from pre-crisis.
 6. Strategy and actions to handle crisis-induced backlog.
 7. Duration of unusual operating conditions.