Business Continuity Plan for Hedge Fund Managers from Best Practices Perspective

What is Business Continuity Management and why is it important?

To hedge fund managers, Business Continuity Management (BCM) involves identifying potential threats to the operation of the fund and making plans to reduce the likelihood of a major disruption. The objective of BCM is to ensure that the hedge funds are able to continue to operate effectively under sudden changes in the environment. Having a BCM is not just only sound practice, it is also increasingly being mandated by regulators.

What is involved in creating a Business Continuity Plan?

<u>Stage 1- Management</u>

- For a business continuity plan to be effective, it must be owned and supported by a senior company official, usually the COO. There should also be a Crisis Management Team- made up of senior managers who represent the whole organization- that must be responsible for the evaluation of the event and the response to it until full resumption is achieved.

<u>Stage 2- Determining Risks</u>

There are four key types of risk that a hedge fund may be exposed and therefore needs to be taken account of. This includes:

- Loss of access to the building, e.g. due to a fire or terrorist attack
- Loss of staff e.g. due to an epidemic or death to a key member of staff
- Loss of system e.g. criminal corruption of company data
- Loss of suppliers e.g. failure of a critical third party, such as the prime broker

<u>Stage 3- Impact Analysis</u>

- This stage involved identifying activities that are critical to the business and subsequently having senior management decide on what the most critical tasks are in the business continuity context. For example, within a hedge fund, FX hedging may be considered so important that plans need to be made ahead of other tasks to ensure that it can continue immediately after a severe disruption.
- As hedge funds are not single stand-alone enterprises, its network of relationships (such as with prime brokers and clients) must also be assessed individually to determine a)

how key their service is, b) what arrangements need to be made to re-establish links and c) what arrangements are in place by the service provider for their own recovery from failure and how their replacement service can be interfaced.

- Managers should also make sure that key suppliers have their full contact details.

Stage 4- Recovery Plans

- Having identified vital business areas to be recovered, planning can now begin, typically by first considering a major disaster scenario (e.g. a natural disaster where the office and its surrounding area are destroyed with a few key staff members lost). Once these plans are developed, they can be modified to fit lower-impact scenarios. In the event of complete catastrophe, the recovery plans should include arrangements to liquidate the funds and return the assets to the investors with no intervention from any senior employees.
- A crisis management team- with at least two and preferably more people – must meet very early on in the development of recovery plans in order to make the initial decisions on which type of plan to put in place. There are also several key roles that must be filled by personnel that are not involved in the crisis management team. This includes: recovery co-coordinator; technology recovery manager; premises recovery manager; and communications manager.
- Once the Recovery phase has been started a dedicated group should be tasked with creating a detailed Resumption plan, which would include assessing the roles of staff, changes to operations, rebuilding systems, etc.

Stage 5- Testing

- The plan cannot be claimed to be effective until it has been tested. This may include communications tests, where key staff are deliberately made unavailable to check for alternative communication routes; and evacuation tests, where staffs perform a full evacuation from the offices assuming that the primary exit route is blocked.

Stage 6- Updating

- The company needs a clear plan for keeping BCP arrangements up to date. Therefore, there needs to be clear ownership of the plan and regular review cycles.

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