



Summary:

Swedish agencies' preparedness for the Brexit referendum

Audit background

In connection with the EU referendum in the United Kingdom in June 2016 several Swedish agencies stated that they were following developments in the financial markets carefully and that they were prepared to take the necessary measures to manage any shocks. The purpose of this audit is to assess whether the agencies responsible for safeguarding financial stability undertook reasonable preparations ahead of the referendum in the United Kingdom on EU membership. An analysis of the agencies' preparedness can underpin confidence in their capacity to manage financial shocks in the future. It can also highlight any deficiencies in preparations and thus contribute to the agencies' improvement of future preparedness.

Audit findings

The overall conclusions of the Swedish National Audit Office's audit is that the Government and its agencies, as well as the Riksbank, undertook preparations to a reasonable extent and that their emergency preparedness was good ahead of the British referendum. The assessment is based on an examination of how the agencies concerned carried out strategic intelligence work, made analyses, produced decision support, prepared the organisation for crisis management and ensured decision-making capacity.¹

Early identification of risk picture

The Swedish NAO notes that the agencies' strategic intelligence early identified a risk of financial instability in connection with the British referendum. This meant that there was relatively plenty of time for preparation. The risk profile also included unease in the

¹ For reasons of simplicity the terms "agencies concerned", or "the agencies" are used, by which is meant the Ministry of Finance, the Riksbank (Swedish central bank), Finansinspektionen (Swedish Financial Supervisory Authority) and the National Debt Office.

financial markets. This made it warranted for the agencies to show a presence and preparedness to take measures if it should prove necessary.

Well-structured time for preparations

The agencies' preparations took place over about three months. The work in the first two months was of relatively low intensity. Already at an early stage there were people appointed at all agencies to coordinate the activities internally and externally. During this period it was largely a matter of gathering information, making analyses and setting up contacts, for example between agencies. Starting less than two weeks before the British referendum, the agencies' preparedness work intensified. At this stage it was a matter of preparing communication and other measures, drawing up contingency plans, ensuring that the persons concerned were available and preparing telephone conferences and meetings. The Swedish NAO assesses that all agencies concerned had sufficient time to inform themselves of the situation, prepare necessary analyses and supporting documentation and ensure contacts with agencies and organisations, both inside and outside the country. In addition, the Swedish NAO considers that the agencies' contingency plans, which above all addressed the referendum day itself and the following days, maintained a good balance between flexibility and detail.

Good information collection and dissemination

The Swedish NAO considers that the agencies' access to information, for example as regards the banks' liquidity, was good at the time of the referendum. Already at the outset, the agencies had access to most of the information that they regarded as necessary, and they supplemented this with relatively little extra information collection. The coordination between agencies also indicates that both collection and dissemination of information was effective. Since agencies in Sweden have good contacts with corresponding agencies in Europe, sharing of information between agencies in Sweden is extra valuable. Finally, the Swedish NAO notes that the agencies' mailing list procedures for internal and external dissemination worked well.

Sufficient analyses and decision support

In general the agencies did not highlight the need for preparing analyses and decision support as a crucial part of the preparations. This could possibly be explained by the event in question being perceived as relatively clearly delimited, where the problems largely concerned market liquidity and the banks' funding. In this context the Swedish NAO assesses that liquidity supporting measures could probably have been implemented very rapidly, thanks to prepared decision support and press releases. Other measures, for

example in the framework of preventive support to credit institutions, had not been prepared in the same way and had therefore probably not been possible to implement equally fast. With reference to the fact that new bank recovery and resolution legislation² had been introduced as recently as 1 February 2016, it would have been prudent to have some preparation in relation to measures linked to this legislation. The benefit of specific preparations must of course be weighed against the need for rapid implementation, and the need for speed is lower here compared with liquidity support, for example. The Swedish NAO therefore concludes in this case as well that the agencies' preparations for crisis measures were satisfactory.

Coordinated and clear communication

The most salient quality of the agencies' communication was the high degree of coordination. The message was short and concise, implying that the agencies were well-informed of market developments, were in contact with each other and were prepared to take necessary measures. The Swedish NAO considers that these three aspects of communication are examples of good crisis preparation. Other examples of good preparation are the agencies' draft of speaking points for various referendum results and various market reactions, as well as their ability to quickly present communication aimed at showing presence and readiness to act.

Strong presence and decision-making capacity over the Midsummer holiday

All agencies concerned had staff in place to monitor market developments during the Midsummer holiday. In addition, there was staff on call, ready to provide reinforcement if necessary. In addition decision-makers were available. The agencies had compiled telephone lists and specified particular times for consultation and telephone conferences. Hence there is no doubt that the operative agencies had the capacity to make decisions and put them into effect. All in all, the Swedish NAO considers that the agencies had good decision-making capacity on the actual day of the referendum and the following days, despite the fact that it all took place during the Swedish Midsummer holiday. As speed is very important for the result of crisis management, the agencies' preparedness in this respect was exemplary.

² Partly preventive support, partly resolution.

Possibility of improving follow-up and procedures

Even if this survey of agencies' emergency preparedness shows that it was good overall, there are areas where there is room for improvement. One of these was implementing comprehensive and systematic evaluation of the preparation. It is true that the agencies did not have to take any other measures than communication, but there may nevertheless have been valuable experiences from which to learn. It may also be valuable for people who did not actively participate in the preparations to gain an insight into the activities. Above all because the experiences may be useful in a future crisis situation.

Another area with potential for improvement is establishing procedures in policy documents to rapidly change over from normal activities to a crisis management organisation. The Riksbank is the only agency audited that referred to a "crisis folder" in which information on procedures for extraordinary events has been collected. Currently there is a large number of people at the audited agencies with experience of crisis management. Hence the need for documented procedures is relatively limited at present. However, the benefit of clear procedures in policy documents grows over time as staff are replaced and the institutional memory fades.

The Swedish NAO's recommendations

Historical experiences indicate that speed and decisiveness are crucial to the result when managing financial crises, since the management in itself tends to affect the course of events. The agencies' capacity to act in a way that inspires confidence may break a negative spiral of expectation. Bearing this in mind, the Swedish NAO makes the following recommendation:

- The agencies tasked with safeguarding financial stability should draw up policy documents or equivalent guidelines to be able to rapidly change over from normal activities to emergency preparedness.
- The agencies should make systematic and comprehensive evaluations of both crisis preparation and crisis management for the purpose of updating relevant policy documents when necessary.