

**Testimony of
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**“Government and Industry Efforts to Protect Our Money During
Blackouts, Hurricanes and Other Disasters”**

**Before the
U. S. House of Representatives Committee on Financial Services
Subcommittee on Oversight and Investigations**

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Opening Remarks

Chairwoman Kelly and Ranking Member Gutierrez, I am Donald Kittell, Executive Vice President of the Securities Industry Association, thank you and I appreciate the opportunity to discuss the impact on the securities industry of the August blackout and Hurricane Isabel.

Since the 9/11 terrorist attacks, the securities industry has invested significant time and resources in its business continuity plans. The opening of the financial markets on Friday, August 15, the day after the blackout, clearly demonstrated the viability of these plans. A month later, the threat from Hurricane Isabel further tested the effectiveness of our pre-event preparation strategy. There were specific lessons for us in each case.

I will address most of my comments to the blackout situation because it had a significant impact on the securities industry. Hurricane Isabel had nowhere near the impact on New York as it did in Virginia, North Carolina and here in Washington, but there were implications for us here as well.

Industry Response

Overall, the securities industry’s response to the blackout was successful. The support we received from city, state, Federal and regulatory bodies was exemplary.

When street power was lost, there was a seamless transition to backup power sources by firms and exchanges.

SIAC processing for the New York Stock Exchange, the American Stock Exchange, the National Market Systems, Depository Trust Clearing

Corporation and Fixed Income Clearing Corporation was uninterrupted and completed within normal time frames. When the blackout occurred, SIAC's sites were protected by UPS (battery) power combined with backup generators. There were no interruptions in processing, and no loss of data.

The Depository Trust & Clearing Corporation activated both its remote data center and its remote operating location. On Friday, all IT production took place at the NYC data center, but was controlled completely by the remote data center. Similarly, business operations were managed by the staff at the remote operating location although a large portion of the staff worked at the NY offices. This proved to be an important and successful test of DTCC's remote operating capability, which was developed after 9/11.

When the blackout occurred on August 14, the American Stock Exchange immediately implemented emergency procedures and activated back-up generators. By 1:00 a.m. the following morning, the Amex building and trading systems were fully powered and operational. The trading floor cooling system and its support technology, however, rely on steam from the Con Edison New York City steam grid, which was completely shutdown by the power outage. With help from the City of New York Office of Emergency Management, the Amex obtained emergency steam-generation boilers and conducted a delayed opening on August 15. Amex was able to establish firm closing prices for its products on August 15.

Some securities firms reported that they elected to relocate some personnel to contingency sites for business the next day. Many firms functioned under split operations plans, where the primary sites remained operational. All firms and exchanges opened on the day following the blackout.

SIA activated its command center within minutes of the blackout. The command center uses pre-determined contact numbers to assemble more than 80 BCP professionals from critical industry organizations. Once connected, these professionals share information about causes and back-up steps taken by each. The command center conducted conference calls throughout Thursday night, the following Friday and into the weekend.

SIA has maintained a seat at the New York City Office of Emergency Management since the Y2K conversion. Our seat is staffed throughout every major emergency and was activated for both the blackout and the hurricane. This arrangement facilitates a timely, effective flow of information and provides for communications among city and state government organizations, utility service providers and industry. It provides a mechanism to resolve unforeseen issues that may affect our recovery process. The OEM's ongoing relationship with SIA and representatives of other NYC industries is invaluable.

Recovery Coordination Issues

In the event of an emergency, SIA coordinates among financial services firms, exchanges, regulators, industry utilities and other industry organizations to facilitate the prompt restart of the trading process. Over the past few years, the number of conference calls necessary to accomplish this has grown. During the blackout, we experienced situations where multiple calls were set at the same time or calls intended to gather information were scheduled after the calls that were to disseminate that information. The industry and regulatory agencies are working to further coordinate these calls.

Despite the large number of organizations currently involved in this process, we believe there is value to adding others including telecom carriers, power companies, service bureaus and market data vendors.

Infrastructure Issues

Through its contingency planning process, the industry fully anticipated an event that included loss of power. The widespread, simultaneous loss of communications and transportation presented the most difficult challenges.

Cell phone service was found to degrade after several hours. This has been attributed to increased call volume compounded by the fact that many cell nodes currently have only battery backup power for a few hours, but not longer-duration generator power. In addition to cell phone service issues, telephone landline communications were lost when switching stations in Brooklyn and lower Manhattan became disabled. The securities industry relied on other communications resources including Blackberrys and two-way radios.

The communications and electric power utilities responded quickly to invoke their emergency plans. It is worth noting, though, that utility providers operate under somewhat less stringent recovery time objectives than those required of the financial services industry. Had the event occurred during trading hours, achieving full recovery of the securities markets, especially without communications services, would have been challenging.

The shutdown of Con Ed steam generation facilities for the first time in 123 years and the length of time required to restore service, highlighted the importance of this resource in New York City. Steam is generally thought of as a source of heat, but it is also used to drive the air conditioning systems in some buildings. During the blackout, all six Con Ed steam plants were disabled and service could not be fully restored until the entire transmission pipe system was purged. The securities industry, New York City and Con Edison are addressing steam reliability as a priority issue.

Although financial services firms did not experience problems refueling their generators, instances were identified in the New York area where delivery trucks could not be reloaded because pumps at the depots had no backup power. This would certainly pose a problem during a longer-term outage and is being studied further.

In NYC, most transportation systems were immobilized and many employees were stranded in the city overnight on streets and in public places. Although ferries continued to operate, they were overwhelmed by the number of riders and were not able to transport all passengers off Manhattan until the following morning. As a result, many firms are considering a "Stay in Building" policy to allow and encourage at least critical employees to remain on-site. SIA reported to the OEM on the need for a stronger police presence at ferry terminals during emergencies to control overcrowding situations.

Government Liaison Issues

The event did emphasize the value of a system that would allow critical personnel to have limited access to restricted emergency zones after a disaster. Being able to retrieve critical records and equipment is often essential to the recovery process.

New York City and New Jersey have been considering the use of pre-authorized emergency access credentials for limited numbers of employees of critical firms. After the blackout, SIA encouraged the NYC Corporate Emergency Access System (CEAS) to be fully approved and implemented. Since then, NYC approved the CEAS plan and is moving to implement it.

Hurricane Isabel

In September, the financial services industry in New York faced the threat of Hurricane Isabel tracking near or through the area. Because a large portion of the Wall Street financial district is situated in "Evacuation Zone A", the lowest-lying areas of the City that are the first to be evacuated, our business continuity plans are particularly attuned to potential high water situations.

The New York City OEM monitored this storm for more than a week prior to landfall and provided ongoing reports to private industry about its potential effect and the City's emergency plans. Several days before its expected arrival, OEM activated the City's Emergency Operations Center. SIA staffed its seat throughout the emergency.

Although the storm did not impact New York, the event allowed us to test and validate the emergency preparation component of our plans. The activation and the operation of the EOC was a good example of how to deal with an event of this kind.

Conclusion

In some ways we were lucky that both the blackout and Hurricane Isabel transpired as they did.

The blackout occurred after trading hours. Had it happened earlier in the trading day or prior to the opening, we would have faced different challenges - challenges of operating the markets with limited voice communications support and the challenge of getting employees to work with limited transportation.

Hurricane Isabel tracked farther to the west than originally projected and had no significant effect on New York. We are well aware, though, that a direct hit could have resulted in not only a blackout situation, but wind and flood conditions as well.

Our post event reviews highlighted potential improvements to our recovery strategies along with some limitations of the support infrastructure in New York. But, they also tell us that we can recover effectively from events far more significant than those we faced over the past two months.

Since 9/11 the financial services industry, in partnership with federal, state and city emergency management organizations, regulatory agencies and service providers, has vastly improved its resiliency. We are proud of progress to date and we continue to seek out and address potential vulnerabilities as an integral part of our overall business continuity plans.

Thank you.