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ONE HUNDRED TENTH CONGRESS

U.S. House of Representatives
Committee on Energy and Commerce
Washington, DC 20515-6115

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May 1, 2007

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The Honorable David M. Walker
Comptroller General
U.S. Government Accountability Office
441 G Street, N.W.
Washington, D.C. 20548

The Honorable Ben S. Bernanke
Chairman
Board of Governors of the Federal Reserve System
Twentieth Street and Constitution Avenue, N.W.
Washington, D.C. 20551

The Honorable Christopher Cox
Chairman
Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549

The Honorable John C. Dugan
Comptroller of the Currency
Office of the Comptroller of the
Currency
250 E Street, S.W.
Washington, D.C. 20219

Dear Messrs. Walker and Dugan, and Chairmen Bernanke and Cox:

We are writing with respect to the March 2007 report, Financial Market Preparedness: Significant Progress Has Been Made, but Pandemic Planning and Other Challenges Remain, which was prepared by the U.S. Government Accountability Office (GAO) in response to our request. We take very seriously the range of threats faced by our basic infrastructure, including our telecommunications networks and the Internet, matters within this Committee's Rule X jurisdiction. Former Cybersecurity Czar Richard Clarke once described the potential for a telecom disaster as an "electronic Pearl Harbor." The Congressional Research Service has estimated that a cyber attack could produce an economic blow exceeding \$200 billion.

The massive destruction caused by the September 11, 2001, terrorist attacks on the World Trade Center drove home the vulnerability of our financial markets, as well as their heavy dependency on the telecommunications industry's supporting infrastructure. In several prior reports since the attacks (cited at page 1, footnote 1), GAO reported that financial market participants and regulators had taken many actions to reduce the risk of market disruptions but also found that additional critical actions were needed.

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In the report that we release today, GAO found that all seven critical financial market organizations, including exchanges, clearing organizations, and payment system processors, as well as key broker-dealers and banks that participate in these markets, have made significant progress in increasing their ability to withstand wide-scale disasters. GAO said that all seven organizations have taken steps to reduce the risk that power and telecommunications outages will affect their operations (pages 12-13) and telecommunications providers also are attempting to improve the resiliency of the infrastructure upon which the financial markets depend (page 26). Serious challenges remain, according to GAO, and identifying clear solutions remains difficult, including developing ways to allow organizations to map the physical routing of their circuits and analyzing how increased telecommuting might increase demands on network capacity (pages 24-27).

The GAO report found that all seven critical organizations were in the process of developing business continuity plans to address the risk of infectious pandemics, but only one had completed a formal plan while another had a draft plan (page 15). While regulators have been addressing pandemic planning in various ways, they have not issued formal expectations for these plans nor have they set dates by which market organizations would be expected to have prepared at least an initial formal plan (pages 13-15, 30-33, 39-41). This is very troubling. Critical organizations need formal plans specifying the actions they would take and the capabilities and resources they would need to be able to continue their critical operations if significant numbers of their staff were ill or unavailable during a pandemic. We strongly support GAO's recommendation for addressing this serious shortcoming. We encourage the critical financial market organizations and industry self-regulatory organizations to work cooperatively with financial regulators to develop formal expectations that business continuity plans for a pandemic include measures likely to be effective even during severe outbreaks, and to set a realistic date by which market participants should have such plans.

According to GAO, critical organizations have continued to improve their physical security, but some organizations continue to face challenges in limiting the potential for physical attacks on their facilities (page 16). In some cases, GAO reports that organizations have put in place new systems architectures that potentially introduce new vulnerabilities (page 17). As a result, GAO identified additional ways in which the organizations could improve their information security, measures that all organizations either had begun implementing or were considering (page 17).

Since GAO's 2004 report, the banks and broker-dealers that are key participants in the U.S. securities markets have made considerable progress in improving their resiliency, but certain wide-scale disasters could significantly disrupt their ability to conduct trading activities (page 17). Although firms have strengthened the resiliency of their clearing and settling

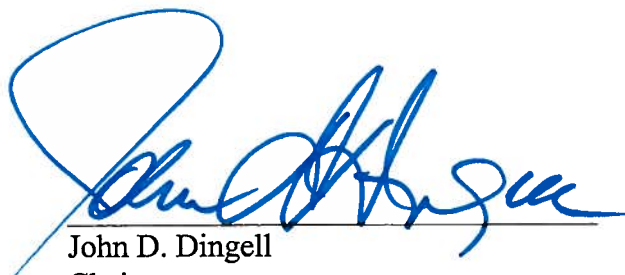
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operations, their trading activities remain vulnerable to disruption because all key trading staff are still concentrated in one geographic area (page 18). The entities that account for significant trading volumes and that GAO reviewed have increased the distances between their sites for primary and backup operations for clearance and settlement activities and established dispersed backup trading locations. Securities industry organizations have continued to conduct annual industrywide tests of financial market participants' backup site operating capabilities, and key trading and clearing organizations are increasingly using communications networks that are less vulnerable to disruption to transmit information. We commend these actions.

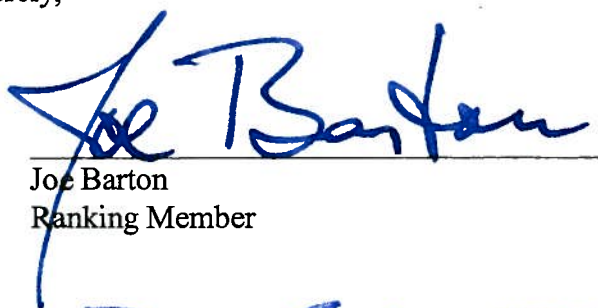
Security, as you know, is a journey and not a destination. Former CIA Director George Tenet has said that the Internet represents the "Achilles heel" of our financial stability and physical security. In April of 2002, then Homeland Security Director Tom Ridge warned: "Terrorists can sit at one computer connected to one network and can create worldwide havoc. [They] don't necessarily need a bomb or explosives to cripple a sector of the economy, or shut down a power grid." We appreciate your attention to this matter. We take very seriously this Committee's cybersecurity jurisdiction and its attendant responsibilities. We will be following up on these matters, as needed.

At the same time, we are transmitting a copy of this report to the Chairman and Ranking Member of the Committee on Financial Services, which has jurisdiction over the financial markets, for any action they deem appropriate.

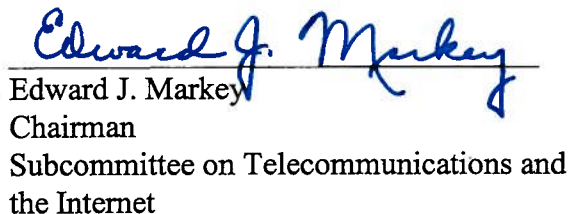
Sincerely,



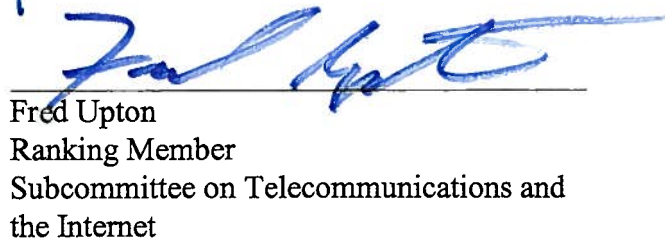
John D. Dingell
Chairman



Joe Barton
Ranking Member



Edward J. Markey
Chairman
Subcommittee on Telecommunications and
the Internet



Fred Upton
Ranking Member
Subcommittee on Telecommunications and
the Internet

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The Honorable Ben S. Bernanke
The Honorable Christopher Cox
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Bobby L. Rush
Chairman
Subcommittee on Commerce, Trade, and
and Consumer Protection



Cliff Stearns
Ranking Member
Subcommittee on Commerce, Trade, and
and Consumer Protection

cc: The Honorable Barney Frank, Chairman
Committee on Financial Services

The Honorable Spencer Bachus, Ranking Member
Committee on Financial Services