



Highlights of [GAO-04-984](#), a report to the Committee on Energy and Commerce, House of Representatives

## Why GAO Did This Study

In February 2003 reports, GAO identified actions needed to better prepare critical financial market participants for wide-scale disasters, such as terrorist attacks. To determine progress made since then, GAO assessed (1) actions that critical securities market organizations took to improve their ability to prevent and recover from disruptions, (2) actions that financial market and telecommunications industry participants took to improve telecommunications resiliency, (3) financial regulators' efforts to ensure the resiliency of the financial markets; and (4) SEC's efforts to improve its program for overseeing operations risks at certain market participants.

## What GAO Recommends

GAO recommends that the Chairman, SEC, fully analyze the readiness of the securities markets to recover from major disruptions and work with industry to determine actions that would better prepare the markets to resume trading. This report also recommends actions to improve SEC's information technology oversight program, including establishing a time frame for proposing a rule making the program mandatory, increasing its resources, and continuing to assess the alignment of the program within SEC.

SEC generally agreed with the findings and recommendations of this report.

[www.gao.gov/cgi-bin/getrpt?GAO-04-984](http://www.gao.gov/cgi-bin/getrpt?GAO-04-984).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Davi M. D'Agostino at (202) 512-8678 or [dagostinod@gao.gov](mailto:dagostinod@gao.gov).

# FINANCIAL MARKET PREPAREDNESS

## Improvements Made, but More Action Needed to Prepare for Wide-Scale Disasters

### What GAO Found

The critical securities market organizations and market participants GAO reviewed had taken actions, since GAO's previous reports, to further reduce the risk that their operations would be disrupted by terrorist attacks or other disasters. For example, they had added physical barriers, enhanced protection from hackers, or established geographically diverse backup facilities. Still, some entities had limitations that increased the risk that a wide-scale disaster could disrupt their operations and, in turn, the ability of securities markets to operate. For example, three organizations were at a greater risk of disruption than others because of the proximity of their primary and backup facilities. In addition, four of the eight large trading firms GAO reviewed had all of their critical trading staff in single locations, putting them at greater risk than others of a single event incapacitating their trading operations. Geographic concentration of these firms could leave the markets without adequate liquidity for fair and efficient trading in a potential disaster.

Since GAO last reported, actions were taken to improve the resiliency of the telecommunications service critical to the markets, including creating a private network for routing data between broker-dealers and various markets. Maintaining telecommunications redundancy and diversity over time will remain a challenge. Financial market regulators also took steps that should reduce the potential that future disasters would disrupt the financial markets, such as issuing business continuity guidelines for financial market participants designed to reopen trading markets the next business day after a disruption. However, despite the risk posed by the concentration of broker-dealers' trading staffs, and the lack of regulations requiring broker-dealers' to be prepared to operate following a wide-scale disruption, SEC had not fully analyzed the extent to which these organizations would be able to resume trading following such a disruption.

Furthermore, while SEC has made some improvements to the voluntary program it uses to oversee the information security and business continuity at certain critical organizations, it has not taken steps to address key long-standing limitations. Despite past difficulties obtaining cooperation with recommendations and a lack of resources to conduct more frequent inspections, SEC had not proposed a rule making this program mandatory or increased the level of the program's resources—as GAO has previously recommended. In addition, SEC appeared to lack sufficient staff with expertise to ensure that the organizations in the program adequately addressed the issues identified in internal or external reviews, or to identify other important opportunities for improvement. Although SEC staff continue to assess the impact of a recent reorganization involving the programs staff, whether the current placement of the program within SEC is adequate for ensuring that the program receives sufficient resources is not yet clear.