

GAO
Accountability • Integrity • Reliability

Highlights

Highlights of [GAO-03-414](#), a report to the Committee on Financial Services House of Representatives

Why GAO Did This Study

September 11 exposed the vulnerability of U.S. financial markets to wide-scale disasters. Because the markets are vital to the nation's economy, GAO assessed (1) the effects of the attacks on market participants' facilities and telecommunications and how prepared participants were for attacks at that time, (2) physical and information security and business continuity plans market participants had in place after the attacks, and (3) regulatory efforts to improve preparedness and oversight of market participants' risk reduction efforts.

What GAO Recommends

GAO recommends that the Chairman, SEC, work with industry to

- develop goals and strategies to resume trading in securities markets,
- determine sound business continuity practices needed to meet these goals,
- identify organizations critical to market operations and ensure they implement sound business continuity practices, and
- test strategies to resume trading.

In addition, the report contains recommendations to improve SEC's oversight of information technology issues.

www.gao.gov/cgi-bin/getrpt?GAO-03-414.

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

POTENTIAL TERRORIST ATTACKS

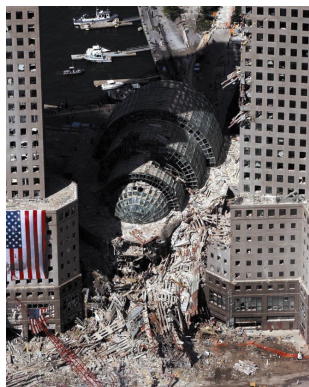
Additional Actions Needed to Better Prepare Critical Financial Market Participants

What GAO Found

The September 11 attacks severely disrupted U.S. financial markets, resulting in the longest closure of the stock markets since the 1930s and severe settlement difficulties in the government securities market. While exchange and clearing organization facilities were largely undamaged, critical broker-dealers and bank participants had facilities and telecommunications connections damaged or destroyed. These firms and infrastructure providers made heroic and sometimes ad hoc and innovative efforts to restore operations. However, the attacks revealed that many of these organizations' business continuity plans (BCP) had not been designed to address wide-scale events.

GAO reviewed 15 organizations that perform trading or clearing and found that since the attacks, these organizations had improved their physical and information security measures and BCPs to reduce the risk of disruption from future attacks. However, many of the organizations still had limitations in their preparedness that increased their risk of being disrupted. For example, 9 organizations had not developed BCP procedures to ensure that staff capable of conducting their critical operations would be available if an attack incapacitated personnel at their primary sites. Ten were also at greater risk for being disrupted by wide-scale events because 4 organizations had no backup facilities and 6 had facilities located between 2 to 10 miles from their primary sites.

The financial regulators have begun to jointly develop recovery goals and business continuity practices for organizations important for clearing; however, regulators have not developed strategies and practices for exchanges, key broker-dealers, and banks to ensure that trading can resume in a timely manner in future disasters. Individually, SEC has reviewed exchange and clearing organization risk reduction efforts, but had not generally reviewed broker-dealers' efforts. The bank regulators that oversee the major banks had guidance on information security and business continuity and reported examining banks' risk reduction measures annually.



An aerial view on September 17, 2001, shows the debris-clogged Winter Garden between the buildings of the World Financial Center near the World Trade Center, which collapsed following the September 11 terrorist attack. These surrounding buildings, which contained important facilities of various financial market participants, were heavily damaged by the debris and massive force of the falling twin towers.

Source: Associated Press.