

Introduction

Chairman Platts and Ranking Member Towns, thank you for inviting me here today to testify on the financial services sector's preparedness to handle a wide scale disruption. I am pleased to tell you that the financial sector has made tremendous progress to ensure its resiliency to withstand both manmade and natural disasters. President Bush has led the development and implementation of an effective program to defend our country's critical infrastructure. The financial services sector plays an indispensable role in the nation's economic system, providing individuals, businesses, and the government with credit and liquidity, short and long-term investments, risk-transfer products, various payment systems, and depository services. It enables people to save for their education, retirement, to purchase their homes, and to invest in their dreams. The financial services system is essential to America's overall economic well being.

I note that we have experienced a number of events in recent years that test the resilience of the sector. The attacks of September 11, 2001, the power outage of August 14 – 15, 2003, and the elevation of the threat level for the financial sector in August 2004 have all tested the preparedness and resolve of the sector. Most recently, Hurricane Katrina caused unprecedented devastation in multiple states. Yet the financial system has survived each of these events, and through hard work and investment, becomes stronger and better able to contend with such disruptions.

Organizing to Protect the Critical Financial Infrastructure

President Bush has mandated that the Federal Government work closely with the private sector to protect the nation's critical assets and infrastructure from major disruption. A unique insight that guides the Administration's strategy is that nearly all of the financial infrastructure is owned by the private sector. Therefore, the success of our protective efforts depends on close cooperation between the government and the private sector.

On December 17, 2003, our President issued Homeland Security Directive 7 (HSPD-7), which establishes a national policy for Federal departments and agencies to identify and prioritize United States infrastructure and key resources and to protect them from terrorist attacks. HSPD-7 recognized that various Departments and agencies have specific knowledge, expertise, and experience in working with certain sectors. Therefore, this directive provided for Sector Specific Agencies, or lead agencies, for given sectors. The Department of the Treasury is designated as the Sector Specific Agency for the banking and finance sector.

Under this designation, the Treasury collaborates with appropriate private sector entities to encourage the development of information sharing and analysis mechanisms, and to support sector-coordinating mechanisms to: (1) identify, prioritize, and coordinate the protection of critical infrastructure and key resources; and (2) facilitate sharing of information about physical and cyber threats, vulnerabilities, incidents, potential protective measures, and best practices.

As the lead agency for the financial services sector, the Treasury fulfills its responsibilities under HSPD-7 primarily through the encouragement and support for the development and use of public-private partnerships. I will discuss these partnerships and other related efforts that serve to coordinate relevant parties and provide for the sharing of information.

Secretary Snow has a strong commitment to ensuring the financial system continues to serve all Americans. He has tasked the Treasury Department's Office of Critical Infrastructure Protection and

Compliance Policy to be responsible for developing and executing policies affecting the physical and cyber security of the United States financial system. The majority of these efforts require close cooperation and partnership with the public and private sector. In carrying out these efforts, the Treasury continues to:

- Work with government agencies, private sector firms, national and regional organizations to have each establish a single points of contact for critical financial infrastructure issues;
- Promote strong relationships between financial institutions and the State and local governments where their operations are located;
- Inform the private and public sectors about the available resources that protect the financial infrastructure; and
- Support the availability of accurate and timely information about potential threats on a national and regional level.

National Partnerships

Following the attacks of September 11, 2001, the Department reacted quickly to organize the financial services sector. First, it initiated an intensive evaluation of the threats against the sector, and then analyzed efforts to address any potential vulnerabilities. To more effectively focus efforts and resources on these goals, the Treasury Department established a single point of contact within relevant public and private entities – the Financial Services Sector Coordinating Council for the private sector and the Financial and Banking Information Infrastructure Committee for the public sector group. I understand that you will be receiving testimony later from the head of that private sector council.

Financial and Banking Information Infrastructure Committee

To coordinate Federal efforts and to ensure the sharing of vital information, and pursuant to an Order by the President¹, the Treasury Department chairs the Financial and Banking Information Infrastructure Committee (FBIIC), and held its initial meeting on January 10, 2002. The President’s Working Group on Financial Markets sponsors the FBIIC and oversees its role of coordinating the efforts of Federal financial regulators on critical financial infrastructure issues. The FBIIC, composed of Federal and State financial regulators, coordinates efforts to ensure the resilience of the financial system in the face of major disruptions. The Treasury Assistant Secretary for Financial Institutions chairs the FBIIC, which includes experienced representatives from almost 20 organizations that have regulatory authority over different segments of the financial services sector.² I have had the privilege and responsibility to serve as Acting Chair since January 2005.

The FBIIC has made significant achievements through the collaboration of its members. These accomplishments include: analyzing the critical infrastructure assets; the analysis of the financial services sector’s dependencies on the energy, transportation, telecommunications, and information technology sectors; and the sharing of critical information among Federal, State, and local authorities.

Furthermore, the FBIIC has published reports with the Financial Services Sector Coordinating Council. These publications include “Lessons Learned by Consumers, Financial Sector Firms, and Government

¹ E.O. 13231, October 16, 2001

² Commodities Futures Trading Commission (CFTC), Conference of State Bank Supervisors (CSBS), Farm Credit Administration (FCA), Federal Deposit Insurance Corporation (FDIC), Federal Housing Finance Board (FHFB), Federal Reserve Bank of New York (FRB NY), Federal Reserve Board (FRB), , National Association of Insurance Commissioners (NAIC), National Association of State Credit Union Supervisors (NASCUS), National Credit Union Administration (NCUA), North American Securities Administrators Association (NASAA), Office of the Comptroller of the Currency (OCC), Office of Federal Housing Enterprise Oversight (OFHEO), Office of Thrift Supervision (OTS), Securities and Exchange Commission (SEC), and Securities Investor Protection Corporation (SIPC).

Agencies during the Recent Rise of Phishing Attacks” and ”Impact of the Recent Power Blackout and Hurricane Isabel on the Financial Services Sector.”³ For each publication, individuals from the FBIIC and Financial Services Sector Coordinating Council solicited and collected written contributions from their member organizations.

The FBIIC agencies have done much for the recovery from Hurricane Katrina, and I have been privileged to work with so many selfless individuals in the Federal, State, local, and private sectors. During the events surrounding Katrina, the FBIIC met frequently, often several times a day, in order to share and exchange information to help the recovery effort by the financial sector. Although much work remains, I’m pleased to report that every financial institution in the impacted areas is now in an operating capacity.

Financial Services Sector Coordinating Council

The Department encouraged the creation of a corresponding entity to the FBIIC within the private sector. This organization, the Financial Services Sector Coordinating Council (FSSCC), develops and coordinates major policy issues for the private sector regarding the protection of the critical financial infrastructure. The FSSCC was inaugurated on June 19, 2002 in the Cash Room of the Treasury Building.

The FSSCC fosters and facilitates the coordination of financial services sector-wide voluntary initiatives to improve critical infrastructure protection and homeland security. The Department designates the chair of the FSSCC, whose membership consists of financial trade associations and organizations.⁴ The FSSCC member trade associations represent the majority of the financial services sector.

The FSSCC is vitally important to our efforts to coordinate across the financial sector. We are fortunate that we have Don Donahue as the financial sector coordinator and chair of the FSSCC.

The members of the FBIIC and FSSCC meet together several times a year to share information and discuss progress on various initiatives and emerging concerns. These meetings give representatives from the public and private sector an opportunity to inform each other of their respective projects and successes. For example, during the March 2005 meeting, members of the FBIIC and FSSCC discussed the Department of Homeland Security’s National Infrastructure Protection Plan, as well as the FBIIC and FSSCC plans for 2005.

Regional Partnerships

One of the insights on preparedness that we recognize is that any disruption will first and foremost require a rapid local or regional response. After establishing the national partnerships, the Treasury Department turned its attention to the support of regional partnerships. Because the financial community in New York City already had ties to the New York City Office of Emergency Management, the Treasury Department turned its attention to Chicago, Illinois. Chicago's financial services industry is among the most diverse in the United States, and encompasses futures and securities exchanges, large and small banks, futures and securities clearinghouses, and check clearing and cash operations.

³ These publications are available at <http://www.treas.gov/offices/domestic-finance/financial-institution/cip/>.

⁴ America's Community Bankers, American Bankers Association, American Council of Life Insurers, American Insurance Association, American Society for Industrial Security (ASIS) International, Bank Administration Institute, Bond Market Association, ChicagoFIRST, Chicago Mercantile Exchange, Clearing House, Consumer Bankers Association, Credit Union National Association, Depository Trust & Clearing Corporation (DTCC), Fannie Mae, Financial Services Information Sharing and Analysis Center (FS-ISAC), The Financial Services Roundtable/BITS, Futures Industry Association, Independent Community Bankers of America, Investment Company Institute, Managed Funds Association, NASDAQ Stock Market., National Association of Federal Credit Unions, National Association of Securities Dealers (NASD), NACHA — The Electronic Payments Association, Options Clearing Corporation, Securities Industry Association (SIA), Securities Industry Automation Corporation (SIAC), and VISA USA Inc.

Beginning in the summer of 2002, the Treasury Department met with and assisted financial institutions in Chicago that had an interest in coordinating homeland security efforts for downtown businesses.

In early 2003, several Chicago financial firms came together to discuss joining forces to address their common business continuity concerns. Their efforts produced a new kind of organization, named ChicagoFIRST, devoted to building and maintaining relationships between the financial community and the city, State, and Federal government, especially with law enforcement and emergency response officials. ChicagoFIRST's unique membership consists of financial institutions with a variety of charters and licenses, including national banks, insurance companies, securities and futures firms, securities and futures exchanges, and clearing organizations⁵. ChicagoFIRST fosters relationships with the public sector, trade associations, and other entities through periodic meetings with its "Strategic Partners."⁶

The Department of the Treasury has worked closely with ChicagoFIRST to improve its effectiveness as a regional coalition. In March 2003, the Treasury Department asked the City of Chicago to provide ChicagoFIRST a seat at the City's Joint Operations Center, which the City provided a few months later. In August 2003, the Treasury Department, the FSSCC, and ChicagoFIRST members participated in a seminar for the City of Chicago on the criticality of the Chicago financial community. In July 2004, the Treasury Department sponsored in part an emergency response exercise for Chicago's financial community and Federal, State, and local government officials. This exercise tested the assumptions and emergency response plans of Chicago's financial community, the City of Chicago, the State of Illinois and the Federal Government. In December 2004, the Treasury Department, in conjunction with BITS and other parties, published a report on the ChicagoFIRST as a model for regional coalitions, entitled *Improving Business Continuity in the Financial Services Sector: A Model for Starting Regional Coalitions*.⁷

There have been preliminary discussions on forming new coalitions in Miami/South Florida, the San Francisco Bay Area, and Tampa Bay. We will continue to work encourage other cities and regions to embrace this important concept. We believe that regional coalitions such as ChicagoFIRST are essential to protecting and strengthening the financial services sector.

Outreach

With the primary support of the Federal Deposit Insurance Corporation, the FBIIC and the FSSCC have held a series of conferences in cities across the country, entitled "Protecting the Financial Sector: A Public and Private Partnership." The first conference was held in May 2003 in Chicago. In January 2005, the 29th and last conference in this series took place in New York City. These conferences, which reached over 4,000 individuals in the financial services industry, highlighted the importance of public-private cooperation to minimize the effect of manmade and natural events on the financial sector.

⁵ ABN/AMRO/LaSalle Bank; Allstate; Archipelago; Bank of America; Bank One; Chicago Board of Trade; Chicago Board Options Exchange; Chicago Federal Home Loan Bank; Chicago Mercantile Exchange; Chicago Stock Exchange; Harris Bank; Mesriow Financial; Mizuho Securities USA Inc; Northern Trust Bank; The Options Clearing Corporation; UBS; and William Blair & Company.

⁶ ChicagoFIRST's Strategic Partners include the City of Chicago, the U.S. Department of the Treasury, the Department of Homeland Security, BITS – the Financial Services Roundtable, the Securities and Exchange Commission, the Commodity Futures Trading Commission, the Federal Deposit Insurance Corporation, the Illinois Commissioner of Banks and Real Estate, the Federal Reserve Bank of Chicago, the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, U.S. Secret Service, the Federal Bureau of Investigation, the Financial Services Sector Coordinating Council, and the Futures Industry Association.

⁷ This report is available at <http://www.treas.gov/offices/domestic-finance/financial-institution/cip/>.

The conferences brought together public officials and experts from the private sectors who, in various ways, protect the nation's critical financial infrastructure. These individuals included United States Secret Service Special Agents, officials from the Departments of the Treasury and Homeland Security, representatives of the FBIIC and FSSCC, and members of ChicagoFIRST. The speakers at the conferences stressed the importance of joining or forming a public-private partnership to ensure the continued operation of the region's financial services sector in the face of adverse circumstances. This type of training, I believe, assists and has positively helped financial services professionals in recovering from incidents like Katrina.

Financial Services Information Sharing and Analysis Center

In 1999, with the encouragement of the Department, several leading financial institutions formed the Financial Services Information Sharing and Analysis Center (FS-ISAC) to share information about physical and cyber threats to the financial services sector. The FS-ISAC analysts gather information from financial services providers, commercial firms, Federal, State and local government agencies, law enforcement and other resources for secure dissemination.

The Department of the Treasury has long supported the FS-ISAC in its efforts to disseminate important information to the entire financial services sector. In addition to advising the FS-ISAC board, Department officials have worked closely with the organization and publicly supported its efforts. For example, in September 2004, the Secretary of the Treasury held a meeting with FS-ISAC members to commend their commitment to financial services sector resilience and their involvement in the public-private partnership.

In 2003, the Department commissioned an independent study of the FS-ISAC to determine its value to the financial services sector. The study found that members of the FS-ISAC benefited from its services, but that the former structure of the FS-ISAC only served a small portion of the financial services sector. In response to this conclusion, the Department then acquired \$2 million in services from the FS-ISAC, with the effect of thereby making the Next Generation FS-ISAC a reality. By December 2004, all five Next Generation projects were completed: 1) a metrics dashboard to display key statistics related to value, membership, and alert volume; 2) alert dissemination confirmation; 3) a cyber security baseline; 4) secure online chat; and 5) the ability to process commercial security feeds. The Next Generation project has improved the FS-ISAC's ability to share threat warnings with the financial services sector.

National Communication Systems Programs

The Department of Homeland Security's National Communications System (NCS) administers a number of telecommunication programs in which the private sector participates. These programs include the Government Emergency Telecommunications Service (GETS), the Wireless Priority Service (WPS), and the Telecommunications Service Priority (TSP). The GETS program allows participants to receive priority access to the public telephone network if there is heavy traffic on the system. The WPS grants priority service to those calling from a cellular telephone. The TSP program grants participants priority restoration for very important telecommunications lines.

Through the sponsorship of the Department, critically important financial services sector institutions are eligible to participate in this program. The FBIIC Federal financial regulators consider the applications of the financial institutions and determine which are eligible for the programs. These programs have been successfully promoted through numerous FBIIC and FSSCC initiatives.

From Preparation to Action

The Department takes its responsibility to ensure and enhance the resilience of the financial services sector very seriously and realizes that it can only be done through cooperation between the government

and the private sector. Since September 11, 2001, the Department has pursued an aggressive agenda working with the public and private sectors to prevent or diminish major disruptions to the financial sector in the event of a natural or manmade disaster. The Department has worked with key institutions, in participation with State and local officials, to ensure their business continuity plans are sound and effective.

Conclusion

We need look only to devastation caused by Hurricane Katrina to remind us of the need to prepare for large scale disasters. Our efforts to minimize the impact of crises, as they may occur in the future, are grounded in the President's goals and vision for the Treasury Department – a vision that is based on a shared commitment by the Federal government, the financial services sector, and State and local government, to prevent incidents from occurring where possible, and a vision that emphasizes preparation for events, so as to minimize their extent, and speed recovery. I am constantly reminded of what President Lincoln told us all more than 140 years ago: "Leave nothing for tomorrow which can be done today." Those words continue to guide us all as we face incidents that challenge our age, and the 21st century.

Thank you.