



Highlights of [GAO-07-399](#), a report to congressional requesters

Why GAO Did This Study

This is GAO's third report since the September 11 terrorist attacks that assesses progress that market participants and regulators have made to ensure the security and resiliency of our securities markets. This report examined (1) actions taken to improve the markets' capabilities to prevent and recover from attacks; (2) actions taken to improve disaster response and increase telecommunications resiliency; and (3) financial regulators' efforts to ensure market resiliency. GAO inspected physical and electronic security measures and business continuity capabilities using regulatory, government, and industry-established criteria and discussed improvement efforts with broker dealers, banks, regulators, telecommunications carriers, and trade associations.

What GAO Recommends

To improve the readiness of the securities markets to withstand potential disease pandemics, securities and banking regulators should consider taking additional actions, including providing formal expectations that market participants' plans address even severe pandemic outbreaks and setting a date by which such plans should be completed. Banking and securities regulators indicated they believe organizations are adequately addressing this risk, but will consider taking the recommended actions if progress lags. GAO believes that giving greater consideration now would better assure market readiness.

www.gao.gov/cgi-bin/getrpt?GAO-07-399.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Yvonne D. Jones at (202) 512-8678 or jonesy@gao.gov.

FINANCIAL MARKET PREPAREDNESS

Significant Progress Has Been Made, but Pandemic Planning and Other Challenges Remain

What GAO Found

The critical securities markets organizations GAO reviewed have acted to significantly reduce the likelihood of physical disasters disrupting the functioning of U.S. securities markets. As of January 2007, the seven critical exchanges, markets, clearing organizations, and payment processors GAO reviewed have the capability of performing their critical functions at sites that are geographically dispersed from their primary sites. These organizations were also preparing plans to reduce the likelihood that a disease pandemic will disrupt their critical operations, although not all had fully completed such efforts. They also improved their physical and information security measures, including by taking actions that GAO identified during this review. Although key securities trading staff remain concentrated in single locations, the broker-dealers and clearing services banks 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.

Various private and public sector groups continued to enhance the preparedness of the financial sector, although resolving vulnerabilities in the telecommunications infrastructure remains a challenge. 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. After attempts to assist individual financial market participants to determine whether their own telecommunications lines were routed through single paths or switches proved difficult, regulators are assisting efforts to develop automated systems for identifying circuit paths. In response to concerns over whether the telecommunications infrastructure can absorb the increased demand likely to result from large numbers of organizations and individuals seeking to telecommute during a pandemic, financial regulators and market participants are assisting government efforts to model such events and develop potential solutions.

To improve market resiliency, financial regulators established goals for prompt recovery of critical clearing activities after disasters and have been conducting examinations to ensure market participants' compliance. Securities regulators also set goals and are examining securities markets' readiness to resume trading and plan to do more focused reviews of individual broker-dealer capabilities. SEC also has improved its program for overseeing operations issues at market and clearing organizations, including increasing its staffing levels and expertise. Securities and banking regulators have been actively addressing pandemic issues, but could better ensure that market participants prepare complete plans and have sufficient time to train employees and test these plans, by providing formal expectations that plans address even severe outbreaks and set dates for completing such plans.