
Planning for the Unprecedented

Regulatory Directions for Business Continuity in the Post-9/11 Environment



Scope of the 9/11 Attacks

- ◆ **Six major buildings in WTC destroyed or heavily damaged and demolished. Over 3,000 casualties.**
- ◆ **Widespread physical destruction and telecom breakdowns in the NYC region.**
- ◆ **Pentagon attacked; other targets in D.C. area threatened directly or indirectly.**
- ◆ **Anthrax found in D.C. offices and other locations.**
- ◆ **U.S. Population first traumatized by the media coverage and then galvanized to respond.**

Impacts to U.S. Financial System

- ◆ **Fixed Income and Futures Markets closed for two days; Equities and Options Trading suspended for six days.**
- ◆ **Significant disruptions in securities clearing and settlement mechanisms, repurchase agreements and commercial paper.**
- ◆ **Operational failures and telecom breakdowns between financial institutions led to significant liquidity bottlenecks for several days.**

Impacts to U.S. Financial System

- ◆ **Some institutions could not ascertain their financial positions or those of their customers for several days.**
- ◆ **Vaults containing physical certificates were destroyed, and identification records were not always available.**
- ◆ **Some transactions were lost, leading to an extensive reconstruction and reconciliation effort that lasted for months.**

Immediate Responses

- ◆ **SEC invoked emergency powers for the first time to provide temporary regulatory relief.**
- ◆ **The decision to re-open markets was made by the private sector in consultation with the SEC.**
- ◆ **Federal Reserve and other major payment systems extended hours to support transfers.**
- ◆ **Institutions extended credit to support those with insufficient liquidity despite the risk and lack of reliable information.**

Immediate Responses

- **Some institutions borrowed from central bank discount window to obtain sufficient liquidity.**
- **Others built up high cash balances or held on to securities positions as a precautionary measure, exacerbating liquidity imbalances.**
- **Customers and counter-parties helped to re-create lost transaction records.**
- **People** were identified as the most important resource for keeping institutions functioning in time of crisis.

Exposed Vulnerabilities

- ◆ **Business continuity planning had not taken into account the potential for widespread disaster and loss of critical staff: some firms lost access to primary and backup facilities.**
- ◆ **Market-based and geographic concentration intensified disruptions: some critical market functions rely on a small number of entities.**
- ◆ **Interdependence of market participants: institutions and customers in other regions were affected when funds or securities could not be delivered as expected.**

Post-9/11 Business Continuity Objectives

Regulatory agencies and key market participants achieved consensus on the following objectives, drawing from the lessons learned from 9/11:

- Rapid recovery and resumption of critical operations following a wide-scale disruption (i.e., by the next business day).**
- Rapid recovery of critical operations following the loss of staff in a major operating location.**
- A high level of confidence, through ongoing use and robust testing, that critical continuity arrangements are effective and compatible.**

SEC/NASD/NYSE Business Continuity Rules

Regulatory agencies have established new rules for business continuity planning. **All members** must develop plans that address the following:

- **Data back-up and recovery**
- **Mission critical systems**
- **Alternate communication between the firm and its employees and customers.**
- **How the firm will assure prompt access to customer funds and securities in the event they are no longer able to continue business.**

SEC/NASD/NYSE Business Continuity Rules

Regulatory agencies have established new rules for business continuity planning:

- All members will be required to disclose to customers a **summary** of their plan to address potential disruptions of varying scope.
- The continuity plan summary should serve to increase customer confidence.
- The continuity plan summary should **not** provide terrorists or others with details that could be used to disable the company.

Critical Activities

Key clearing and settlement processes targeted for rapid recovery include the following:

- Completing pending large-value payments.**
- Clearing and settling pending transactions.**
- Meeting material end-of-day funding and collateral obligations for payments and transactions.**
- Managing material open firm and customer risk positions as necessary to assure performance.**
- Communicating firm and customer positions, reconciling the day's records, and safe-guarding firm and customer assets.**
- Performing all support and related functions.**

Sound Planning Practices

The following practices address the potential for wide-scale disruptions:

Identify critical activities that support the market

Acknowledge interdependencies and market position

Determine appropriate resumption objectives

Major players should set a target of 4 hours

Maintain sufficient out-of-region resources

Maintain staff, equipment and data for high volume

Routinely use or test resumption arrangements

**Test connectivity, functionality and volume capacity;
plan for cross-organizational testing with partners**

Planning Considerations

- ◆ **Out-of-region arrangements are critical: account for staff, training and travel.**
- ◆ **Access to current data is critical: plan to transmit data continuously, use multiple databases and active backup sites.**
- ◆ **Develop flexible plans: differentiate between single site and wide-scale strategies.**
- ◆ **Tests should include backup facilities, core clearing and settlement organizations, and key service providers.**

Process Flow

- 1) Pull existing plans and validate content or begin survey.**
- 2) Identify business units, location, size and unit leaders.**
- 3) Identify all critical business processes performed by business units.**
- 4) For each process, capture a detailed description, including frequency, duration, regulatory elements, incoming and outgoing information, and use of any 3rd parties.**
- 5) Identify data storage and communication requirements, data backup schedules, alternate locations, special skills, training and licenses, stand-alone systems, and any other required items or resources.**

Process Flow

- 6) **Define outage impacts, idle thresholds and backlog constraints, and identify impacts from previous outages.**
- 7) **Identify any clearing and settlement activities and assign top priority to recovering any related processes.**
- 8) **Generate continuity plans for each business unit. Account for data backup and recovery, mission critical systems, communication channels and customer access to funds.**
- 9) **Generate a summary version of business continuity plans for disclosure to customers.**
- 10) **Test plans: involve third parties to create a true end-to-end test. Exercise tests on a routine basis, and focus efforts on any process or support system changes.**

Battlefield Promotions

The official NYC recovery plan called for the Dept. of Sanitation to clean up after a building collapse. At time of event, the Dept. of Design and Construction took charge of the effort because they could act decisively and without delay.

In the first week of the effort, a mid-level official arrived on the scene and asked those who had taken charge “Who told you to get involved?” The response she received was, “We’re kind of busy right now. Why don’t you come back in six months and ask that question.”

Ultimately, **it’s the people who use the plan that make it work.** When leaders emerge, it’s up to the senior staff to give them the charter to exercise their wisdom, make decisions, and re-write the plans and protocols, on-the-fly, to meet the objective.

Call to Action

“With the strength and insight we have gained from this crisis, we will move forward to make our markets even stronger, more transparent and more vibrant. In this way, we will honor the memory of those we lost.

As a nation, and as an agency, we cannot and will not allow terrorists to destroy our spirit or impede our mission.”

-- Harvey L. Pitt

Former Chairman, SEC

Sources

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