



**U.S. TREASURY DEPARTMENT
OFFICE OF PUBLIC AFFAIRS**

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**Before the U.S. House of Representatives Committee on Financial Services
Subcommittee on Oversight and Investigations**

Thank you Chairwoman Kelly, Ranking Member Gutierrez, and Members of the Subcommittee. I appreciate the opportunity to speak to you about the Treasury Department's contribution to pandemic planning within the financial services sector. Though the Treasury's efforts are just a small part of the enormous Federal effort, we have been very active. President Bush stated, "Together we will confront this emerging threat and together, as Americans, we will be prepared to protect our families, our communities, this great Nation, and our world."

I would like to begin my remarks by telling you about the sector's general state of preparedness and then tell you about the Treasury's leadership on pandemic planning within the financial services sector.

Financial Services Sector Preparedness

I am pleased to report that the financial services sector has undertaken significant steps toward ensuring its resilience to withstand both man-made and natural disasters. President Bush has led the overall 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 and 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 have tested our resilience. The attacks of September 11, 2001, the power outage of August 2003, and the elevation of the threat level for the financial sector in August 2004 all tested the preparedness and resolve of the sector. Most recently, Hurricane Katrina caused unprecedented devastation in multiple States. Yet the American financial system survived each of these events, and through hard work and investment, became stronger and better able to contend with such disruptions.

On December 17, 2003, the President issued Homeland Security Presidential Directive - Seven (HSPD-7), which established a national policy for Federal departments and agencies to identify and prioritize United States critical infrastructure and key resources and to protect them from terrorist attacks. HSPD-7 recognizes that various Departments and agencies have specific knowledge, expertise, and experience in working with certain sectors. Therefore, this directive provides 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 Federal, State, and local governments and the appropriate private sector entities to encourage the development of information sharing and analysis processes, 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.

We have developed a two-pillared structure within both the public and the private sectors to support the Treasury's efforts to safeguard the financial services sector. The first pillar is the Financial and Banking Information Infrastructure Committee (FBIIC), which is chaired by the Treasury's Assistant Secretary for Financial Institutions and is comprised of the Federal and State financial regulators. The second pillar is the Financial Services Sector Coordinating Council (FSSCC) which is comprised of the leading financial services institutions and trade organizations. We also rely on the Financial Services Information Sharing and Analysis Center (FS-ISAC) to communicate with the sector during a crisis.

The Treasury has a strong commitment to ensuring the financial system continues to serve all Americans. The Secretary has tasked the Treasury Department's Office of Critical Infrastructure Protection and Compliance Policy with the responsibility for developing and executing policies affecting the resilience 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, and national and regional organizations to establish a single point of contact for critical financial infrastructure issues;
- Promote strong relationships between financial institutions and the State and local governments where financial sector 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.

Treasury's Contribution to Pandemic Planning in the Financial Services Sector

Let me now turn specifically to today's topic. Pandemic influenza is a serious threat. Moreover, although the narrow specifics of an influenza pandemic threat are unique, elements contained within the planning for pandemic countermeasures are relevant to preparedness for radiological, nuclear, biological and chemical threats. The United States experienced three major pandemics in the twentieth century. The influenza pandemic of 1918 killed tens of millions of people worldwide, and estimates are that between 500,000 and 800,000 people in the United States lost their lives. Milder outbreaks of influenza in 1957 and 1968 killed tens of thousands of Americans, and perhaps millions more across the world.

Most disasters are confined to a limited geographic area, usually measured by the number of cities and States that are impacted. Pandemic influenza is unique in that it has the potential to affect our entire country very quickly, from Wall Street securities firms to Midwestern credit unions, to back-office operations centers in the Arizona desert that serve them both and many others.

This type of potential disruption forces us to think differently about how we prepare for something as widespread as a pandemic. For example, we must change the way businesses within the financial services sector think about business continuity. A firm cannot simply move to out of region back-up facilities and restore operations because it is likely those facilities are also experiencing challenges associated with the pandemic. Without proper planning, a pandemic could disrupt the ability of a financial institution to operate.

For example, contingency planning, in both the public and private sector, must now take into consideration efforts to mitigate the spread of influenza within the firm or a department. Among the key issues for consideration are the stockpiling of masks, gloves and anti-viral agents, additional hand washing stations for employees, and identifying and isolating employees who may be sick.

There are many possible impacts of a pandemic on firms' abilities to operate. One of the most likely is a sharp increase in employee absenteeism. It is important that we begin to consider now how best to cope with high absenteeism rates. Here, too, there are many considerations, including making provisions to provide parking for employees who may

not want to take public transportation, childcare for workers if schools are closed, cross training so that workers can do multiple jobs, and identifying work streams that can be performed at home, and ensuring that internal information technology is prepared to support that work from home.

Finally, as we consider all of these issues, we must also recall that for unbanked Americans, the ability to access financial services is generally based on person-to-person interactions, such as cashing a check or purchasing a money order, and we must take into consideration the unbanked and consider whether there are unique or specific concerns that affect them and the financial services firms that serve them.

The financial sector uses many independent third parties to provide services that range from cleaning, to the repair of computer systems, to security. Many financial firms are now requiring their service providers and, at times, even their business partners, to have business continuity plans in place as a condition of doing business. We view this as beneficial as this produces a positive cascading effect in the financial services supply chain which increases the overall preparedness for a pandemic.

Interdependencies with other sectors must also be taken into consideration. Financial sector regulators and institutions have been considering their interdependencies with other sectors of the economy. For example, we are considering whether the telecommunications infrastructure would be adequate to support the internet traffic generated by a large number of people working at home, especially the residential portion that connects an employee's residence to major trunks of the internet, and the need for any additional data security measures should employees be required to work from their homes. Similarly, the financial sector is dependent upon transportation, especially public transportation for its employees, and therefore it is vital to understand public transport planning for coping with a pandemic. We have engaged with each of these sectors, as we have during other threats, and we remain committed to working together with these sectors to ensure the needs of the financial community are met.

The President is leading a massive Federal effort that respects and appreciates the role of States and localities, as well as the private sector, in such an event. The Homeland Security Council's *Implementation Plan for the National Strategy for Pandemic Influenza* contains over 300 critical actions to address the threat of a pandemic. At the end of last year, as part of this effort, the Congress appropriated \$3.8 billion dollars for pandemic planning. In addition, there was \$2.3 billion appropriated recently for pandemic flu, as part of the emergency supplemental appropriations.

The Treasury has been very active within the financial services sector to provide and share the most current thinking about what a 21st century pandemic could look like, so that sector participants can use the latest information to build and improve plans and scenarios to mitigate the potential risks. The principles that guide our leadership role in the financial services sector are that our planning efforts will be based on medical science, which is provided to us by experts outside of the Treasury, and that planning efforts will emphasize the protection of the life and safety of our fellow Americans, whether they be employees or customers of financial firms, or others, the importance of

business continuity within financial firms, and the significant number of interdependencies needed to sustain operations during an outbreak of a pandemic. Please allow me to spend a few minutes describing key elements of our plan, which focuses on coordination, education, outreach, and an effort to exercise and test the plans and procedures that have been developed.

Last year, the FBIIC created a working group to focus on pandemic influenza. The purpose of the group is to identify areas of concern and to identify and share best practices as it relates to business continuity for the financial community. This group has been meeting regularly, and has also been in close communication with the FSSCC.

One concern that we have been often asked about is banknotes and coinage. In the immediate aftermath of any disaster, there may be some movement toward a greater use of currency. This may be no different in the immediate aftermath of a pandemic. In this vein, the Treasury's United States Mint and the Bureau of Engraving and Printing are working with the Federal Reserve Banks to ensure that banknote and coin inventories are adequate should financial institutions need additional supplies. The Treasury and the relevant financial services sector regulators are committed to working with sector participants to address these types of issues before a pandemic, or any crisis, arrives.

An important mission for the FBIIC is to be in a position to centrally coordinate policymaking and decision-making in the event of a situation that requires emergency actions. The FBIIC has in place well-tested emergency protocols, that were employed during Hurricanes Katrina, Rita and Wilma, and during the elevation of the threat level in New York and Washington, DC. These protocols have explicit provisions for reaching out to the private sector. In the event of any pandemic, these collaboration, communication and coordination tools would be used to ensure that those within financial regulatory agencies as well as the entities within the financial services sector are in touch with the most up-to-date information and instructions.

The FSSCC has recently formed an infectious disease working group. I know that you will be hearing from a private sector panel next, but I would like to say that these two working groups, the FBIIC group and the FSSCC group, are working well together and representing public and private interests.

I mentioned previously that our strategies to protect the sector are grounded in sound medical science. To that point, the Treasury has hosted two presentations with leading Federal officials from the health and medical community. On December 16, 2005 we invited a leading medical expert in the area of vaccine science to speak to members of the FBIIC and the FSSCC. This physician discussed several pertinent topics such as: the history and spread of pandemics in the US; the composition of the H5N1 avian flu strain and the spread of the virus; and a forecast of the possible infection rates should the disease mutate into a form that is transmittable between humans. Meeting participants also discussed vaccines and prophylaxis against the virus, including issues involving anti-viral agents. This session helped the regulatory agencies and private sector representatives share a common understanding of many aspects of the virus.

On June 6, 2006, the Treasury hosted a joint meeting of the FBIIC and FSSCC to get an update on the H5N1 virus and an update on the latest thinking in the medical community. At this meeting we invited a leading physician and health care administrator to give an update on the *President's National Strategy for Pandemic Influenza*. This physician spoke about community shielding strategies and also gave an update on the H5N1 virus. His presentation was particularly relevant, given the effect that community shielding strategies (such as school closures and "snow days") would have on the financial services sector. The sector is particularly interested in any actions the Federal government might take so that it can modify its contingency planning to take into consideration those actions. Our plan is to continue to hold joint medical briefings every six months, or as needed, to ensure we are collectively aware of the latest medical science in this area.

We also believe it is vital to reach beyond Washington, DC and conduct an outreach campaign to carry the message for pandemic preparedness to all parts of the country. The Treasury's outreach initiative, sponsored by the FBIIC and the FSSCC, will take us to twenty-one cities across the country by the end of the year. The objective of these meetings is educational - to promote financial services sector preparedness to deal with man-made or natural disruptions, including terrorism, hurricanes, and pandemics and encourage the formation of regional financial coalitions, such as the very first one created in Chicago, and the others that have been created or are under development. These events bring together Federal, State, and local officials with financial institutions and provide a great opportunity to encourage financial services pandemic preparation at the community level.

I now turn to one of our most important strategies, which is the use of exercises. We learn many lessons from thinking through what actions will be taken during a potential crisis. Last week the Treasury sponsored a pandemic flu tabletop exercise with FloridaFIRST, a newly formed regional financial coalition based on the highly successful ChicagoFIRST model. FloridaFIRST represents the second in a Treasury Department supported private sector initiative to establish regional financial coalitions around the country. The exercise brought together financial services, public health, and law enforcement officials from local, State, and Federal levels. Participants took home a long list of lessons learned, of which the key insights include:

- Development of contingency plans specific to a pandemic influenza is vital;
- Private sector institutions will look to Federal, State and local health officials for trigger points to enact certain parts of pandemic plans and for other information related to the pandemic;
- Development of an all-inclusive plan for the safety of employees, their families, and clients is important, and the plan must be communicated and understood by employees before a pandemic hits; and
- Implementation of good personal hygiene plans, such as hand washing, should begin now, not during a pandemic; and
- Infrastructure to support work at home programs must be strengthened before a pandemic occurs.

The Treasury, together with its FBIIC partners, will be working with financial institutions to assist them in working towards the development of measures to implement or enhance their efforts in these areas.

Robert Otero, FloridaFIRST Chairman, said that the "exercise will be a catalyst for a paradigm shift in the way institutions prepare for future disasters." We look forward to continuing to work with the Florida financial institutions we met with last week, and their appropriate regulators, to ensure that we all continue along the path of preparedness.

The exercise was so successful that we are going to schedule a joint FBIIC and FSSCC exercise on pandemic planning this summer. We would like to host similar exercises with other regional financial coalitions established, with the Treasury's support, based on the ChicagoFIRST model. Coalitions have been established in Southern California and the San Francisco Bay Area and there is interest in Las Vegas, Houston, Seattle, and Philadelphia as well as other cities.

The Treasury Department has been actively involved with our counterparts abroad. We have had enlightening conversations with financial regulators in Hong Kong. They have a unique perspective, not only because recent cases of H5N1 in humans are in their backyard, but because of the outbreak of the Severe Acute Respiratory Syndrome virus a few years ago. We have also met with representatives from the UK's Tripartite Standing Committee about how they interact with their own UK financial services sector. We hope to take the any lessons learned from our counterparts and apply them here in the United States.

In addition to these presentations, working groups, exercises, and meetings, the Treasury represents the financial sector across Federal government, from the Department of Homeland Security to the Department of Labor and to the Small Business Administration. My staff and I spend countless hours promoting education and preparedness for pandemic influenza.

One of the questions we are considering is what the economic impact of a pandemic would be. This is a very difficult question to answer. We know the direct effects are disease and mortality. Indirect effects include the reaction citizens have to a pandemic: -- would people continue to show up at work, and would they isolate themselves physically so as to avoid contagion? Some have suggested there would be little or no economic impact, while others have forecast declines in GDP of 5% or more. Certainly economic impacts depend on the severity of the influenza, and it is likely that an outbreak as severe as that of 1918 could have some measurable effect on the economy.

It is important to remember that we have a strong economy that is highly resilient. There is an effort currently underway across the government to build new economic models to try and understand economics based on previous pandemics, but also taking into account structural changes in our economy, which is much different than that of the last major

influenza outbreak in 1968. We anticipate that this work will continue to develop through the rest of this year.

Pandemic Planning within the Sector

Pandemic preparedness requires the collective efforts of Federal, State, and local authorities in close partnership with the private sector. The financial services sector is active in its preparedness efforts and it is taking the threat of pandemic influenza very seriously. We still have a lot of work to do - it is often said that preparedness is a race with no end - but working together we have made great strides. While it is difficult to quantify or measure progress on pandemic preparedness, I can state definitively that awareness about the threat of a pandemic has increased dramatically in the financial services sector, and a significant number of firms are now planning to deal with a pandemic as part of their business continuity strategies

I don't want to spend too much time talking about what I know you will hear from my private sector colleagues but I do want to spend a few minutes talking about the serious and productive work the sector is undertaking to prepare itself. The sector is currently building robust plans to continue to operate during a pandemic and, though some nonessential services may be temporarily halted, critical functions will continue to operate.

The sector's professionals have concerns and they are actively working with health professionals to address their unanswered questions. Overall, I believe that you will hear that the number one priority from the financial services sector is the safety of their fellow Americans - employees, their families, and customers.

Conclusion

Again, thank you for allowing me the opportunity to testify before you today. As I said before, we are working very hard to prepare the financial services sector for a pandemic outbreak, but the Treasury's efforts are only a single part of the overall Federal response. We are committed to ensuring that payment systems, settlement and clearing, retail banking networks, credit and debt, liquidity, insurance, and derivative instruments remain available during a crisis, either man-made or natural, including a pandemic. These are the operations that enable an efficient and orderly financial system on which investors, businesses, and our global trading partners rely. These financial functions are vital to providing our citizens the financial services all Americans depend on every day. And, while I believe we have made great progress toward preparedness for the financial services sector, it is clear that all levels of the public and private sectors must work together to have an effective plan to handle a pandemic.

Thank you for your attention to this important topic.