

Panelists

- Moderator, Amy Lancellotta, Managing Director, Independent Directors Council
- Diane Ambler, Partner, K&L Gates LLP
- Joe Carrier, Chief Risk Officer, Legg Mason, Inc.
- Peter Salmon, Senior Director, Operations & Technology, Investment Company Institute
- Tracy Shelby, Managing Director, U.S. Mutual Fund Transfer Agency Services, Boston Financial Data Services, Inc.

Emergency Planning Framework

- Incident Management (initial assessment, coordination and communication)
- Emergency Response Plan (recover and resume operations)
- Disaster Recovery Plan (path to business as usual)
- Business Continuity Plan (criticality assessments, time requirements, failover plans, recovery plans, communications, testing and improvement strategies)
- Education and Awareness Initiatives

Superstorm Sandy Facts

- Financial Impact
 - \$40 billion in damages to New York
 - \$36 billion in damages to New Jersey
- Human Impact
 - 15 states impacted
 - 8 million homes lost power
 - 14,000 flights cancelled
 - Thousands of businesses and homes shut down
 - New York subway system flooded and shut down
 - NYC financial district shut down

What Happened

- Multiple emergencies during one event
 - Severe flooding (including office building basements, producing mold and power/communications outages)
 - Widespread power outages
 - Widespread transportation disruption
 - Widespread fuel shortages
 - Communications networks disrupted
 - Vendor community disrupted

What Happened (cont' d)

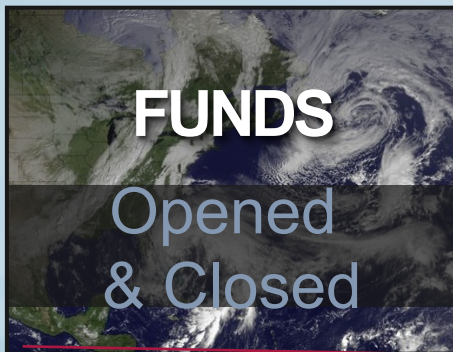
- Emergency response plans activated
 - Work from home
 - Backup sites prepared
 - Employees relocated

Impact on Fund Industry



Unscheduled closure . . . but bond markets remained open

- Monday morning confusion with many money market and bond funds electing to open
- All U.S. markets closed on Tuesday, but some funds trading in other instruments remained open



Contending with a disaster and mixture of funds opened and closed for business

- Automated trading and settlements occurred before final open or close decisions
- Normal trading in some products; deferred trading in others
- Business as usual for open money market and bond funds

Impact on Fund Industry (cont' d)



- **Industry responded well and had some challenges...**

- Unanticipated impact on people: staff priority, focus on family members and necessities (safety, food, fuel)
- Unexpected dependencies between service providers
- Communication challenges (e.g., Regional Office of Emergency Management (governmental office), Emergency Management Team (internal))
- Data dissemination issues had downstream impact, including delaying some fund pricing
- Normal trading day on Wednesday - in time for month-end processing



- **Emergency response plans activated**

- Moves to unaffected locations, hot sites, recovery services, partners
- Government Emergency Telecommunications Service (GETS) and Wireless Priority Service (WPS)
- Firms unable to occupy primary locations for days, areas not accessible . . . some facilities still out of service
- Some recovery sites impacted

Lessons Learned

- Preparations not predictions
- People first - health and human safety concerns trump all else
- Establish a depth chart for employees in critical roles
- Succession planning policies, particularly important for smaller firms
- Create 'push and pull' communication networks for all critical employees
- Streamline the 'incident management' and 'emergency response' processes; more thorough initial assessments and comprehensive recovery plans

Lessons Learned (cont' d)

- Work from home strategies require reassessment
- Reevaluate communications matrix—
 - Audience (investors, employees, board of directors, service providers, OEM); person responsible for communicating with each audience; how communication will be accomplished (social media, automated messages)
- Table top exercises focusing on different emergency scenarios (natural disaster affecting adviser's offices, unexpected market closures, timing of emergency (quarter end)): Expect the unexpected – question assumptions

Lessons Learned (cont' d)

- Evaluate adequacy of geographic separation of primary and backup sites
- Primary site could be off-line for months
- Acquire GETS and WPS cards
- Test “return home” from back up site; not usually tested
- Exchange backup testing (e.g., NYSE to shift to all electronic trading)
- Examine service providers

Board Considerations

- **Board role in emergency planning limited to oversight**
 - Boards not involved “in the weeds” of emergency response and business continuity planning and implementation
 - Board’s role is to oversee written emergency response and business continuity policies and procedures
 - Is the emergency response and business continuity program appropriate for resources and size of organization?
 - Who has responsibility for emergency planning and business continuity plans?
- **Little, if any, communication with fund boards during Sandy**
 - When do boards need information?
 - What emergency issues might require board involvement?
 - Did valuation issues arise?

Board Considerations (cont' d)

- **SEC/FINRA/CFTC coordinated sweep exam**
 - To assess impact of Sandy on firms' operations; raise awareness of importance of good BCP
 - Requests documents, interviews with CCO and others about BCP – e.g., implementation, testing, changes post-Sandy
 - SEC focus, in part, on communications with investors re: accessing accounts; procedures to ensure investors treated equally re: redemptions, etc.; any events that precluded carrying out responsibilities
 - FINRA focus, in part, on interaction with NYSE
- **SEC relief**
 - Broad exemptions, for example, delivery of disclosure documents to affected areas

Board Considerations (cont' d)

- How effective was the firm's BCP under Sandy's "true test"?
 - Bases for decisions re: key features – e.g., critical business lines, prioritization, back-up sites, power and communications grids, activation triggers, redundancies, use of internal or outside recovery services
 - Potential risk environments and weaknesses
 - Testing environment, protocols, frequency, lessons learned, changes made
 - Responsible teams, CCO involvement
 - Communications with investors and other key constituents
 - Interaction with vendors and regulators
- What was learned about planning "return home" scenarios?
- Should changes be made to fair valuation procedures?
- What was the impact of market closings?
- Are board communication lines appropriate and current?
- What, if any, changes to the firm's BCP were prompted?
- How did BCPs of critical service providers operate?

Information

- ICI recently posted a permanent resource page for emergency situations www.ici.org/emergency
- Please visit IDC's website for upcoming events for independent directors www.idc.org