

Testimony of
Jeffrey P. Neubert
President and CEO
The New York Clearing House Association, L.L.C.
House Financial Services Sub-Committee on Oversight and Investigations
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Chairwoman Kelly, Ranking Member Gutierrez, and members of the subcommittee, I'm Jeff Neubert, President and CEO of the New York Clearing House, which is owned by eleven large, global banks (Attachment A). For nearly 150 years, the Clearing House has been at the forefront of this country's payment systems. We operate electronic payment systems that process more than eight million transactions a day involving payments of about \$1.5 *trillion*. We also handle the clearing and settling of paper checks and operate electronic check presentment services. In addition, the Clearing House has served as a forum for its members to discuss common interests, to identify and prevent potential problems in the financial sector, and to deal with financial and other crises. There has never been a problem more urgent, more global and important than the need to combat international terrorism.

I want to thank you for the opportunity today to tell you about the cooperative effort between the financial services community, financial regulators and law enforcement in response to the terrorist attack of September 11. There have been two principal aspects of this effort. The first was to assure the continued operation of our payments, settlements and clearance systems in the immediate aftermath of the attack. The second was to identify and prevent the funding of terrorists. I will be discussing with you the Intercept Forum, a team of 34 public and private sector organizations, which are working together to find ways to identify, reduce, and ultimately eliminate the flow of funds to and from terrorist organizations.

You'll see that the critical payment systems continued to operate in large part due to the public and private sectors banding together in the hours and days immediately following the attacks. That teamwork and cooperation continue today. Senior officials from both the public and private sectors are working together to find ways to eliminate terrorist access to our financial system. We are committed to do our part. This is a part of a broader campaign. And, much like the military and political effort, the fight on the financial front is a long-term commitment and it will take time to fully accomplish our mission. The foundation, however, is in place.

It is clear we all have a different perspective since September 11th. What has emerged in the aftermath of this tragedy is an unprecedented shared purpose – for those of us in financial services, our unity of purpose with law enforcement and bank regulatory authorities is to prevent

individuals and organizations from taking advantage of our financial system to fund criminal, evil acts of terror.

September 11

The Clearing House was fortunate that our primary processing and back up centers for our systems were not in the immediate disaster area. Our headquarters, however, are just seven blocks from where the World Trade Center stood.

On that fateful Tuesday morning, I arrived at my Broad Street office just before 7 AM to get a jump on the day. I had finished responding to emails, reviewing an alliance proposal, and scanning my schedule of the day's meetings when I heard - and indeed felt - an enormous boom strong enough to rattle the windows in their frames. I didn't know it at the time, but from then until now and for a long time to come, the normal day's schedule would be pre-empted with far more important meetings and unimaginable, urgent new priorities. We didn't have a TV and the Internet was jammed, so I didn't realize what had happened until my wife called with the news. The cause of the explosion wasn't clear at first, but became obvious when, a few minutes later, the second plane hit.

Then came the huge boom. Our lights and monitors flickered. It was raining a fine, gray ash outside. Everything was gray. The people outside were covered with ash and the streets were immediately jammed with traffic in every direction. The next call, which was from one of our operating centers, informed me that the first building had imploded, but that our systems were running normally, and all our employees were OK.

Just when the sun began to filter through the ash, the second tower collapsed. It became black outside like a horrific storm was going on. An endless stream of people was flowing out of every building into the street. I could hear the continuous sirens over the street noise. What was astonishing to me is that within two hours, the traffic and everyone was gone. I kept wondering, where did everybody go?

Payment System Conference Calls

There was not much time for speculating though, as we had a full-blown disaster on our hands. I called Jaime Stewart, First Vice President of the Federal Reserve Bank of New York (the Reserve Bank) and we agreed that the Clearing House would provide a forum with the Reserve Bank and the Depository Trust Clearing Corporation (DTCC) for the banks to come together to get through this crisis.

By 10:30, we'd set up a conference call with our eleven owner banks, the Reserve Bank, DTCC, Securities Industry Association (SIA) and others, to determine where things stood with Fedwire, CHIPS (which clears 95% of the US dollar transactions internationally), EPN (our domestic ACH system), check clearing and Electronic Check Presentment (clears check information electronically with paper to follow the next day).

We continued these calls hourly, with the participants reporting on their situations, scheduling off-line conversations that didn't involve the whole group, and determining the timing of processing events. By mid-afternoon, the calls had many banks participating as well as the Reserve Bank, DTCC, FDIC and the New York State Banking Department. We closed our electronic payment systems at 11:00 Tuesday night, six hours late, but it was an orderly close. In subsequent days, the calls were every 90 minutes, then every 2½ hours. We checked in with each other about how CHIPS was working, how Fedwire was working, how DTCC was operating, how ACH was doing and discussed other relevant payments systems issues.

The answer in nearly every case was – everything is working! The exception, of course, was Electronic Check Presentment, which was halted due to the fact that commercial airlines were grounded and therefore we were unable to transport checks. Where special help was needed to assist one operation or another with customer service or exception processing, it was provided.

By Friday, with the exception of Electronic Check Presentment, everyone was processing normally and we discontinued the calls the following week.

The intense focus and cooperation between the parties on the calls was truly unique. Everyone participated no matter how many other very critical things they had to do. This included, in several cases, moving their operations to back up sites. Some managed their operations from hotel rooms at a conference and we even tracked one banker's progress up the east coast as he called from his car through several states to get back to his office when the planes were grounded. It was a truly dedicated team effort and remarkable.

System Performance

The Clearing House systems operated flawlessly. With CHIPS, our operations were unaffected, but 19 financial institution participants had to relocate. We extended the processing day into four nights, but settlement was completed each night. Payment volume was slightly lower than average. The ACH processing also went smoothly – systems were unaffected and no deadlines were missed. As I said earlier, our Electronic Check Presentment system was shut down, but not because the systems didn't work. The process requires "paper to follow," and with

the air transportation issues, our members choose to stop the electronic process until air service was restored. Our physical check exchange had the greatest impact to its operations. And it provides another great example of cooperation and teamwork. We processed check work for the Federal Reserve Bank of New York and they for us during the days that immediately followed the attack.

A check exchange involves the physical exchange of paper checks. Our check exchange was located at our headquarters in Lower Manhattan. This site was evacuated, but our critical staff remained, literally camping out in the basement with the checks for two days. The Fed really helped us by arranging an armed escort for our checks out of downtown and were further generous by allowing us to use their space in New Jersey to re-establish our exchange. And, when the CEOs of the DTCC and the Clearing House, who had been stationed downtown for several days, begged to know if anyone knew where to get a sandwich, another helpful participant opened their pantry doors at their basement cafeteria. I can tell you first hand, a turkey sandwich never tasted so good.

Intercept Forum

Perhaps because of our traditional role or the more recent success of the payment system conference calls, the Clearing House was called into service again. On October 1, I received a call from a senior executive of one of our owner banks asking if we would convene a forum on an urgent new topic – what financial institutions could do, working with the public sector, to eliminate the flow of funds to terrorists and their organizations.

On October 11, exactly one month after the terrorist attacks, we convened our first Intercept Forum meeting. We had 100% attendance of the most senior representatives from 34 public and private sector organizations. This in itself is a testament to the priority, urgency, and unity of purpose shared at the highest levels of the public and private sectors. Fighting terrorism on the financial front was – and continues to be – the highest priority for everyone involved. A list of participating organizations is included in Attachment B. At this meeting, we agreed on the areas of focus and the mission, which is:

“To determine ways to identify and intercept the flow of funds to and from terrorists and their organizations and thereby deter and ultimately eliminate that flow.”

Within two weeks of this initial meeting, on October 23rd, representatives from the organizations met again to validate and refine the areas of focus and to translate the mission into specific tasks.

Most notably, five task groups were formed, each of which is co-led by representatives from the private and public sectors. As a result of intense and lively discussion by public and private experts clearly engaged in the topic, we agreed on five areas of focus and the missions, specific tasks, next steps and potential outcomes for each task group. I have never seen a group of 80 to 100 people so energized, focused and committed to an effort.

One team is "Patterns of Behavior," with the mission to identify patterns of behavior of terrorist funding that will lead to proactive, pre-emptive and preventative measures that will diminish and ultimately eliminate the flow of funds to terrorists.

The "Control List" team's goal is to review and confirm that the existing and new policies, processes and requirements for obtaining and gathering information about suspected terrorists and reporting that information to the appropriate government agencies are in place and working appropriately.

The "Account and Transaction Monitoring" team will develop procedures and policies to identify and monitor transactions and/or account opening activity related to terrorist activity.

The "Global Cooperation and Best Practices" team focuses on the issue beyond our borders. As you know, making changes only in the U.S. will simply drive terrorist financing to other countries. Therefore this team will work globally to remove obstacles to the flow of information and to export "Best Practices" to cooperating countries.

The "Database" team has a mission to develop a highly secure, real-time electronic capability for regulatory and law enforcement agencies to download (send) suspected terrorists/terrorist organizations "identities" to financial institutions seeking account and/or transaction "hits" which in turn would be uploaded (returned) to the respective agencies. It will NOT give law enforcement and/or authorized regulatory agencies access to financial institution records/data or to individual account holders or transaction data.

We met again as a whole forum on December 19th, where each group presented their progress to the original forum from October 11. This meeting again was well attended by the senior representatives, discussion was lively, the feedback constructive, and the work continues.

The Intercept Forum is a great example of the private and public sectors' ability to come together – to meet and discuss and to take a position and move forward. From the very first meeting it was clear that financial institutions, law enforcement organizations and regulatory

agencies respect each other's core competencies. What is different is the willingness to work together, to leverage these competencies in a new way for faster, more lasting results. It's about working together better to achieve our shared goals. It's not about having financial institutions take on the role of law enforcement or vice versa. We are very clear about that, and I think that makes the work focused and productive.

Teamwork between the public and private sectors is required to prevent the use of our financial systems by terrorists. The events of September 11th and the work on the Intercept Forum have demonstrated how, by working together, we can fight – and win – the battle against terrorism.

Attachment A

Clearing House Owners

The New York Clearing House is owned by the U.S. commercial banking affiliates of: ABN AMRO, Bank of America, N.A., The Bank of New York, Bank One, N.A., Citibank, N.A., Deutsche Bank, Wachovia, FleetBoston, HSBC Bank, J.P. Morgan Chase & Co, and Wells Fargo.

Attachment B

Participating Organizations

Financial Institutions

ABN AMRO
Bank of America, N.A.
The Bank of New York
Bank One, N.A.
Citibank, N.A.
Deutsche Bank
FleetBoston
HSBC Bank
J.P. Morgan Chase & Co
Wachovia
Wells Fargo
Goldman Sachs

Associations

American Bankers Association (ABA)
American Counsel of Life Insurers (ACLI)
American Insurance Association (AIA)
New York Clearing House (NYCH)
Securities Industry Association (SIA)

Government Agencies

Department of Justice
Federal Bureau Investigation (FBI)
Federal Deposit Insurance Company (FDIC)
Federal Reserve System, Washington, D.C. (FRB DC)
Federal Reserve Bank of New York (FRBNY)
Financial Crimes Enforcement Network (FinCEN)
New York State Banking Department
Office of Comptroller of the Currency (OCC)
Office of Foreign Assets Control (OFAC)
Office of Thrift Supervision (OTS)
Secret Service
Securities and Exchange Commission (SEC)
U.S. Attorney's Office, Southern District, New York
U.S. Department of the Treasury

Other

Sullivan & Cromwell
Depository Trust & Clearing Corporation (DTCC)
FDC/Western Union