



THE CHAIRMAN

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

December 6, 2001

The Honorable John D. Dingell  
Ranking Member  
Committee on Energy and Commerce  
U.S. House of Representatives  
Room 2322, Rayburn House Office Building  
Washington, D.C. 20515-6115

Dear Congressman Dingell:

Thank you for your September 5th letter regarding the report by the General Accounting Office entitled Information Systems: Opportunities Exist to Strengthen SEC's Oversight of Capacity and Security (GAO-01-863). Released on the eve of the September 11th attacks, the report and its subject matter take on added importance in light of the impact of these attacks on the financial markets.

We appreciate your insights into this report and its recommendations for further improvement in this area. I have enclosed a copy of our formal statement to Congress on the steps the Commission is taking in response to all three GAO recommendations. In addition, I want to emphasize that, in light of the September 11th attacks, we are studying the markets' and the Commission's approaches to addressing the integrity and reliability of the markets' automated systems, with a view to determining, among other things, whether further modifications to the Automation Review Policy Program are appropriate.

If you have any further questions or concerns, please do not hesitate to contact me at (202) 942-0100 or Annette Nazareth, Director of the Division of Market Regulation, at (202) 942-0090.

Yours truly,

A handwritten signature in black ink, appearing to read "Harvey L. Pitt".

Harvey L. Pitt

Enclosure

cc: The Honorable W.J. "Billy" Tauzin  
The Honorable Fred Upton  
The Honorable Edward J. Markey  
The Honorable Michael G. Oxley  
The Honorable John J. LaFalce  
The Honorable Richard H. Baker  
The Honorable Paul E. Kanjorski



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SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

December 6, 2001

The Honorable Dan Burton  
Chairman  
Committee on Government Reform  
U. S. House of Representatives  
2157 Rayburn House Office Building  
Washington, D.C. 20515

Dear Chairman Burton:

I am writing to inform you of the steps the Securities and Exchange Commission is taking in response to the report of the General Accounting Office entitled Information Systems: Opportunities Exist to Strengthen SEC's Oversight of Capacity and Security (GAO-01-863). The report assesses the SEC's oversight of information system capacity planning and security procedures at the securities exchanges and other self-regulatory organizations, which is implemented by our Automation Review Policy (ARP) staff. I commend the GAO for its continuing focus on the development and integrity of automated systems that support the operations of the United States financial markets. The attacks of September 11th and their impact on the financial markets further underscore the importance of this area.

The report makes three recommendations for improving the Commission's approach to oversight of the capacity and security of the securities industry's automated systems. First, the GAO suggests that the ARP program should develop a consolidated inspection guide for the ARP staff that is updated on a periodic basis. As you know, technology is in a constant state of change. In addition, the information processing systems differ substantially among the SROs. For these reasons, we do not believe it would be cost-effective or efficient to develop and maintain a uniform inspection guide. We do agree, however, with the intent of the recommendation, which is to assure continued consistency of our oversight in this area. In line with the GAO's recommendation, the ARP staff is developing a database of inspection plans and current authoritative audit and technology standards and criteria, including hyperlinks to these materials, for planning ARP oversight activities. The staff intends to continually update this database resource. We believe this resource will help to ensure the continued consistency of our oversight in this area.

Second, the GAO suggests that significant ARP program recommendations and concerns that have not been addressed by the SROs should be brought to the attention of the Commission. I agree with the GAO that significant recommendations and concerns regarding capacity and security weaknesses at SROs warrant attention at the highest levels of the Commission. Accordingly, I have asked the ARP staff to inform the Commission on a regular basis of the status of recommendations to SROs.

The Honorable Dan Burton

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Finally, the GAO suggests that we should develop formal criteria for assessing the SROs' cooperation with the ARP program and perform an assessment to determine whether the voluntary status of the ARP program is appropriate. In response to this recommendation, the ARP staff is in the process of developing criteria for measuring SRO cooperation with the ARP program and several databases to track SROs' implementation of recommendations and other aspects of the ARP program. Over time, these criteria and databases will provide a basis for assessing the continued appropriateness of the ARP program's voluntary status.

I appreciate this opportunity to explain the steps we are taking in response to the GAO's recommendations. In light of the September 11th attacks, we are also studying the markets' and the Commission's approaches to addressing the integrity and reliability of the markets' automated systems, with a view to determining whether further modifications to the ARP program are appropriate. Please contact me at (202) 942-0100 or Annette Nazareth, Director of the Division of Market Regulation, at (202) 942-0090 for additional information about the Commission's efforts in this area.

Yours truly,

A handwritten signature in black ink, appearing to read "Harvey L. Pitt". The signature is fluid and cursive, with a large initial "H" and "P".

Harvey L. Pitt

Similar letter sent to:

The Honorable Robert Byrd  
The Honorable Joseph I. Lieberman  
The Honorable C.W. Bill Young

Copies to:

The Honorable John D. Dingell  
The Honorable W.J. "Billy" Tauzin  
The Honorable Fred Upton  
The Honorable Edward J. Markey  
The Honorable Michael G. Oxley  
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The Honorable Richard H. Baker  
The Honorable Paul E. Kanjorski