

**MEMORANDUM FOR THE RECORD**

Type of event: Interview

PETER FISCHER

Date: December 11, 2003

Special Access Issues: None

Prepared by: Emily Walker

Team Number: 8

Location: 9/11 Commission New York Conference Room at 26 Federal Plaza

Participants - Non-Commission: Peter Fischer, Former UnderSecretary Domestic  
Finance, U.S. Treasury Dept.

Participants - Commission: Emily Walker, Geoffrey Brown

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Commission staff spoke with Mr. Peter Fischer, former Secretary of the Treasury, to gain greater understanding of the role of the United States Treasury Department (Treasury) in the closure and reopening of the financial market in response to the terrorist attacks of September 11, 2001 (9/11).

Commission staff began the interview with Fischer by explaining the story of the market closure as reported to Commission staff by representatives of the New York Stock Exchange (NYSE).

Fischer was confirmed in the first week of August so he was only in his office for about a week before Sept. 11. Fischer began with a fifteen minute rough timeline that encompassed his understanding of events. He was at a breakfast in the Treasury when the first plane hit and in his office after the UAL 175 event, and felt the impact of AA 77 when it hit the Pentagon. Treasury was evacuated and he moved to the Secret Service building. He had only been at Treasury since March as a consultant. At a conference room in Secret Service Headquarters two firm heads found him. By that point the issue they were engaged in was bi-fold: 1) the President's working group needed a credible voice to issue a statement; and 2) "Phil" and "someone else" were asking for a statement (which was issued) about the markets closure the next day as well. They did not want confusion in the Tokyo markets.

They conducted conference calls with Roger Ferguson, Harvey Pitt, Jim Nussem and himself to create the statement closing the markets for the second day. Alan Greenspan was abroad. Fischer noted a lack of enthusiasm on both the White House and his own part regarding closing the markets for multiple days. "Larry Lindsey from the White House and Fischer were worried over the closure of the Treasury markets. For national self confidence a need to have markets open was recognized. Fischer noted that his motivations were predominantly financial related, but he acknowledged that many

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were concerned to reopen the markets as a response to the terrorists responsible for the attacks.

Fischer had access to the command center capabilities of the Secret Service, and believes his situational awareness led to an understanding of the importance of the "flight to quality" that the opening of the Treasury markets at the least would provide. Fischer made a commitment to "Larry" to get the US Bond Markets open ASAP.

Some of these measures were intuitive to those working on the issues. For instance, each market and each asset class has different conventions and market rules. National Banks cannot close unless they are told they may. The OCC put out a statement issuing permission. The Treasury market is not in charge of whether or not it is open. The PSA, or now the Bond Market Association, "gives advice"/recommendations from the Bond market on whether or not there is closure. They also advised that the markets reopen as soon as possible.

Fischer stated that in part what everyone was looking for was a "blanket benediction" from the President's working group that the markets could be closed. Fischer stated that it took "way too long" to get their statement out, but it was issued in time (late Sept. 11) to account for the Tokyo markets' opening.

This measure was done through the President's Working Group as opposed to the Treasury Secretary because then the recommendation would cover all markets.

The FED and Banking Wire stayed open. The FED processed its operations. Fischer recommended speaking to the New York FED. He recommends calling Dino Kos 212 720 6548.

On Wednesday, September 12, 2001, Fischer went to New York with Harvey Pitt. He laid the predicate that "as soon as possible" the bond market needed to reopen. He attempted to connect to a conference call while on the train headed to New York. The discussion was on the feasibility of reopening the bond market on Thursday.

The primary bond dealers, Cantor, KAOS, Hart were all having difficulties "getting back online." The main issue for many of the companies that were affected was gaining re-access to their sites to transfer capabilities.

He noted that the bond market is not centralized, and that the treasury market was always operable at some location to process the buying and selling of treasury bonds.

There was a "huge" number of share trades that had been lost in the attacks, and Fischer was working on this issue as well.

He met with FEMA and the Mayor's office, Verizon, Con Ed, New York City FED, Treasury, etc. at Bear Sterns on Tuesday afternoon Sept. 12. He believes that Dick Grasso led the meeting, and Fischer and Harvey had lead participation. He had clear

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indication that the White House wanted the market reopened as soon as possible and he conveyed that position.

There were many issues related to opening the markets: Connectivity, getting people to the office, water, AC, infrastructure. It was a chicken and egg situation. Unlimited Power Source was also an issue.

Connectivity was a "huge technical problem." He believes the Verizon factor played a large role in establishing connectivity. Fischer noted that the connectivity was a "physical manifestation" of the importance of confidence in the markets. He noted that getting personnel to their offices and even water (infrastructure) was a large concern.

The other difficulty was that only the critical players needed to be able to run in order to open the markets, and some of the companies that needed more time to open were concerned about being left behind. Fischer noted that Paul O'Neil understood that for the most part the issues were to have a "critical mass" of participants, and have the proper infrastructure level to operate.

The outcome of the meeting was that the equity markets would not be able to open the next day. In the press briefing, they spoke about a phased reopening of the capital system. He noted that the banks were open, and the treasury market could open on Thursday, and the equity market the day after that. At this time Paul O'Neil was in Japan but on his way back to Washington, DC. But he supported the phased opening. Larry Lindsay and Josh Bolton were very upset with the decision to keep the equity markets closed and Fischer implied that the President knew this as well.

Fischer commented Verizon asked companies to tell them where their back-up sites needed to be rebuilt so that they could get started.

On Thursday morning at the stock exchange they had a meeting about the power distribution. There was a meeting on Thursday afternoon with Credit Suisse to discuss the brokers' market. What had evolved was planning for a test on Saturday. There was a section to the decision that forced the participants to push through all their problems to prepare for the test on Saturday to develop a confident reopening on Monday.

Fischer suggested to the regulators to get their regulatory relief out by Friday night so that firms would have a chance to react during their testing over the weekend.

Fischer recalls that the NASDAQ "could have come up with a flick of the switch" because they did not have the issue of people, they are more electronic than the NYSE.

Fischer noted that the White House ultimately was very pleased with the timing of the markets reopening

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Fischer said he was unaware of the G7 factor in the market closure or Condeelza Rice. He also said that he was unaware of any EPA factor>

Fischer noted that he believes McDonough arrived in NY on Thursday night with Clinton and Shummer from Washington.

Fischer recalls that on that Thursday morning he realized that it gave a very different impression to him from the in person at the corner of "Broad and Wall" than when he saw it on the television.

Fischer commented that there were many bomb scare threats to various buildings, and that explained why they were within the security zone of the stock exchange to hold their meetings and thus near the difficult air etc.

Fischer noted that he was aware that he was responsible for pushing Washington's priority that the markets reopen timely.

Fischer noted that the Mayor's Office Head of Emergency Management did an extraordinarily commendable job conveying the needs of the group's efforts to reopen the markets. The representative was capable of speaking on the sheer load of employees that would be required to repopulate downtown's financial centers in order to reopen the markets.

Fischer noted that because of the FED's "firedrill" of Y2K they had a good deal of confidence in reopening their piece of the market. He believes much of the credit goes to the NY FED. Liquidity in the banking system was all executed in a "heroic operation" both mechanically and in the stress of the volume on the system was extremely heroic. Fischer noted that the FED kept "throwing money" into the system so no one would notice that the clearing was bottlenecked.

Fischer also noted that there was a clear cost to getting the bond open as quickly as it did: By early the next week people "were fried" in the bond market because of the sheer human weight handling the backlog of settlements. The cascading of the levels of fails resulted in a necessity to reopen the ten year Treasury note a month later. The human cost of forcing the market open was very great by a week later.

When asked about the foreign markets, Fischer believes that although the markets were open, the volumes went down in Asia.

At treasury, after the markets reopened, according to Fischer most people at Treasury understood that the value would probably go down. But it needed to open so the adjustments could take place.

Fischer noted that the timing sequence of opening up different markets required that they either all stayed closed or all opened if the markets were linked in terms of pricing.

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**Post 9/11 planning:**

Fischer noted to Commission staff that even without statutory authority the President's working group did a "good job." He believes the FED did an official post-mortem which we should get a copy of. He said we should meet with the NYFed and get their story of liquidity in the system and what they did on Sept. 11. He agreed that if the Fed would have been unable to open, the situation would have been much dire.

Fischer noted some press articles regarding the closing, but he does not believe that those articles were accurate.