

NASD Small Firm Best Practices Conference

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Business Continuity Case Study

Museum 10:30 am - 12:00 pm

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Case Study

You own a firm, Continual Securities, Inc., that employs 15 people. Ten of those employees are registered persons. Continual mainly operates out of one office in Chicago, Illinois. The firm, however, also employs one registered representative that works from home in the Chicago suburb of Oak Park, Illinois. The firm is a fully-disclosed introducing firm and all customer funds and securities are maintained at its clearing firm Clear Securities, Inc. Clear is located in New York. Your firm maintains a Web site and customers may conduct online trading. The firm's customers are located in almost every state. Continual is a member of NASD and the Securities Investor Protection Corporation.

The firm maintains its operating account at Bank Local, located only in Chicago. Among others, Continual's critical business constituents include No-Bell Telecommunications for phone services, No-Watts for power, and Cableless for Web access.

On its Web site and through mailings, your firm discloses to customers that it intends to continue business in the event of a significant business disruption. Continual, however, also discloses that, based on the severity of the disruption, it may need to discontinue its business. In that case, it informs customers that they will have access to their funds and securities.

On Monday night, the Midwest experiences an extensive power outage that lasts for one week. For purposes of this case study, assume that NASD's proposed rules regarding Business Continuity Plans and Emergency Contact Information are effective.

Issues to Consider (Each issue is separate and non-cumulative):

1.	Should the Firm attempt to continue its business? If yes, then explain how the firm will effect transactions for customers. If no, then explain how the firm will ensure that customers have access to their funds and securities. Does your firm's membership in SIPC affect your decision?
	Who are the firm's critical business constituents, banks, and counter-parties? What will be the impact of the business disruption on each? Which of your critical business constituents, banks, and counter-parties will be affected by the business disruption? What steps should Continual take to deal with any loss of services from these entities?
3.	During the power outage, a fire destroys your building. Explain what records – electronic or hard copy – would be lost, what records your firm backs up, and what records are maintained by your clearing firm.

4. Assume your clearing firm also is not operational. Also, assume that a significant amount of your firm's capital is tied up in Microsoft stock, which has announced a massive bug in its Windows XP software, causing its stock to sink. Because of this decrease in value, your firm falls below its net capital requirements. How do you plan to comply with the net capital rule when you cannot liquidate any of your Microsoft position through your clearing firm? What other arrangements can you make to comply with the net capital?

5. Assume you are creating your firm's business continuity plan. Which mission-critical systems will you rely on your clearing firm to perform? Does your clearing agreement provide for the clearing firm to provide these services? What steps will your firm take to ensure that your clearing firm will be able to provide these functions? What will your response be if your firm is unable to provide these functions?