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**MEMORANDUM FOR THE RECORD**

Event: Meeting with William J. McDonough, former President and Chief Executive Officer of the Federal Reserve Bank of New York

Type of event: Interview

Date: Jan. 21, 2004

Special Access Issues: NA

Prepared by: Emily Walker

Team Number: 8

Location: PCAOB Offices, 1666 K Street NW, Washington DC

Participants - Non-Commission: William J. McDonough, Chairman of the Public Company Accounting Oversight Board, former President of the Federal Reserve Bank of New York

Participants - Commission: Emily Walker and Mark Bittinger

The purpose of this meeting with former President William McDonough of the Federal Reserve Bank of New York (FRBNY) was to solidify the report on the FRBNY's role in the closure of the markets on Sept. 11 and the reopening on Sept. 17 as well as verify information received from the GAO report and Moody's on the FRBNY's role in providing liquidity to the marketplace during that time.

Bill McDonough was not in NYC on Sept. 11. He, along with Alan Greenspan, Dino Kos and others of the Federal Reserve System were in Basle for a meeting. Greenspan was actually on a plane bound for the U.S. and half way across the Atlantic on the morning of Sept. 11 when it was ordered to return to Switzerland. In the end, Mr. McDonough and Mr. Greenspan and others flew on a military plane (a U.S. Air Force tanker) from Basle to London and then to Washington (Andrews AFB). He flew up to New York on Wed. with the two Senators from New York and some other officials, including Joe Albaugh, director of FEMA. He was, however, in close communication with his office. He said that Roger Ferguson was acting on Greenspan's behalf in DC and Jamie Stewart was acting on behalf of himself in New York until the principals returned. He said that once he saw the first plane hit, he felt it was terrorism. Since Greenspan was on the plane until 2 p.m. European time, McDonough was doing most of the communication to New York and Washington. McDonough heard from BONY between 8:46 a.m. and 9:02 a.m. (EDT) on the morning of 9/11; after the first tower was hit, but before the second tower was hit.

Mr. McDonough said that he felt that the decision not to open the markets which was taken on Thursday morning was the right decision. He felt it was important to be sure that the trades could be cleared. He said it was "too dangerous to open the market on Friday." The likelihood was low that trades could be cleared on Friday and it was better to buy the time and wait until Monday. He said that the additional volume of clearing that would have been needed on the first day would have tested the system that was still being repaired.

He mentioned that the Bank of New York's primary and back-up sites were wiped out. He said he had a senior Bank Supervisor, Una Neri, working on the BONY problem and she told him that it was technical and not a bank solvency problem. He put people into their back-up site to help them get the system operational as soon as possible. Given that the problem was technical, the Fed also injected liquidity into the market.

He said that everyone was working together. He found this rather remarkable given the competitive nature of the group. He said that no one was scoring points or making money on the issue. The maturity of the market and patriotism begot extremely responsible behavior of a normally difficult group. He commented that the "Fed is extraordinarily good at crisis management." Where the markets experienced confusion revolved around the question "How do you set a price?"

He discussed the Federal Reserve providing dollars for the ATMs in New York. He said that the Fed was operating from their East Rutherford Operations Center (EROC) where they brought the dollars through the tunnel and distributed them to the banks to put in the ATMs as they normally would. They were worried that there would be a run on ATMs with people trying to get cash and they wanted to be prepared. Access to the Holland and Lincoln tunnels was clear for EROC deliveries because the Fed maintained good relations with the NYPD and the Port Authority. Drivers from the EROC were uniformed Fed employees with government photo ID's and did not experience any significant difficulties getting into the city.

In terms of the Fed's own evacuation, he said that it went smoothly but there were problems. First, one of the janitors gained access to the building's internal speaker system and announced an evacuation which he was not authorized to do. Second, when Tom Baxter, the General Counsel left the building he realized there was no key to the Federal Reserve Bank of New York. No one had ever evacuated the building and left it unmanned. He said that there was space at EROC, but no one had decided who would use the space and where everyone would sit. The rooms were terribly crowded. But fortunately for the FRBNY, that day they were running the discount operation from East Rutherford as a normal practice, so they did not have to change anything.

He said that the FRBNY had plans for emergencies in markets, but not for building emergencies involving the implosion of the twin towers. They were worried that the towers could fall on them. He said that the big issue was the Bank Supervision branch at 2 Federal Plaza which witnessed the events and had some psychological repercussions. He said that post-9/11 everyone wanted to come back to work and some were dismayed when they were asked to stay home (e.g. they weren't "essential employees;" not considered important enough to come to work). He said that part of the Bank staff, including him, stayed at the main headquarters for the rest of the week and the remainder returned Oct. 9, 2001.

His final conclusion was that there was "tremendous rapport" between the leadership of various institutions and groups, including regulators, supervisors and market players, based on prior personal relationships.

In viewing the market closure and reopening as a success story, McDonough suggested that we contact Mayer Feldberg, the outgoing dean of the Columbia Business School of Columbia University, about developing this into a business case study.