

AL 97-10

Subject: Year 2000 Business Risk

TO: Chief Executive Officers of National Banks, Federal Branches and Data-Processing Centers, Department and Division Heads, and Examining Personnel

This advisory is to alert you to the recent release of FFIEC "Safety and Soundness Guidelines Concerning Year 2000 Business Risk" (attached). These guidelines supplement the FFIEC Interagency Statement and examination procedures, "Year 2000 Project Management Awareness," issued in May 1997. The safety and soundness guidelines provide additional information about the expectations of regulators for bank senior management and boards of directors in overseeing and managing their year 2000 projects.

Year 2000 problems present corporate-wide challenges for financial institutions. The FFIEC safety and soundness guidance underscores the responsibility of bank senior managers and boards of directors to actively manage efforts to correct year 2000 problems. They must devote sufficient resources to ensure that the remediation efforts are given top priority, and that the project receives the quality personnel and timely support it requires. Senior bank managers must provide board members with status reports, at least quarterly, on the year 2000 compliance efforts of both in-house teams and outside vendors.

Banks also need to properly manage their vendor relationships. The FFIEC guidance clarifies vendor management issues discussed in the May FFIEC Interagency Statement and explains that formal certification to financial institutions from vendors that their products and services are year 2000 compliant may not be sufficient to prevent potential problems. Accordingly, the FFIEC guidance says banks do not need to obtain formal certification of year 2000 compliance from their vendors. Rather, banks need to have good communication channels with their vendors, and conduct their own due diligence inquiries concerning their vendors' year 2000 readiness. Banks also should implement their own internal testing or verification processes for vendor products and services to ensure that the banks' different computer systems function properly together.

In addition, management should ensure that year 2000 contingency plans are developed for all mission-critical applications and systems. Time frames for year 2000 contingency plans should be consistent with those outlined in the FFIEC Interagency Statement. By December 31, 1998, all programming changes should be completed and testing should be well underway for mission-critical systems. Also, when OCC examiners conduct quarterly reviews of year 2000 compliance activities, they will review each bank's contingency plans to ensure that they include alternative solutions and reasonable trigger dates for implementing those solutions, if necessary.

For further information on year 2000 issues, contact the Bank Technology unit at
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Attachment