



Year 2000 Business Risk

FIL-130-97
December 17, 1997

TO: CHIEF EXECUTIVE OFFICER
SUBJECT: *Interagency Statement on Year 2000 Business Risk*

The Federal Financial Institutions Examination Council (FFIEC) has issued the attached interagency statement to provide guidance to the industry on safety and soundness risk posed by the Year 2000 problem.

The statement supplements the FFIEC's statement "Year 2000 Project Management Awareness" issued May 5, 1997. It is intended to:

- Highlight the critical nature of the Year 2000 problem and discuss the corporate-wide implications for an insured financial institution.
- Emphasize the importance of senior management and board of Directors participation in the resolution and oversight process, and encourage those parties to provide sufficient resources to resolve Year 2000 problems.
- Require a formal project plan that includes quarterly status reports from management to the board of Directors.

The FFIEC statement clarifies the guidance relating to certification from vendors that products and services are Year 2000 compliant. Formal vendor certification is not required. Financial institutions should communicate with their vendors and conduct due diligence and appropriate internal testing.

The Federal banking agencies have expanded their review of data processing servicers to focus on Year 2000 issues. Affected institutions supervised by the FDIC will be notified of the results of the reviews. Although the FDIC will inform serviced institutions of significant weaknesses, neither the FDIC nor the other Federal regulators will certify a servicer as Year 2000 compliant. Institutions are expected to solicit, from the servicer, information sufficient to form an independent conclusion of the servicer's Year 2000 readiness.

The FDIC, along with the other Federal banking agencies and state banking authorities, will monitor the progress of each financial institution. The FDIC will conduct an on-site review of Year 2000 compliance at each institution it supervises prior to June 30, 1998. The review will assess:

- The institution's progress in establishing, implementing, and monitoring a Year 2000 plan.
- Efforts to monitor the progress of data servicers, software providers, and other vendors.

- The impact of the Year 2000 problem on credit risk.

An institution's failure to appropriately address Year 2000 problems may result in supervisory action. Supervisory actions may include formal or informal enforcement actions, the denial of applications filed pursuant to Sections 18 and 24, among others, of the Federal Deposit Insurance Act, civil money penalties, and a reduction in the management component rating or the institution's composite rating.

The attached interagency statement and related information on Year 2000 issues are available on the Internet via the World Wide Web at

[New, Events & FOIA](#) or <http://www.ffiec.gov>

For further information, please contact your Division of Supervision Regional Office.

Additional guidance from the FFIEC on credit risk, vendor management, and testing will be made available over the next few months.

Nicholas J. Ketcha Jr.
Director

Attachment: <http://www.fincen.gov>

Distribution: FDIC-Supervised Banks (Commercial and Savings)

NOTE: Paper copies of FDIC financial institution letters may be obtained through the FDIC's Public Information Center, 801 17th Street, N.W., Room 100, Washington, D.C. 20434 (800-276-6003 or (703) 562-2200). FDIC FILs and Press Releases are available on the FDIC's web site at /banknews