



FEDERAL RESERVE BANK  
OF DALLAS

HELEN E. HOLCOMB  
FIRST VICE PRESIDENT AND  
CHIEF OPERATING OFFICER

DALLAS, TEXAS  
75265-5906

January 20, 1998

**Notice 98-06**

**TO:** The Chief Operating Officer of each  
financial institution and others concerned  
in the Eleventh Federal Reserve District

**SUBJECT**

**Federal Reserve System  
Century Date Change Project (Year 2000)**

**DETAILS**

In recognition of the importance of the century date change (CDC) project, we are sending a copy of the Federal Reserve's second *Century Date Change News* to every financial institution in the Eleventh District. In this issue, we highlight Year 2000 project information from several industry associations, as well as discuss working with your business partners and the importance of contingency planning. We hope that you find the information helpful for your own Year 2000 project.

The Federal Reserve System is progressing on its own CDC project. We are committed to being ready to begin customer testing by July 1, 1998. To keep our customers fully informed about our testing plans and procedures, we will be sending out additional information specifically on customer testing procedures starting in February 1998.

For the most current information, visit the Federal Reserve's CDC Web site at <http://www.frbsf.org/fiservices/cdc>.

**ENCLOSURE**

A copy of the Federal Reserve System's Fall 1997 edition of *Century Date Change News* is enclosed.

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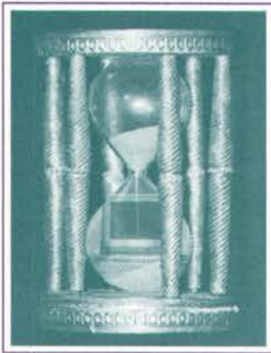
For additional copies, bankers and others are encouraged to use one of the following toll-free numbers in contacting the Federal Reserve Bank of Dallas: Dallas Office (800) 333-4460; El Paso Branch *Intrastate* (800) 592-1631, *Interstate* (800) 351-1012; Houston Branch *Intrastate* (800) 392-4162, *Interstate* (800) 221-0363; San Antonio Branch *Intrastate* (800) 292-5810.

**MORE INFORMATION**

For more information, please contact Sarah Jennings via E-mail at [sarah.jennings@dal.frb.org](mailto:sarah.jennings@dal.frb.org) or by phone at (214) 922-5259. For additional copies of this Bank's notice, please contact the Public Affairs Department at (214) 922-5254.

Sincerely,

*Helen C. Holcomb*



# Century Date Change NEWS

Federal Reserve • Fall 1997

## Celebrating the Millennium

**H**ave you made plans for your end of millennium celebration? At the Federal Reserve, we are making every effort to ensure that our computer systems are ready, and we are well on our way to having our software systems ready for customer testing as of the end of June 1998. We also are working with the financial industry to make sure that every institution is ready to “ring out the old and ring in the new” with very few problems associated with the century date change.

While many assessments indicate that the financial services industry may be better prepared to address the year 2000 challenge than other industries, some experts express concern that there are segments of the industry that are still not convinced this is a problem their institutions need to address. If you have not started your own institution’s year 2000 project, you should do so immediately. To put off your project is to put your institution at risk of significant processing problems, such as lost transaction records, incorrect interest calculations, inaccessible funds, and inoperable ATM and credit cards, all of which could lead to legal liability.

In this issue of the “*Century Date Change News*,” we are pleased to present information from four industry associations on their year 2000 projects and their assessment of the constituents they represent. Your own local, state, or national industry association should have a wealth of information for you, as well. Please contact them for year 2000 services or information.

In addition, we’ve also included information on working with your business partners and developing a contingency plan, two very important activities in a year 2000 project. We hope that these articles will help you be prepared to welcome the year 2000.

### In this issue:

**Celebrating the Millennium**

**The Financial Industry Responds to the Year 2000 Challenge**

**Working with Your Business Partners**

**New FFIEC Year 2000 Guidelines for Third-Party Certification**

**Is Contingency Planning Important?**

### Please route this information to:

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## The Financial Industry Responds to the Year 2000 Challenge

During 1997, the Federal Reserve has been working closely with industry associations to share information about the impact of the century date change on all financial institutions throughout the United States. To this end, the Federal Reserve's Century Date Change (CDC) Project Office has had an ongoing dialogue with representatives of the Independent Bankers Association of America (IBAA), Credit Union National Association (CUNA), America's Community Bankers (ACB), and American Bankers Association (ABA).

All of these organizations have established active year 2000 projects, scheduled seminars, and written articles for their members. Here are some of the highlights of the organizations' projects and their perspectives on their members' year 2000 readiness.



### IBAA

By: Liz Aaron  
Regulatory Policy Representative

As the new millennium approaches, many community banks appear to be behind in their efforts to become year 2000 compliant. According to a recent Office of the Comptroller of the Currency (OCC) survey, approximately 35 percent of small banks have either not addressed the problem or are just beginning their efforts. Even for larger banks with a year 2000 plan, the OCC found weaknesses, including the lack of a formalized budget, incomplete prioritization of the system to be corrected, and timetables that are not aggressive enough to bring the bank into compliance in a timely manner. Small banks need to pay particular attention to potential risks from reliance on vendors' renovation efforts, since the majority of these banks depend upon outside vendors for their data processing needs. Moreover, community banks also need to do more to identify the potential credit risks associated with their largest borrowers.

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In an effort to assist community banks with the continuing challenges facing them with their year 2000 conversion, IBAA is keeping community banks apprised of recent developments through articles published in both the IBAA newsletter, "Washington Weekly Report," and the magazine, *Independent Banker*. Additional information on year 2000 compliance can be found on IBAA's online information service, the Community Bank Exchange. Also, IBAA is working on an information kit which will contain practical information, including sample correspondence and checklists, to assist community banks with this daunting task. IBAA's Bancard's annual users' conference in November 1997, and IBAA's annual convention in March 1998, will feature year 2000 workshops. Stay tuned for information on IBAA's Year 2000 seminar series. IBAA continues to work closely with the banking agencies and the Federal Reserve's Century Date Change Project Office on year 2000 issues. Please contact Ms. Liz Aaron or Mr. Paul McGuire in IBAA's Washington office at (800) 422-8439 with year 2000 questions and/or requests.

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Editors:

Kathleen Aswell • Elaine Geller





## CUNA

**By: John Vardallas**  
**Director, Business and Market Development**

The year 2000 issue poses a significant threat to the credit union industry because of date change risks in internal systems and the reliance of the credit unions on external vendors for data processing. In recognition of that concern, the National Credit Union Administration (NCUA), the regulatory agency responsible for examining credit unions, released a second letter (97-CU-6) on the year 2000 issue in early June 1997. The NCUA letter details the impact of date changes on automated systems such as interest calculations, truth-in-lending and truth-in-savings disclosures, and amortization schedules. The letter states, "the year 2000 problem is not limited to one type of software or hardware, critical or noncritical." In recognition of the limited number of resources (both companies and individuals) that can help with this effort, the NCUA urged all credit unions to move ahead with their plans as early as possible.

Similar to other industry associations, CUNA has been very active placing articles in publications such as Credit Union Magazine and "Newswatch," and identifying speakers for both local and national conferences who can address regulatory and operational issues for year 2000 projects.

Please contact Mr. John Vardallas at (800) 356-9655 x4053 for additional information on CUNA's activities or for questions on credit union year 2000 issues.

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## ACB

**By: Lamar Brantley**  
**Director, Technical Services and Programs**

Community banker awareness of century date change problems is reasonably widespread and growing, and many community bankers are working to correct deficiencies. Industry and government efforts to provide information and guidance seem to have caught the attention of most bankers. However, in spite of good progress, this relatively optimistic assessment needs to be leavened with several measures of caution.

Community bankers need to resist the inclination, even with over two years to go, to minimize the impact of the century date change because of their size and relatively limited use of in-house automated systems. While it is generally true that small community bank year 2000 problems may not be of the same magnitude as those of large banks with extensive in-house systems, year 2000 problems at community banks are just as pervasive and could be as dangerous, in part because they are out of sight and under the control of third-party processors.

To avoid complacency, community bankers should by now have systematic, comprehensive year 2000 plans in place and well underway, just as most larger organizations do. They need to aggressively address the challenges of tracking the progress and results of their third-party computer service providers, ensuring that a comprehensive testing of all

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systems is conducted and checking that all systems are properly changed and working, ideally no later than the end of 1998.

Many third-party providers are making satisfactory progress, but it is not easy for community bankers to confirm that fact. Written vendor assurances, alone, are not sufficient. Regular monitoring by community bankers of their service providers' progress is essential and procedures for reviewing test procedures, examining test results and conducting parallel testing of modified systems are important. User review committees and independent third-party audits are other ways for bankers to evaluate a service provider's progress.

Finally, community bankers need to continue to look carefully at their own in-house electronic systems, both computer and environmental. Community bankers should check every nook and cranny of their operations to be sure that internal applications and computer-controlled equipment are year 2000 compliant.

ACB has sent out a "Year 2000 Executive Briefing" to all members and plans to survey them to determine their readiness. For more information on ACB's efforts to communicate year 2000 concerns, please contact Mr. Lamar Brantley at (202) 857-3156.



## ABA

**By: Ty Carter**

**Associate Director Information Technology**

The American Bankers Association sees the year 2000/Century Date Change as a fundamental safety and soundness issue requiring action from all banks, regardless of asset size. The ABA emphasizes that all banks take proactive measures to mitigate business risks resulting from external factors, such as vendor readiness, competition, regulatory requirements, shareholder and investor confidence, and customer readiness. The ABA urges all institutions to exercise due diligence regarding these issues.

The ABA has been very proactive in its presentation of year 2000 issues to the financial services industry, particularly the larger banks. The ABA has brought banking institutions and industry experts together to assist in this highly critical issue. Our year 2000 program is supplying awareness, tools, knowledge, experience, best practices and other information of value to the industry through a variety of programs, products, and services. A teleconference entitled, "Year 2000: More Than A Technology Problem" was held on September 8, 1997. It featured Mr. Carl Gambbs, Senior Vice President and Project Leader for the Federal Reserve's CDC project, as one of the featured speakers on a panel of industry experts. The ABA will continue to deliver additional programs and services that address every angle of the year 2000 issue. The most recent teleconference in the series was held November 6 with a focus on year 2000 legal issues.

For additional information on the ABA's year 2000 program and associated activities, please contact Mr. Ty Carter at (202) 663-5493.

*If your institution works with another industry association other than those represented in this article, please contact it to find out more about its year 2000 activities and the support it can provide.*

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## Working With Your Business Partners to Prepare for 2000

No business stands completely alone. You rely on customers, other service providers, utility companies, etc., to ensure that your businesses function daily. Not only do you have to manage your own internal year 2000 project, but the scope of the year 2000 issues requires that you work with all of your business partners to ensure their readiness to face the new millennium.

You might want to think of this project as having multiple puzzle pieces. Clearly your transaction processing systems are extremely important, but they are just one piece of the year 2000 readiness puzzle. Your business partners also are an important part of the year 2000 puzzle. If a customer experiences a year 2000 related problem or your local utility company can't deliver its service, what would be the impact on your ability to complete your daily work? In this article, we will cover some strategies to help you evaluate the potential impact of year 2000 problems experienced by your customers, service providers, and utility companies.

### Customers

Let's start with customers, the focus of your business and the reason you exist. The year 2000 readiness of your customers may be critical to the continued viability of your business in 2000. Can your business run the risk of having one, two, three, or more of your customers fail because of incomplete or unsuccessful year 2000 projects? If any of your larger customers has a problem, what will be the impact on your business?

The impact of a customer's failure to be ready for the century date change will depend on the type of relationship you have with that customer. Your business development staff should be able to determine your risk based on the scope and nature of the business relationship with a given customer. Therefore, if you have electronic connections with your customer for payroll, cash management, or other banking processes, it is important that you meet with your customers to assure them that you are working on your project, as well as to discuss how they are preparing their business to move into the new millennium. Further, you will want to determine if you will need to test with your customer to confirm that two-digit dates or date processing changes made by either party do not adversely affect the other's system.

To help your smaller customers prepare for year 2000, the Federal Reserve is preparing a short document titled, "Guidelines for the Small Business, Preparing for Year 2000," which will be available soon. A copy will be sent to you with information on how you can obtain a diskette or Internet copy in order to reproduce the document to distribute to your own customers. Please watch your mail for information on this pamphlet.

### Service Providers

Many financial institutions depend on service providers for critical business operations. In our first "Century Date Change News" (Spring 1997), we recommended working with software vendors; here are some additional tips for assessing the readiness of your third-party service providers, service bureaus, and/or data processors.

First, you need to develop an inventory of the services they provide (check or share draft processing, accounting, ATM maintenance, wire transfer, time deposits, etc.), and rank them based on how critical each service is to your institution's business.

Your next step is to contact them regarding their readiness plans. You may want to meet with your most critical service providers to discuss their plans for preparedness and to share your plans. Here are some questions to ask:

- 1 Does your data processor or service bureau have a comprehensive, written plan to prepare for the year 2000 processing environment? If so, as one of their business partners, ask for information on their strategies, deliverable schedules, and project status.



- 2 What is the state of readiness for each service they provide for you? If the data processor or service bureau says that a particular service is ready for year 2000 processing, schedule a test to ensure there are no problems.
- 3 If the data processor or service bureau indicates that a particular service is not ready yet, but will be in the future, ask for a copy of the remediation schedule, which should tell you the date the service is scheduled to be fully tested, implemented, and available for you to test. If the processor does not meet its schedule or if the date is too close to the century date rollover to allow for certification, you will need to assess the risk to your institution. Based on your ranking of your most important services, you should have a general idea of the impact of a noncompliant service and, if necessary, develop an alternate readiness strategy. (For example, if your service provider indicates that its ability to transmit payroll via ACH may not be ready until November 1999, that may be extremely risky for both you and your customers.)

### Utility Companies

In many year 2000 articles and in the last “**Century Date Change News**,” we suggested that you pay attention to environmental systems that could impact your business if they didn’t function properly. These environmental systems include the vault locks, security systems, internal telephone networks, elevators, and ATMs. In addition to ensuring that your own environmental systems are year 2000 ready, you might want to contact your local utility companies that supply electricity, external telephone service (local, long distance, and ATM networks), and water. Over the last decade, many utility companies have moved to very sophisticated computer systems that control the distribution of these services and natural resources to consumers, businesses, and communities.

Depending on the size of your community, you may obtain the reassurance you need simply by contacting your local utility companies by phone. In other areas, you may want to schedule a meeting with your utility companies to discuss their readiness activities. Without electricity, water, and telephone, you may be unable to open on your first business day in 2000.

While not all-inclusive, the ideas presented here are suggestions for activities you need to include in your year 2000 readiness plans. By working with your business partners, you will be contributing to the success of your year 2000 project by accounting for many of the project’s puzzle pieces.

## New FFIEC Year 2000 Guidelines for Third-Party Certification

In May 1997, the Federal Financial Institutions Examination Council (FFIEC) issued a “**Year 2000 Project Management Awareness**” publication, which detailed the steps financial institutions need to take to prepare for the transition to the next century. One of the subjects addressed was the need to verify the readiness of vendor software and hardware systems by obtaining certifications from vendors on the status of their products.

Given the diversity in the automation environments of each organization, Mr. Howard Amer of the Banking Supervision and Regulation staff at the Board of Governors of the Federal Reserve System reports that there is a need for clarification of the May 1997 FFIEC interagency statement regarding service provider year 2000 certification.

*“Since the adoption of the statement, our experience shows that service providers will ordinarily not certify or warranty their product line because of legal liability. Comparably, the Federal Reserve, as a provider of priced services, is also unable to certify products in view of the unique nature of each customer’s operations and the lack of assurance that the product will work in all cases on a variety of automated platforms and configurations.”*



*“Accordingly, the policy will have to be clarified. Even if a financial institution were to obtain a certification statement that a product is year 2000 compliant, the certification alone would not provide an adequate assurance that all systems will in fact be year 2000 compliant. Only a successful, comprehensive test of all internal and external systems, and system interdependencies, will provide that assurance.*”

*“For these reasons, institutions that use a product or service supported by a third-party vendor should conduct appropriate due diligence and testing, which assesses the vendor’s ability to provide year 2000-ready products and services in a timely manner.”*

If you have additional questions about these Guidelines, please contact your supervising agency. In addition, information on the FFIEC Guidelines can be obtained on the Internet at the following address:

<http://www.FFIEC.gov/y2k/default.htm>

## Is Contingency Planning Important? \_\_\_\_\_

Your staff is dedicated to completing your year 2000 project. All plans are in place and your schedule is on target to be finished in plenty of time. Should you sit back and relax through the rest of the project or should you be planning for any contingency situation as a result of your year 2000 activities?

The obvious answer is that contingency planning is an important part of any year 2000 plan and now is the perfect time to be thinking about it. The Federal Reserve’s contingency plan to address century date change issues and disruptions is a top priority. While all of our critical systems are scheduled to be completed by mid-1998, and the rest of our systems to be ready by the end of 1998, we recognize that there are unforeseen risks to renovation that must be addressed. In addition to building in year 2000 contingency plans for our own systems, we are also evaluating the type of support we may need to provide our customers if their systems are disrupted.

Currently, every institution should have an updated and tested contingency plan in place. In anticipation of the century date change, that plan should be reviewed and expanded to include the unusual circumstances that the century date change will bring. Your contingency plan should identify the steps your institution must take if any critical system experiences problems because of year 2000 changes, if the renovation has not been completed in time, or if a business partner’s systems do not function properly. In addition, your plan should consider contingency scenarios resulting from failures in your electrical, security, vault, or other environmental systems.

In thinking about your contingency plans, here are some basic questions to consider.

- 1 What products or services could you do without during the duration of the failure? If a critical system fails, do you have any manual, automated, or outsourced backup systems that can be implemented? How long would it take to set up an alternative system?
- 2 What products or services could your customers do without? What is the extent of the impact on your business if your customers are unable to access a product or service from you?
- 3 What impact will a system problem/malfunction have on your ability to service your customers? At what point will you notify your customers that they should expect a different level of service?
- 4 How will you mobilize your staff to address an application or environmental system problem? What type of staff training should occur to prepare for a year 2000 related problem?



- 5 What plans should be in place if your software vendor, service bureau, or data processor is not ready in time? Consider developing a list of alternative vendors as part of your contingency plan, and decide at what point you should pursue an alternative. Would it be prudent to contract ahead of time for services that may be needed?
- 6 Has your audit and/or legal staff reviewed your year 2000 contingency plans?

Regardless of your careful execution of a successful year 2000 program, planning for unforeseen problems is a critical readiness activity, given the scope and complexity of the century date change challenge.

Here are some recent articles and one book on the impact of the century date change that may be of interest to you and your colleagues. These articles are not inclusive nor does the Federal Reserve necessarily endorse all of the ideas presented. In addition to these articles, please watch your local and national trade association periodicals for more information.

Anason, D. "Banks Said to Be Best Prepared For Year 2000 Computer Glitch."  
American Banker, July 11, 1997, p 2.

Celko, J. "Year 2000 - Threat or Menace."  
DBMS, July 1997, p 20.

Coffey, B. "2000: An Industry Odyssey."  
Wall Street & Technology, July 1997, p 66.

Hammond, E. "Disarming the 2000 Bomb."  
InfoWorld, August 18, 1997, p 64.

Quittner, J. "As Year 2000 Looms, Issuers Play Beat the Clock."  
American Banker, August 5, 1997, p 11.

Reid, W.S. "Contingency Planning: It's The Real Thing!"  
Year/2000 Journal, September/October 1997, p 70.

Zeitlin, M. *The Computer Time Bomb*.  
American Management Association, 1997.

Zuckerman, L. "Many Reported Unready to Face Year 2000 Bug."  
The New York Times, September 25, 1997, p C3.

There are now a number of Internet Sites available on the year 2000 issue. In addition to the sites dedicated to year 2000, some trade organizations serving the financial services industry have sites with information that may be more specific to your needs. This list below is a representative sample of year 2000 sites and can help find other important information sources on the Internet.

<b>Mother of All Year 2000 Link Centers</b>	<a href="http://pw2.netcom.com/~helliott/00.htm">http://pw2.netcom.com/~helliott/00.htm</a>
<b>Year 2000 (Peter de Jager)</b>	<a href="http://www.year2000.com">http://www.year2000.com</a>
<b>Federal Reserve</b>	<a href="http://www.frbsf.org/cdc">http://www.frbsf.org/cdc</a> .
<b>FFIEC</b>	<a href="http://www.FFIEC.gov/y2k/default.htm">http://www.FFIEC.gov/y2k/default.htm</a>
<b>American Bankers Association</b>	<a href="http://www.aba.com">http://www.aba.com</a>
<b>America's Community Bankers</b>	<a href="http://www.acbankers.org">http://www.acbankers.org</a>
<b>Credit Union National Association</b>	<a href="http://www.cuna.org">http://www.cuna.org</a>
<b>Independent Bankers Association of America</b>	<a href="http://www.ibaa.org">http://www.ibaa.org</a>