



FEDERAL RESERVE BANK
OF DALLAS

HELEN E. HOLCOMB
FIRST VICE PRESIDENT AND
CHIEF OPERATING OFFICER

July 8, 1998

DALLAS, TEXAS
75265-5906

Notice 98-55

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 (Y2K Project)**

DETAILS

To keep you informed about industry issues related to Year 2000 (Y2K) projects, we are enclosing a copy of the most recent *Century Date Change News*. This newsletter includes excerpts from interviews with a range of financial institution representatives, as well as articles on testing, contingency planning, and Year 2000 communications. We hope that you find the information helpful as you progress with your own Y2K project.

In addition to this newsletter, the Federal Reserve will be distributing copies of *Century Date Change Bulletin, No. 4* in July. An electronic copy is available on the Federal Reserve's CDC Web site at <http://www.frbsf.org/fiservices/CDC/>. This bulletin contains critical information for any institution ready to test or preparing to test with the Federal Reserve.

ENCLOSURE

A copy of the Federal Reserve System's Spring 1998 issue of *Century Date Change News* is enclosed.

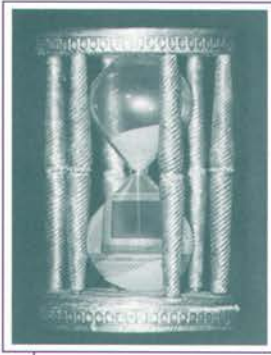
MORE INFORMATION

For more information about the Federal Reserve's CDC project, please contact Sarah Jennings via E-mail at 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 E. Holcomb

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.



Century Date Change NEWS

Federal Reserve • Spring 1998

Taking Action for the Year 2000

As all financial institutions have moved further into their year 2000 projects, one comment is heard over and over – “this is much bigger than I thought it would be.” Making a business ready for 2000 affects every part of the organization and extends to all business partners, including large and small customers, utility companies, vendors, service providers, and many other organizations and businesses. At the Federal Reserve, no one can think of any one project that has had a greater impact on the organization, its business functions, and its staff.

The Federal Reserve is finishing its internal testing and is preparing to open its customer testing facility on June 29. While work on the applications that support our customers will be completed, we still have a substantial amount of work remaining. Considerable resources will go into supporting our testing with customers, preparing contingency plans, and finishing work on noncritical applications.

Many institutions also are approaching a critical part of their project as they begin the testing phase. In this issue of the “Century Date Change News,” we are pleased to share portions of eight interviews we completed with your colleagues from throughout the country. You should see many commonalities in their comments with your own projects. And, perhaps you may find a few words of wisdom that will help you as you move your institution forward in your readiness efforts.

We also have included articles on testing, contingency planning, and communication. We hope that these articles will provide valuable information as you continue to “take action for the year 2000.”

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- The Financial Industry Prepares for the Year 2000
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Please route this information to:

The Financial Industry Prepares for the Year 2000

With fewer than two years remaining until the century date change, financial institutions are immersed in preparations for the year 2000. We interviewed eight financial institutions representing a cross section of the industry to find out how their year 2000 efforts are progressing and to share the challenges they've encountered.

The banks, savings and loans, and credit unions we interviewed generally are at the end of the assessment phase of their year 2000 preparations and are starting to implement the tasks related to readiness — recoding software, testing systems, working with vendors and business partners to ensure their preparedness, and purchasing new equipment. Most institutions say they started their year 2000 efforts later than they had hoped, but have made significant progress and plan to meet their compliance deadline by late 1998 or early 1999. These institutions plan to devote most of 1999 to testing and retesting to ensure they are prepared fully for the century date change.

What stage of your year 2000 preparedness plan are you working in (as of April 1998)?

“We are in the process of identifying alternative solutions should vendors be unable to become compliant.”

Tamara Gurney, Chief Operating Officer of American Pacific State Bank in Sherman Oaks, CA, \$345 million in assets:

“Our year 2000 committee was formed around May/June of 1997, but we had been contemplating the issue in earlier decisions relating to PC network upgrades. We've identified all of our vendors and prioritized those providing mission-critical applications to see if they're compliant. We are in the process of identifying alternative solutions should vendors be unable to become compliant. As a service bureau client, we do not have any reprogramming to complete, but we do have to follow up with vendors to make sure they are addressing the compliance issue.”

Bob Wynne, Vice President, Corporate Public Relations for Bank of America in San Francisco, CA, \$260 billion in assets:

“Our early work with the year 2000 actually started 30 years ago with our long-term mortgages. But we didn't get down to serious work on the effort until 3-1/2 years ago when we started setting up our year 2000 project office. We're on track, and our systems should be fully compliant by the end of this year. We're testing as we go along.”

John Collins, Executive Vice President and Chief Financial Officer of Great Lakes Credit Union in Great Lakes, IL, \$300 million in assets:

“We started late last year, but it wasn't until January of this year that it really started to get exciting, and we're progressing well. Our major processing system vendor says its system is compliant, and 90 percent of our operations run through this system. We'll be testing with service bureaus/providers starting April and May. We hope to be done by late 1998, but realistically that may run through the first quarter of 1999.”

Gail Taylor, Year 2000 Coordinator of Jefferson State Bank in San Antonio, TX, \$292 million in assets:

"We are in the validation and implementation phase. We haven't had any major costs because everything tested OK. Only one major piece of equipment has needed to be replaced. We are planning to test with our service bureaus/providers. Some providers have offered to set up test environments where we could test on-site."

Jerry Fannon, First Vice President, Comptroller of Lincoln Savings Bank in Reinbeck, IA, \$154 million in assets:

"We started in the summer of 1997. We're still in the assessment phase, and we're gathering costs. We're satisfied with the progress we've made, and since we have finished year-end efforts, we have more time to devote to the year 2000 issue now. We expect to be compliant by the end of this year. Our year 2000 committee plans to prepare a statement of compliance to present at the Board of Directors meeting in December."

Robert Rivera, Manager, DP and MIS, of Lockheed Federal Credit Union in Burbank, CA, \$1 billion in assets:

"We started at the beginning of 1997. We're right where we expected to be - we haven't had many pitfalls or surprises, though this may change at any point. We're halfway through coding. Service bureaus and providers have provided some test opportunities, and our main system provider will be available to test in two to three months. We'll begin our testing phase around July and expect to be finished around October."

Pat Bramer, Senior Vice President of Metropolitan National Bank in Springfield, MO, \$215 million in assets:

"We're nearing completion of our assessment phase. We brought in a third party vendor to be involved in the technical areas. Further down the line, we will be testing with our providers. The provider of our major application data processing system processes for 160 banks. They are considering having six to eight banks come in and test, and they'll report the results to the other banks."



What have been your greatest challenges in preparing for the year 2000?

“We’ve found that in some cases, our vendors have turned the tables on us and seem more interested in finding out what we’re doing instead of reporting to us what they’re doing.”

Bramer/Metropolitan National Bank:

“The biggest challenge so far has been customer and staff awareness. We’ve found that it’s important to establish a system to ensure awareness through a constant flow of information. As we enter the validation/testing phase, we’ll experience another challenge, which will be deciding how to validate testing. We’ll be dependent on technical staff to identify the adequacy of our vendors. Given the size of our institution, analyzing this information will be difficult, and we must rely on a third party.”

Bill Mayton, Senior Vice President of First National Bank in Alamogordo, NM, \$145 million in assets:

“Testing mainframe software presents a challenge. How do we change the date on the mainframe and test without jeopardizing information? Our third party vendor is doing an independent test, but we’re not sure if that will satisfy the regulators. Our other challenge is satisfying the regulators given the constantly changing environment. The Office of the Comptroller of the Currency admits requirements are changing rapidly and that next week they may require something else. It’s not their fault – these requirements are coming down from Congress. But if, for example, a vendor is not at the stage where it should be, what can I do? I can change vendors. But what if they are all in the same phase?”

Gurney/American Pacific State Bank:

“Over the past 18 months, our Bank has undertaken a complete systems upgrade, including local and wide area networks and core systems processing. So, the greatest challenge has been getting the time of the individuals you need to focus on this project. During the awareness phase, you begin to see how overwhelming the year 2000 project is, and everyone still has his or her own full-time job to do. We’re considering hiring outside consultants to assist with this effort because everyone’s been working double time. Another challenge is testing and developing contingency plans for mission-critical systems. This effort is so costly in terms of resources that we are hoping for some additional guidance from regulators before we do any unnecessary work.”

Rivera/Lockheed Federal Credit Union:

“Our biggest challenge has been getting our nonsystem management to be aware of the issue, involved, and helping us out. They have other concerns, and must turn away from their regular business to address the year 2000. Another challenge involves certifying vendor compliance. We’ve found that in some cases, our vendors have turned the tables on us and seem more interested in finding out what we’re doing instead of reporting to us what they’re doing. Everyone is wary of liability.”

How would you judge your business partners’ readiness with their own projects?

Collins/Great Lakes Credit Union:

“Our business partners’ readiness varies widely. Some are really on top of it, others are not, and some aren’t even ready to tell us if they’ll be ready. Safety and soundness are

fundamental issues. We are looking at all of our systems, and if it is a critical system, we'll replace it in 1998, or else we'll pull the product and put in a competitor's product that is compliant. So I'm less concerned about us and more concerned about the endpoint processors that are outside of our building and outside of our control. What will happen if they aren't up to speed?"

Taylor/Jefferson State Bank:

"I have spoken directly to all of our business partners, and 90 percent responded immediately when I requested a letter of compliance or copies of testing. Any that have shown hesitancy – I think it's because they are afraid to say they are ready. Vendors know they need to be cautious."

Fannon/Lincoln Savings Bank:

"We've been in regular contact with our business partners, and they all seem to have a plan. We are getting compliance letters from mission-critical vendors. Most of our vendors run PC-based programs, which they say are compliant, but you don't know until you test."

Gurney/American Pacific State Bank:

"Our business partners are reporting mixed progress. Some are very progressive and are at the forefront leading the charge, while others are not very far along. My big concern is that we have a common deadline for compliance between the banking industry and our business partners. If they don't need to show compliance until year-end 1998, I'm pushed up against a wall. We've told our mission-critical vendors that we need their compliance by October 1, 1998, or else we need to make a decision to go to another vendor."

Wynne/Bank of America:

"Our business partners appear to be well-informed and moving ahead to bring their systems up to speed. We wish they were further along, but the momentum seems to be increasing. Three to four years ago, the year 2000 issue was probably too far off their radar screens."



How are your larger corporate customers doing with their projects?

“We also are considering incorporating a year 2000 preparedness addendum into our loan agreement to protect ourselves.”

Mayton/First National Bank:

“Our large corporate customers seem to be behind. I think in the beginning everyone thought century date change was only data processing, hardware and software-related. But gradually people are seeing that there’s as much liability on the corporate side when they realize how the Y2K problem affects every aspect of their business. Our loan area is gearing up and will be getting very aggressive in the next 60 days. We’ll be visiting in person those corporate customers with loans in excess of \$100,000 to discuss their year 2000 preparedness.”

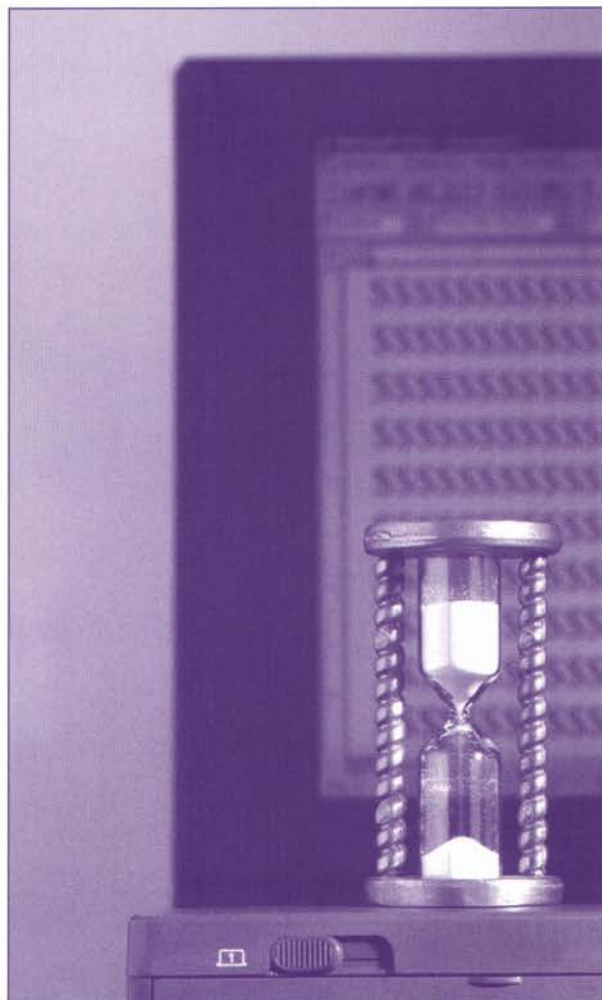
Bramer/Metropolitan National Bank:

“Two months ago, we sent a questionnaire to our commercial loan customers identifying year 2000 concerns so we could analyze their preparedness. Our commercial loan officer is monitoring the adequacy of these responses as they come in.

We thought this questionnaire wouldn’t be received well, but that turned out not to be the case. These customers are responding well with a lot of detail. They are taking the issue quite seriously and want to be in compliance. We also are considering incorporating a year 2000 preparedness addendum into our loan agreement to protect ourselves.”

Taylor/Jefferson State Bank:

“Our senior loan committee put together a questionnaire for our commercial customers. There’s a tier of customers who will automatically receive a questionnaire asking if they have a written plan, how they’ve evaluated their risk, what’s their completion date, are their computers/software compliant? Y2K compliance is a new aspect in lending, a new criteria that we are adding to our loan application. We are taking precautions to protect our bank and to protect our customers from themselves, especially those who think the problem will go away.”



How have you been communicating your year 2000 efforts with your retail customers?

“We’ve provided an update on our progress in our annual report, which is given out to all clients, and are exploring putting out information on our Internet web site.”

Fannon/Lincoln Savings Bank:

“We’ve been keeping our customers informed of our progress since last fall in a bi-monthly newsletter. We plan regular articles up through the year 2000 to keep them aware of what’s going on. When the news media picked up on the subject, they began putting out stories that were not true. I was watching one news program that advised viewers to contact their local bank, and if the bank was not planning to be compliant by December 31, 1998, they should switch to a national bank. Well, why is moving to a national bank going to help them? They are misinforming the public, and we need to counter that.”

Rivera/Lockheed Federal Credit Union:

“We’ll probably have a flyer ready to mail with our next statement. We’re getting a number of other instruments ready as well – through our fax line and Internet page. Our message will not be detailed, but we want to reassure our membership that there’s been a lot of activity related to this area. We want them to know our management is aware of the problem, and we’re doing what needs to be done.”

Wynne/Bank of America:

“So far, we’ve only been responding to those retail customers who ask about our compliance. Our tellers have a standard response – that we are working on it and will be compliant by the end of the year. If they want more information, they are directed to call me, and I have received only about 20 calls so far. We’ve talked about doing a mailer, but we wonder if that would alarm people. We do have a web site available to the public that has a lot of information, and we have produced a white paper, “Turning 00, Is Your Company Ready for the Year 2000?” We will issue a press release when we are compliant. Right now, we just want to get the job done.”

Bramer/Metropolitan National Bank:

“We sent a memorandum to our staff assuring them that we recognize the issues involved in year 2000 compliance, making sure they have started to think about it, and outlining concerns for our retail customers. We listed our year 2000 committee members as contacts for more information. We have attended a Chamber of Commerce meeting to share information about year 2000 efforts.”

Gurney/American Pacific State Bank:

“We haven’t done any broad communications yet. Our marketing staff is evaluating brochures to include in a mailing to clients providing general information on the issue. We’ve provided an update on our progress in our annual report, which is given out to all clients, and are exploring putting out information on our Internet web site. In the next few weeks, we’ll be considering a public relations and community information approach. There are a number of possibilities, up to and including hosting seminars with experts in the field to educate our clients. Since this is not our area of expertise, we want to be cautious in our approach with clients.”

What advice do you have for other financial institutions dealing with century date change?

“There needs to be an awareness that century date change will not just affect computer systems, but other areas like security lights and door lock codes.”

Bramer/Metropolitan National Bank:

“Year 2000 compliance is not just a technical issue – it’s an issue of viability and survivability for our industry. In addition to having the stamp of approval from your president, CEO, and Board of Directors, you need to allocate resources to address the issue and communicate that you are doing so. The year 2000 committee must have the power to get things done; otherwise, the task is almost unworkable.”

Mayton/First National Bank:

“I recommend taking all the steps necessary to satisfy regulators. They take this issue very seriously, and have a zero tolerance level for those who are not complying. We value our relationship with the regulators, so we are doing everything exactly as they ask, which means working on this project every single day.”

Collins/Great Lakes Credit Union:

“Spend a lot of time on assessment because identifying where the problems are is the difficult part, not the execution. When I first started working on the project, I didn’t think there was much to it. When I began following regulatory guidelines, I ended up putting together a two-year project plan that was 35 pages, and I saw I had a lot to do. You have to sit down and focus because it can sneak up on you real fast.”

Taylor/Jefferson State Bank:

“Time is critical. This project takes longer than you expect, even when everything is running smoothly. My advice is to consider worst case scenarios and have a contingency plan – for example, will my computer room stay cold, do I need a backup gas generator sitting in a truck outside the bank on the first day of the year in case the power isn’t on, etc.”

Fannon/Lincoln Savings Bank:

“Start as early as you can, devote as much time as you can, and assemble a team dedicated to this effort. Our Y2K committee contains representatives from all areas of the bank, including trust, insurance sales, lending, computer, bookkeeping, and customer service. We assign specific responsibilities to each person.”

Rivera/Lockheed Federal Credit Union:

“It’s important to think outside of computers, to areas you wouldn’t normally consider – the facilities area, power companies, safe deposit time stamps. It’s also important to prioritize correctly because management is concerned about many other business requirements in the course of a year. Everyone needs to know of the importance of this project and how it affects every area.”

Wynne/Bank of America:

“Share information, both around your company as well as with the people you do business with. You can get good ideas from other companies, and talking about the issue assures customers you have a plan and are dealing with it. There needs to be an awareness that century date change will not just affect computer systems, but other areas like security lights and door lock codes.”

Testing Year 2000 Changes

Many institutions are at the point in their year 2000 projects where testing is looming right around the corner. Most industry estimates indicate that testing will take 50 to 60 percent of the time, cost, and resources dedicated to this project. Prioritizing the applications you need to test, determining what you need to test within each application, and scheduling your testing will be very important.

Clearly, this project is unusual because you need to test so many applications internally, work with vendors and service providers to ensure they are testing, and also test service provider interfaces. Prioritizing mission-critical applications and critical vendors or service providers in your test planning process is critical because of the enormity of the task and the limited time and resources. In addition, you will need to factor in the applications or hardware that need to be tested in-house before you start third-party testing.

To help you with this process, the FFIEC recently released an Interagency Statement, dated April 10, 1998, titled "Guidance Concerning Testing for Year 2000 Readiness." This document is available from the FFIEC web site at:

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

The Statement provides information on Testing Methodologies; Elements of a Testing Plan; and Testing Internally Developed Systems, Testing with Service Providers, Software Vendors, and Other Third Parties (see the Statement for specific text of milestones).

FFIEC Key Milestones for Testing Phase

- | | |
|-----------------|--|
| 6/30/98 | Institutions should complete the development of written testing strategies and plans. |
| 9/1/98 | Testing of internal mission-critical systems should have started. |
| 12/31/98 | Testing of internal mission-critical systems should be substantially complete. Service providers should be ready to test with customers. |
| 3/31/99 | Testing with service providers should be substantially complete. Testing with other third parties should be underway. |
| 6/30/99 | Testing and implementation of all mission-critical systems should be complete. |

Who should test?

All institutions should plan to do some testing. Testing in-house applications, testing with vendor-provided hardware and software, and testing any data feeds with service providers are all part of the year 2000 readiness process. You will also want to ensure that the building(s) you use will be ready (e.g., embedded chip systems, utilities, vault locks, etc.).

By July 1, 1998, we, the Federal Reserve, will have completed our internal readiness testing of all the critical software for services which our customers use. Since our FedLine

and Bulkdata software often support mission-critical applications¹, it is expected that each customer will conduct testing with the new FedLine² or Bulkdata software once the customer has installed the CDC-ready version. Such testing should include integration testing with all interfacing front and back-end systems, testing of Fedwire Funds Transfer and National Book-Entry Securities, and the customer's other mission-critical applications, with the Federal Reserve's CDC test environment.

Federal Reserve's Testing Plans

The Federal Reserve plans to open our customer CDC test facility at the end of June 1998. In anticipation of the test facility availability, the Federal Reserve published **Century Date Change Bulletin #3**, "1998 Customer Testing for Century Date Change" this past March. The Bulletin covers the 1998 CDC test opportunities, information on the FedLine software and Bulkdata, the Shared Testing Day schedule, and individual 1998 application schedules. The next Bulletin is due in May and will cover preparations for testing with the Federal Reserve. Two other Bulletins are scheduled for 1998, including an issue devoted to the shared testing preparation and an issue detailing the 1999 customer test schedule.

If your institution accesses services electronically from the Federal Reserve, you will want to review these Bulletins. Please contact your Business Development representative at your local Federal Reserve office to obtain a copy. All Federal Reserve Century Date Change publications also are available on the Internet at:

<http://www.frbsf.org/fiservices/cdc/bulletins.html>

Contingency Planning – A Different Challenge for Year 2000 Projects

As each day passes, the need for year 2000 contingency plans becomes greater. Contingency planning for the century date change is much more far-reaching than planning for the more "traditional" types of contingencies such as snow storms, computer outages, earthquakes, and the like. Generally, contingency planning for the century date change has five components.

First

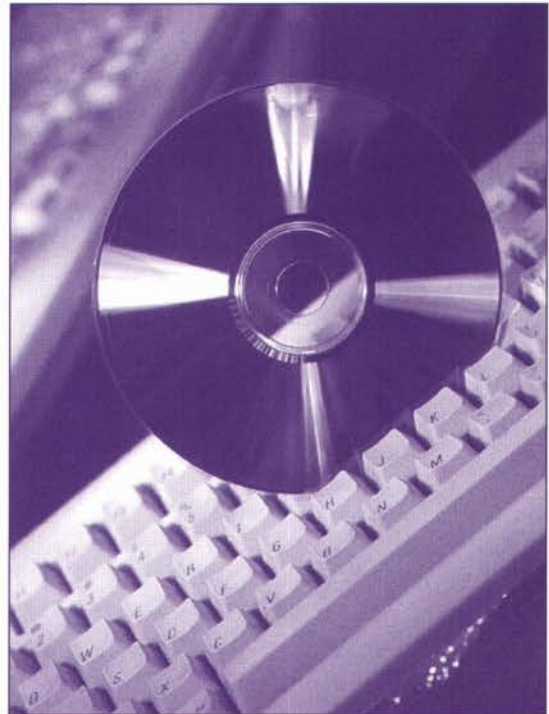
Although we are all working very hard to ready our automated systems to handle date processing accurately for the century transition and beyond, the reality is that we just might not make it in time for our entire inventory. Therefore, we should be asking, "What if we can't get system ABC ready in time? What is our alternate plan for this system?" Types of alternate plans which should be considered depend on the type of system, its criticality to your organization's mission, and the cost of implementing the alternative. For example, if you are developing a new system that supports a mission-critical business, your project schedule has slipped, and the new application cannot be completed with sufficient time to provide thorough testing for all functionalities, you need to consider the alternative of renovating your existing system.

¹ The FFIEC Interagency Statement on testing (see "Guidance Concerning Testing for Year 2000 Readiness," released on April 10, 1998) defines a mission-critical application as one that is "vital to the successful continuance of a core business activity. An application may also be mission-critical if it interfaces with a designated mission-critical system. Products of software vendors may also be mission-critical."

² "FedLine" is a registered trademark of the Federal Reserve Banks.

Second

Even if your organization's year 2000 initiatives are right on schedule and all your systems are year 2000 ready and tested, there is always the possibility of an unexpected problem within your systems or within the systems of those with whom you exchange data or on which you depend for your physical infrastructure. These types of problems need to be anticipated and plans developed to mitigate the business disruption risks that they may cause. This type of contingency planning is similar to planning for computer or facilities outages – often known as disaster recovery or business resumption plans. For the century date change, however, you will need to review your existing plans for their ability to deal with the uniqueness of the possible types of failures and associated recovery plans. For example, if you usually depend upon backup software to support your mission-critical applications, and you experience a problem within your software, it is likely that your backup software will either contain the same problem or will be a previous non-compliant version.



“Not only do we need to plan for contingencies directly affecting our systems, but also for contingencies experienced by our customers and major suppliers.”

Third

One of the most significant risks associated with the century date change is the vast number of possible points of failure both within and outside the organization. Not only do we need to plan for contingencies directly affecting our systems, but also for contingencies experienced by our customers and major suppliers. What happens to our organization if a major segment of our business cannot operate after the century rollover, for even a small amount of time? Do we know which of our customers and suppliers would most affect our business survival? Are there any measures we can take to assist them? This area of century date change contingency planning is perhaps the most challenging.

Fourth

Another type of century date change contingency planning is developing processes to manage the century rollover weekend. These processes involve designing proactive measures to minimize the effect of possible adverse events during the New Year's weekend. Some of the areas for which preventative plans can be created include data and resource availability. Are there files that you may want to retain from late 1999 just in case your data are unavailable or are corrupted by either internal or external problems? What about planning to have an adequate level of staff on hand to verify your initial results

“There is truth in the principle of ‘the best defense is a good offense.’”

and to respond to problems? Staff who need to be on-site or on call need to be informed well in advance of December 1999; vacation policies during the latter part of 1999 should be established and communicated now. Those employees needed for work over the special weekend should be notified, with perhaps special incentives offered to compensate for having to postpone the New Year’s celebrations of the century.

Fifth

Perhaps one of the most important plans that transcends all types of contingency preparations is the establishment of century date change communication procedures. It is not too early to set this critical process in place. These procedures should include clearly defining responsibilities as well as assigning specific individuals to these tasks. This chain of communication must provide for the expedient flow of information from technical and operational staff to the business owners and ultimately to the senior managers chosen to make critical and timely policy decisions. Don’t forget to include your public relation experts who may be on the front line with your customers, the media, or your stakeholders.

The importance of thorough contingency planning and preparedness cannot be overestimated. Planning involves making some hard decisions about allocating resources, including tradeoffs and even funding, that need to be addressed now. Those organizations that begin this planning early (and now is not too early) will go a long way toward promoting their year 2000 readiness and their business viability over the century date change. There is truth in the principle of “the best defense is a good offense.”

The Next Step: Educating the Business Community About the Year 2000

Your internal systems have been updated and are well on their way to being year 2000 ready. You have been working with your customers and business partners to ensure their systems will be able to handle the century date change. Have you done all you can do for the year 2000 effort? The answer is no. You can help educate the business community by becoming an advocate of year 2000 preparedness.

While the financial services industry generally has been proactive in addressing year 2000 compliance, other industries have not. Several surveys conducted in late 1997 found an alarming lack of preparation for and awareness of year 2000 compliance. For example, a poll of Fortune 500 companies representing 14 industries found that only 24 percent had a detailed year 2000 strategy, and only one in six had started to implement a strategy.³ Another survey queried 17 hardware and software companies about the retail companies they serve. This survey found that 87 percent of mid-sized retailers (annual sales between \$300 million and \$2 billion) were using software that was not year 2000 compliant for their merchandising systems, warehouse management systems, POS systems, financial and accounting systems, and time-and-attendance systems.⁴ These statistics indicate that much of corporate America is moving too slowly to meet the year 2000 deadline.

³ Cassidy, W.B. “Can’t stop the clock.” *Traffic World*, November 10, 1997, p38.

⁴ “NRF study: Stores lag on year 2K compliance.” *Chain Store Age*, November, 1997, p87.

“Emphasize that century date change is not merely a computer problem, but a business problem, and being unprepared can affect the bottom line.”

The financial services industry can take a leadership role in educating the business community for the year 2000. Having any business or segment of your community falter as a result of non-compliance can have a negative impact on your institution. And, by leading the charge for year 2000 preparedness, you are promoting confidence throughout your community that your institution is ready for the century date change.

The Medium

How best to spread the word about year 2000 compliance to the business community? Your institution can designate speakers knowledgeable about century date change issues. The Chamber of Commerce and Rotary Club are two excellent forums for reaching the business community. Ask your staff if they belong to any other business organizations that may offer an opportunity to present year 2000 information. Another vehicle for reaching the business community is through print media. Develop articles for the local press, especially business publications.

What is your local government doing to fix its systems and promote year 2000 readiness? If, like many industries, your local government is lagging behind in its year 2000 efforts, offer to work with local agencies to ensure that police and fire services, water, electricity, and other utilities are not interrupted. Encourage any efforts of local government to launch a year 2000 awareness campaign. You can offer to partner with local government to disseminate the year 2000 readiness message.

The Message

Whatever communications vehicle you choose, your message should stress the immediate need for each and every organization to address year 2000 readiness – even if their efforts consist solely of contacting their vendors to ensure they will be compliant. Many businesses, especially small ones, may be unaware of the broad ramifications of the century date change, and that anything from their telephones to their building’s elevators may be unable to function. Discuss how your institution developed its strategy, timeline, and budget for year 2000 readiness. Emphasize that century date change is not merely a computer problem, but a business problem, and being unprepared can affect the bottom line.

Because we are part of a larger business community, our strategy for century date change requires more than internal awareness and readiness. Educating customers, business partners, and the business community will help ensure a smooth transition to the millennium.

Communicating Year 2000 Efforts

Preparation for century date change has many components, including assessing and testing computer systems and working with business partners to ensure their readiness. While concentrating on these tasks, it’s easy to overlook another important strategic aspect of year 2000 preparation: communication.

Your institution's effort to become year 2000 ready is valuable information that should be conveyed to the outside world. In addition to enhancing your institution's reputation, communicating your year 2000 experiences is a public service – it raises community awareness of the importance of preparing for century date change. The financial services industry has a responsibility to lead preparedness efforts, especially for the business community. (See related article in this issue, "The Next Step: Educating the Business Community About the Year 2000.")

How to Approach Year 2000 Communications

“Your heaviest communication effort is probably ahead, so you may want to develop a plan that addresses the next 18 months.”

Ideally, there should be a communications component to every aspect of your year 2000 efforts. However, even if your focus to date has solely been on technology issues, it is certainly not too late to formulate a communications plan. Here are some guidelines for setting up a year 2000 communications effort.

1. Select your communications team.

Create a multi-functional team of individuals charged with developing and disseminating your year 2000 messages. The team should include marketing communications staff, public relations staff, and representatives from your year 2000 team. Because communication efforts are most successful when there is support from senior management, your communications team should include a senior executive, preferably someone who has experience with marketing, communications, or media relations. Be sure to clarify the roles and responsibilities of each team member. Also, be sure to invite this team – especially communications professionals – to your year 2000 strategy sessions.

2. Define your target audiences.

Your customer may be your primary audience for communicating positive year 2000 messages, but there are other crucial secondary audiences. Besides your customers, your external audiences may include government regulators, shareholders, vendors, and the media. Don't forget your internal audiences – your employees and various subsets of employees (those who interact with your customers and those assigned to your year 2000 project). These individuals also need the security of knowing your institution has the year 2000 situation under control and won't be adversely affected by the century date change.

3. Develop your strategic communications plan.

Develop the key issues that need to be addressed and decide when it is best to communicate them. For example, you may want to communicate when you have completed each segment of your year 2000 strategy: planning, assessment, coding, testing, and implementation. Your heaviest communication effort is probably ahead, so you may want to develop a plan that addresses the next 18 months. These communications will convey that the first business day of 2000 will be “business as usual” for your institution.

Tailor the frequency of your communication to your audience. You may decide that your internal audiences should be kept informed of year 2000 efforts on a frequent basis, while your external audiences will receive announcements only when major milestones have been met. You also will need to tailor the communications medium to the target audience – press releases to the media, a newsletter for employees, a newsletter and

advertising campaign targeted to customers and other secondary audiences, and presentations to the business community are some examples.

Even if all of your systems have been successfully tested, and your institution is confident about being fully year 2000 compliant, it is prudent to formulate a crisis communications plan as part of your contingency planning efforts. Approaching a worst-case scenario with preparedness will go a long way toward calming your customers and other audiences.

4. Implement your communications plan.

Once you've put time and effort into organizing your communications strategy, implementing it should be the easy part. Be sure your communications team continues to meet periodically to discuss the plan and adjust it when necessary. Stay poised to take advantage of external circumstances whenever possible, such as co-sponsoring a year 2000 awareness campaign with your local government or contributing to a newspaper article series on year 2000 issues.

Year 2000 compliance is an issue fraught with the possibility of misinformation and capable of causing a great deal of concern. By being proactive in communicating your institution's efforts, you will promote confidence in your organization and in the financial services industry for your customers and the general community.

Small Business and the Year 2000

In our Fall 1997 "**Century Date Change News**," we mentioned that a brochure for the small business vendor was underway and would be available in early 1998. That document is available on the Internet at:

<http://www.frbsf.org/fiservices/cdc/>

This document was designed for the Federal Reserve's small business vendors. Because a number of institutions have expressed interest in the brochure for their own vendors or customers who own small businesses, we decided to make it available to everyone. It is on the Internet in three formats, HTML, PDF, and PageMaker (a nonviewable file unless you have the program). If you would like to print copies for your own vendors or small business customers, please download the PageMaker file and the file instructions to a diskette. If you print the brochure, please do not delete the line on the back of the brochure that says, "This brochure was prepared by the Federal Reserve Bank of San Francisco." No changes should be made to the brochure without written consent from the Federal Reserve. If you have further questions, please contact Kathleen Aswell, National Marketing Consultant, at (415) 974-2877 or e-mail her at kathleen.m.aswell@sf.frb.org.

Rather than print the document, many institutions are linking to the document from their own Internet site. Other institutions are sending out letters to their vendors and small businesses to let them know that the document is available and the Internet address where the document can be accessed.

If you need additional information about the brochure, please contact Kathleen Aswell at the phone number or e-mail address listed above.

Here are some references 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, please watch your local and national trade association periodicals for more information.

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Editors: Kathleen Aswell • Elaine Geller • Jeannine Rucker