Remarks by

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I am delighted to have the opportunity to share with you my observations about financial market readiness for Year 2000 as it has increasingly become a priority issue for me. Similar to many of my colleagues here, I have seen this issue from varied perspectives. The Federal Reserve Bank of New York is both a bank supervisor and a provider of services to the financial industry. From that perspective, I would like to share some insights about how we are approaching the issue with entities we supervise and with respect to the payment systems we manage. The Committee on Payment and Settlement Systems has been dealing with the tremendous challenges the Year 2000 problem poses for payment and settlement systems around the world. In that vein, I will speak about efforts the CPSS has undertaken to address Year 2000 risks globally.

This round table is one example of awareness-raising initiatives involving the CPSS. I hope this session encourages all of us to think more critically about strategies we have in place; provides a sense of the strategies that have been working in other markets; offers effective approaches for providing guidance to market participants, including emphasizing the responsibility of directors and senior management; and compels us to consider more deeply the outstanding Year 2000 issues, such as global connectivity and contingency arrangements. Given the short time before the millennium, I cannot over-emphasize the need for continued discussions and sharing of information after these meetings. Inevitably, strategies will require refining along the way. We can learn much from each others' experiences.

Another recent effort by the CPSS that I would like to call your attention to is the creation of a simplified report through which operators of payment and settlement systems can indicate the state of preparedness of their systems for the Year 2000. The framework and the completed reports are accessible through the "Ongoing Activities" section of the Bank for International Settlements web-site. Copies of the framework as well as examples of completed responses are included in your conference materials, which you can review at your convenience.

The framework identifies the key components of payment or settlement systems' technological infrastructure. For each of these components information is provided on the start and completion dates for internal testing as well as testing with external participants. An indication is also given as to the connections to other systems. The completed framework is returned to the CPSS and is posted on the web-site. The information provided is brief but highlights critical aspects of readiness preparations. Also, and importantly, it provides a contact for market participants to seek further information. Currently, over 100 payment and settlement systems around the world have completed the framework.

I should point out that the responses are not certified or endorsed by the Bank for International Settlements or the CPSS. We are facilitating a flow of information. We hope that market participants will compare and analyze this information and, where additional questions arise, pursue them with system operators. The framework is intended as a catalyst for this sort of action. With the global interdependencies we face in clearance and settlement, the CPSS believes anything the public sector can do to enhance communication and understanding in this area will help mitigate Year 2000 risks posed by payment and settlement system arrangements.

Concerns in this area arise from the fact that clearing organizations, settlement agents, securities depositories and the various direct and indirect participants in these systems, as well as network providers, are intricately connected. They may all be key parts of a payment and settlement arrangement. An operational breakdown resulting from insufficient Year 2000 preparations by any one of them may have an impact on participants across payment systems. For example, Year 2000-induced operational breakdowns which result in delayed funds payments may cause significant liquidity pressures for market participants. To the extent transactions with counterparties both within and outside of that particular settlement arrangement are affected by these delays, there may be further effects which in the extreme worst case could have systemic implications.

Disclosure at this stage permits market participants the opportunity to raise timely and critical questions about payment and settlement arrangements. Market participants can make informed decisions concerning the risks they face only after the potential risks posed by these arrangements and indirect participants within those arrangements are made known.

Some system operators may be reluctant to respond to the type of information required by the framework because it may reveal weaknesses in their Year 2000 preparations. This attitude is inappropriate and probably revealing. Failure to disclose the state of readiness may be taken as a signal about the quality of the Year 2000 plan. Non-disclosure may be interpreted as worse than the actual situation. Market participants can work together with a system to overcome problems but they need to know the true status for the efforts to be effective. Transparency of the size, nature and source of potential risks provides a level of predictability for market participants and facilitates the development of appropriate contingency arrangements.

Of course, disclosure alone will not resolve Year 2000 risks. During the week of January 3, 2000, market participants are likely to experience stresses, even if every system operator in the world were to complete the framework. However, the framework is a positive step in inducing action to become as Year 2000 ready as possible.

Turning to the United States, the market I know best as a supervisor, let me first say that no market, no matter how well-developed, is immune to the difficult issues presented by the Year 2000 problem. U.S. financial institutions are grappling with the same issues faced by firms in other parts of the world. How should market participants resolve issues with vendors and third party service providers? What steps should banks take in coordinating Year 2000 strategies with telecommunications and electrical power companies? What factors should participants include in their evaluation of Year 2000 counterparty risks? How should these risks be built into pricing and other business decisions? Even though it may not be effective or even desirable for supervisors to directly resolve such questions, there are ways in which we can play a role.

In my view, the most important steps for a central bank to take is to lead by example and provide broad guidance for financial market participants. Specific action may be based on the following strategy:

- Emphasize the responsibility of financial institutions' directors and senior management in developing comprehensive Year 2000 strategies.
- Set aggressive but realistic targets for various financial institutions' systems becoming ready.
- Identify and communicate sound practices.
Throughout their own payment systems, the Federal Reserve has tried to set the tone and standard for what it expects from institutions it supervises. Although some institutions require us to deliver the message more assertively than others, thus far, the strategy of leading by example and providing a guiding hand has been productive.

As all of us increasingly appreciate the global dimension of Year 2000 risk, I believe it will become ever clearer that central banks, other market supervisors, and market participants, by themselves, cannot effectively address the scope of the Year 2000 problem. Year 2000 risk serves as a reminder that, in a global economic system, payment systems and markets may only be as strong as those that are least prepared. For market participants, one approach may be private sector joint efforts. Such efforts are already underway and I am sure will be constructive in dealing with the outstanding Year 2000 issues. For the public sector, the only option is to take an active role in developing and shepherding Year 2000 strategy. This round table is valuable in that it makes us, central bankers and market supervisors, aware of the necessary tools in pursuing this goal.

Thank you.