As a central banker, both domestic and global markets are on my radar screen. For some months, I have been talking about the significance of the Year 2000 issue as being one of the biggest challenges ever faced by the financial industry -- indeed the entire economic system.

Many bankers in Europe identify the introduction of the new Euro currency next January as the greatest challenge faced by their financial industry because it has tremendous business ramifications. Some of these same bankers regard the Year 2000 as a lesser challenge because they see it as a largely technical issue.

I agree with them that the Euro is a very significant challenge. However, I do not agree that the Year 2000 is largely a technical issue or that the challenge is any less. I think today's discussion of the credit risk associated with the Year 2000 and the difficulties in managing this risk clearly demonstrates how significant the business risks really are for the industry.

Credit officers and risk managers usually are not information technology specialists. Yet, they clearly have a great deal of work to do to get the Year 2000 right from a credit and risk management perspective. In some ways, the job for the credit officer is harder than that for the technical person. A programmer controls the code he writes and has a variety of tools available to test that code to make sure that it works properly. The credit officer does not control how borrowers are running their Year 2000 programs or have a direct ability to assess the impact problems might have on their normal business operations. Yet, he has to understand the borrower's Year 2000 program well enough to estimate the likelihood and impact of possible problems.

This task would be daunting enough if it were necessary only for new credits. But, all too often the reality is that year 2000 compliance requires retrofitting risk considerations into existing credit exposures as well. Identifying potential problems and modifying existing business relationships is hard enough with traditional credit considerations. Year 2000 readiness makes the process all the more difficult.

You have heard some sage advice today on how the job can be tackled and some of the issues that you will need to think about as you complete due diligence reviews of your customers and counter parties. Several of the speakers have referred to the statement issued by the Federal Financial Institutions Examination Council providing guidance on how financial institutions can develop prudent controls to manage the Year 2000 risks posed by their customers and counter parties. If you are not familiar with this interagency statement, I recommend that you seek it out. The Federal Reserve Bank of New York issued it as a circular and it is readily available on our web site.

I am not going to attempt to summarize the information provided by the speakers this morning or contained in the FFIEC guidance statement. However, I would like to make a few observations about your communications with customers and counter parties on Year 2000 matters.

Your discussions with your customers can have a tremendously positive effect to help assure that everyone addresses the Year 2000 issue. In 1996 when the banking supervisors issued their first Year 2000 alert in the U.S., it served as a wake-up call for many financial institutions. As a central banker, both domestic and global markets are on my radar screen. For some months, I have been talking about the significance of the Year 2000 issue as being one of the biggest challenges ever faced by the financial industry -- indeed the entire economic system.

As the industry goes through this period of conducting due diligence on the readiness of customers and counter parties, it is likely that you also will be contacted by your counter parties and customers as to your state of readiness. The importance of your sharing complete and accurate information cannot be emphasized enough.

The financial industry is increasingly realizing how interdependent we all are on each other. The Year 2000 must not become a competitive issue because our financial markets will only be as strong as the weakest link in the chain. Financial firms recognize that it is imperative to identify the weak links early in order to make sure that these links are strengthened or that ways are found to assure that a single broken link will not bring down an entire market. Sharing of information on readiness, participating in external testing exercises, and making certain that successful tests are conducted sooner rather than later will not only bolster overall market and public confidence, but also help to focus resources toward where they are most needed.

Sharing information should also help the public to understand the very real progress being made on the Year 2000 issue and lessen the likelihood of panic. We have all heard the doomsayers' predictions of dire consequences from Year 2000 problems and we need to be concerned and vigilant. I would like to assure you that there will be no problems, but I cannot. But, through vigilance and hard work, I do believe the problems can be minimized. Helping the public understand all that is being done should help quell false fears.

In the context of the overall economy, I believe we are still fairly early in the game in resolving Year 2000 problems. We are still behind where we would like to be and a long way from where we must be at the end of the game. Yet, we have reason for cautious optimism because we have just put fresh players into the game -- you, the credit officers and risk managers who will monitor progress on all fronts. Doing your job right will help assure success not only for your organization but for the economy as a whole.
I thank you.