Circulars

20 Jul 1998

Guidance on the Independent Assessment of Year 2000 Preparations

20 July 1998

Guidance on the Independent Assessment of Year 2000 Preparations

The Basle Committee on Banking Supervision has recently issued a guidance note on the independent assessment of banks' Year 2000 preparations. The guidance note has also been adopted by the Joint Year 2000 Council as an international standard for securities firms and insurance companies supervisors as well.

This guidance note provides a structure and specific questions that regulators, auditors and others could ask in conducting an independent assessment of financial institutions' readiness for the Year 2000. It is also a good reference for the management of financial institutions in their internal evaluations of Year 2000 preparations. I enclose herewith a copy of the guidance note and the associated press statement for your reference.

As mentioned in my letter of 3 April 1998, all AIs with work still in progress should be subject to some form of independent assessment of the Year 2000 compliance process. Where AIs claim to be already Year 2000 compliant, the HKMA will require documentary evidence to support this and may require independent assessment. The HKMA's approach in conducting independent assessment will be largely in line with the recommendations of the guidance note.

The guidance note makes it clear (page 11) that the need to develop contingency plans to assure business continuity is an integral part of the Year 2000 programme. AIs should already be well advanced on certain elements of their contingency plans, and should be further developing these plans during the testing phase as the likelihood of particular events occurring is better understood. Because the full awareness of the potential problems that need to be catered for may only become apparent through external testing, it is recognised that it may not be possible for institutions to have finalised and tested their contingency plans by 31 December 1998, which is the deadline for the other aspects of AIs' Year 2000 programmes. They should however aim to have largely completed their work on contingency plans by 31 March 1999, though it may be necessary to update and test their plans after that date to take account of changing circumstances.

Should you have any questions on this subject, please contact Mr. Edmond Lau, Head of Banking Development Division at 2878 8110 or Mr. Brian Lee, Senior Manager of the

Banking Development Division at 2878 1651.