Basle Committee on Banking Supervision

SUPERVISORY GUIDANCE ON THE INDEPENDENT ASSESSMENT OF FINANCIAL INSTITUTION YEAR 2000 PREPARATIONS

Following publication of "The Year 2000: A Challenge for Financial Institutions and Bank Supervisors" (September 1997) and its conduct of a survey on the level of preparedness in the G-10 and selected non-G-10 countries, the Basle Committee on Banking Supervision decided to take additional steps to promote Year 2000 preparedness globally. One of these has been to prepare a supervisory guidance note on the independent assessment of banks' Year 2000 preparations. Another has been the establishment, following the Year 2000 Roundtable that took place at the BIS in April 1998, of a Joint Year 2000 Council in collaboration with the Committee on Payment and Settlement Systems, the International Association of Insurance Supervisors, and the International Organization of Securities Commissions.

At a recent meeting in Rome, the Joint Year 2000 Council reviewed the work being conducted in its parent Committees. As a result, it decided to adopt the Basle Committee Supervisory Guidance and to make it an international standard for securities firms and insurance companies supervisors as well. The document is attached. It is hoped that this guidance will move supervisors from a level of general awareness of the problem to a specific, concrete-programme of action for overseeing Year 2000 readiness, both on an individual institution basis and on a system-wide basis.

The document provides a structure for conducting an independent assessment of financial institution readiness related to the Year 2000. The Basle Committee believes that the guidance contained in this document can be beneficial to examiners, auditors and others. The Committee also believes that supervisors should consider conducting prudential interviews with senior management of banks and other financial institutions on this critical topic and that this guidance could form the

foundation of such discussion. In addition, supervisors should consider sharing this guidance with their financial institutions in order to help them in their own internal evaluations of action plans.

With regard to the specific issue of Year 2000, no supervisor has the ability to make certain that problems will not occur due to the millennium change. Each financial institutions bears responsibility for its own systems. However, supervisors should be able to assess whether the steps being taken by financial institutions to achieve Year 2000 readiness appear to be reasonable and prudent. Supervisors need to follow up quickly with those institutions that are viewed to be inadequately addressing the Year 2000 problem.

As outlined in the Basle Committee's September 1997 paper, the wide range of year 2000-related risks necessitates that management implement a targeted, multifaceted action plans to protect both the organisation and its shareholders. Addressing the Year 2000 issue consists of several important elements. These elements fall into seven broad categories: (1) developing a strategic approach; (2) creating organisational awareness; (3) assessing actions and developing detailed plans; (4) renovating systems, applications and equipment; (5) validating the renovation through testing; (6) implementing tested, compliant system; and (7) contingency planning. The guidance note is organised under these seven headings. It also contains a final section on miscellaneous issues as well as a list of resource documents issued by supervisory authorities in various countries. These documents are referenced, as appropriate, in footnotes.

The Basle Committee continues to pay close attention to this issue and will be ready to report on the status of its work at the International Conference of Bank Supervisors in October 1998.