10 Aug 1998

Independent Assessment of Year 2000 Preparations (Local Incorporated Authorised Institutions)

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Independent Assessment of Year 2000 Preparations of Hong Kong Incorporated Authorised Institutions Standard Terms of Reference ("STOR")

Introduction

1. The name of Hong Kong incorporated AI] is requested by the Hong Kong Monetary Authority ("HKMA") to engage a Reviewer to conduct an independent assessment of the Year 2000 preparations of the institution and produce a report on the matters specified in paragraphs 4 and 5 below.

Deadlines established by the HKMA

2. The HKMA has established 31 December 1998 as the deadline by which all authorized institutions ("AIs") are expected to be Year 2000 compliant in accordance with the following definition:

   "A Year 2000 compliant system should perform, function and manage data involving dates without being abnormally affected by dates spanning the period prior to, during and after the Year 2000."

   Therefore, all AIs are expected by 31 December 1998 to have:

   i. completed the modification and testing of individual systems; and

   ii. tested the interaction of modified systems with the institution's other systems with which they interface directly.

3. The HKMA has also established 31 March 1999 as the date by which all AIs should have largely finalised and completed testing of contingency plans, though it may be necessary to update and test their plans after that date to take account of changing circumstances.

Scope of assessment

4. The Reviewer should report on whether the local management of the institution has taken or is taking the necessary measures to resolve the Year 2000 problem of the systems, especially the critical systems, that would be used spanning the period prior to, during and after the Year 2000 by the institution and its local and overseas subsidiaries and branches (if any). If the institution is part of a larger banking group, the Reviewer should take into account the extent to which its Year 2000 project is being directed by the parent bank in assessing the efforts of the local management. The Reviewer should

also check, through discussion with the local management and through examination of any relevant documentary evidence, whether the necessary steps are being taken by the parent bank to resolve the Year 2000 problem in respect of the Hong Kong incorporated institution and its subsidiaries and branches.

5. In particular, the Reviewer should report on:

   i. whether the senior management of the institution has been giving sufficient priority to, and maintaining adequate oversight of, the Year 2000 problem of the institution and its subsidiaries and branches;

   ii. whether the institution has taken the necessary measures to promote the awareness of the Year 2000 problem within the institution including its subsidiaries and branches;

   iii. whether the institution has taken the necessary measures to assess the impact of the Year 2000 problem on the institution and its subsidiaries and branches, to formulate a sound and effective project plan to address the Year 2000 problem and to ensure that sufficient resources have been allocated to the project;

   iv. whether the institution has taken the necessary measures to ensure the systems that would be used by the institution and its subsidiaries and branches, especially critical systems, have been or would be properly modified;

   v. whether the institution has taken the necessary measures to ensure the systems that would be used by the institution and its subsidiaries and branches, especially critical systems, have been or would be properly tested for Year 2000 readiness;

   vi. whether the institution has taken the necessary measures to ensure the systems that would be used by the institution and its subsidiaries and branches, especially critical systems, have been or would be properly implemented in production;

   vii. whether the institution has taken the necessary measures to ensure contingency plans have been or would be properly developed and tested to ensure business continuity of the institution and its subsidiaries and branches and to deal with other Year 2000 problems that may arise;

   viii. whether the institution has taken the necessary measures to ensure the Year 2000 issue-related risks arising from its business counterparties have been or would be properly assessed and managed;

   ix. whether the progress of Year 2000 preparations of the institution and its subsidiaries and branches is behind, ahead or on schedule according to the project plan;

   x. whether he has identified any major concerns or weaknesses in the institution's Year 2000 preparations in the course of the assessment, including those which might affect the ability of the institution to meet the deadlines established by the HKMA as specified in paragraphs 2 and 3; and (xi) any recommendations on

additional actions that may assist the senior management of the institution to address the problem areas.

6. It is understood that the responsibility for addressing the institution's Year 2000 issues rests with management of the institution. It is also understood that the Reviewer is unable to provide:

   i. any guarantee that the institution including its subsidiaries and branches will have no problems arising from Year 2000 issues;

   ii. any acceptance of responsibility for managing the Year 2000 project and the project risk;

   iii. any certification of Year 2000 compliance;

   iv. any guarantee that all the weaknesses in the Year 2000 preparations of the institution including its subsidiaries and branches will be identified; and

   v. any guarantee that the implementation of any recommendations made by the Reviewer will necessarily result in the institution becoming Year 2000 compliant or that the recommendations will necessarily address all the issues which the institution including its subsidiaries and branches may face in dealing with the Year 2000 issues.

Guidance for conducting independent assessment

7. For the purpose of this independent assessment, the HKMA has devised a Guidance Note on the Independent Assessment of Year 2000 Preparations of a Hong Kong Incorporated Authorized Institution (the "Guidance Note") (see **Annex A-1**) to provide practical guidance to the Reviewer in conducting the assessment. The Reviewer might wish to submit the Guidance Note to the institution in advance so that the latter can provide written responses to main areas identified in the Guidance Note and provide relevant documentary evidence to the Reviewer for review prior to the assessment.

Time Frame for the Report

8. The Reviewer should submit the report including any checklist completed for the institution by [5 October 1998] to the institution, which should then forward the same to the HKMA, together with management's comments on the report no later than [19 October 1998].