



**Comptroller of the Currency
Administrator of National Banks**

Washington, DC 20219

May 28, 1998

To: Chief Executive Officers of National Banks

I am sending you this letter to update you on the OCC's Year 2000 supervisory activities and findings to date and to apprise you of our next Year 2000 supervisory steps and other initiatives in which the OCC is involved. I am also enclosing a bank self-assessment form which the OCC developed to aid national banks in focusing on the actions needed to be ready for the millennium change (Attachment A). We ask you to complete this self assessment by June 30, 1998.

Year 2000 readiness is an enterprise-wide concern for every national bank and remains a top priority for the OCC. We expect the boards of directors and management of all national banks to ensure that it is a high priority within their banks as well. To assist you in making sure your bank is prepared for the Year 2000 date change, a summary list of Year 2000 guidance issued to date by the OCC and the Federal Financial Institutions Examination Council (FFIEC) is attached to this letter (Attachment B). If you have not done so already, please familiarize yourself with this guidance. Also, please share this information with your board and management to ensure that your bank is moving aggressively toward Year 2000 readiness.

OCC's Year 2000 Supervisory Activities and Findings to Date

Since July 1997, we have completed or are in the process of completing 2,552 Year 2000 readiness evaluations, covering 91 percent of the banks, federal branches and agencies, and data servicers we supervise. Initial Year 2000 evaluations will be completed in all the institutions OCC supervises by June 30, 1998.

To date, 87 percent of the entities evaluated have been rated Satisfactory; 13 percent have been rated Needs Improvement; and less than 1 percent have been rated Unsatisfactory. OCC examiners used specialized guidelines for assigning these ratings, a copy of which is attached for your reference (Attachment C). Based on our supervisory activities to date, we have found that banks rated less than satisfactory demonstrate a number of common problems and deficiencies, including:

- *Inadequate contingency plans, especially those relating to vendors.* Deficiencies include lack of deadlines, lack of formal plans, and lack of monitoring systems to track readiness.
- *Failure to complete the assessment process.* Deficiencies include failure to identify all systems, including environmental systems, which could have potential Year 2000 problems. Some banks have addressed only certain major applications or hardware and not all systems.

- *Inadequate or incomplete project plans.* Deficiencies include inadequate budget data, lack of formal plans, inadequate scope, or lack of appropriate monitoring systems to track readiness.
- *Inadequate audit coverage of banks' Year 2000 programs.*
- *Inadequate review of vendors.* The major deficiency with respect to vendors is the lack of ongoing monitoring of vendor Year 2000 readiness.
- *Failure to adequately assess major customers' Year 2000 readiness.*

The OCC will conduct more frequent Year 2000 onsite examinations in those banks that are not making appropriate progress. Additionally, OCC examiners will continue to conduct quarterly reviews at each national bank for the purpose of updating our information on banks' Year 2000 readiness.

We intend to work closely with banks that have received less than satisfactory ratings to ensure that appropriate steps are being taken to address their deficiencies. However, because of the unique nature of the challenges presented by the Year 2000 problem, the OCC has also adopted an enforcement policy specifically designed to address Year 2000 concerns. This policy was mailed to all national banks in April of this year and includes the full range of enforcement actions available to the OCC. It also makes use of an enforcement tool called a "Supervisory Directive," which focuses directly on the actions that banks need to take to remedy Year 2000 deficiencies. We will use Supervisory Directives and other enforcement tools whenever necessary to effect prompt remedial action by banks rated less than satisfactory.

In addition to using our enforcement authority in appropriate cases, we will also take Year 2000 readiness into account when considering certain corporate applications.¹ Applicant banks not in compliance with Year 2000 guidelines, or any proposed business combinations where significant systems integration issues are identified, will be subject to additional review.

Next OCC Year 2000 Supervisory Steps and Other Year 2000 Supervisory Initiatives

Once we complete the initial round of Year 2000 examinations, we will focus our examination efforts on two key areas: the adequacy of banks' testing programs and their contingency planning efforts. As we learn more, we will continue to intensify and refine the focus of our Year 2000 supervisory efforts.

We are also involved in a number of Year 2000 supervisory and industry initiatives that may be of interest to you. These include:

- *Outreach and Training Programs:* The FFIEC is currently working with the 50 state bank trade groups to set up bank seminars that will focus on Year 2000 issues and regulatory concerns. The OCC will actively participate in these seminars.

In addition, we are planning a number of outreach and training programs designed to

¹ OCC's policy on "Year 2000 and System Integration Considerations in Corporate Application Decisions." OCC Advisory Letter 98-1, issued January 16, 1998, applies to de novo charters, conversions, business combinations, certain operating subsidiaries that are heavily reliant upon technology, and establishment of federal branches and agencies.

bring national banks together in a dialogue regarding Year 2000 challenges. We are scheduling a series of two- to four-hour outreach meetings throughout the country. The first of these programs were conducted in Montgomery and Birmingham, Alabama, on May 27 and 28, 1998. These programs give bankers an opportunity to share their concerns, discuss best practices, and identify areas where they need additional guidance. They also provide the OCC with an opportunity to identify common industry concerns.

In addition to these outreach sessions, the OCC will participate in a number of banker conferences. For example, the Bank Administration Institute, with FFIEC sponsorship, is planning to conduct three vendor conferences in June, one each in Dallas, Atlanta, and Chicago. Invitation letters for these conferences will be issued soon.

- *Contingency Planning:* If you have not received it already, you will soon receive the most recent FFIEC Year 2000 guidance regarding contingency planning issued on May 13, 1998. This guidance distinguishes between "Remediation Contingency Planning" and "Business Resumption Contingency Planning." Remediation contingency planning, discussed in more detail in previous FFIEC guidance, is a bank's plan to mitigate the risks associated with a failure to successfully complete renovation, validation, or implementation of its mission-critical systems. Business resumption contingency planning is a bank's plan to address the possibility of the failure of its systems at critical dates in the future. The guidance clarifies the FFIEC's expectations regarding these types of contingency plans. Pursuant to this guidance, the OCC expects national banks to complete the first phases of the business resumption contingency planning process by September 30, 1998, and the remaining phases by December 31, 1998.
- *Customer Awareness:* You also will receive FFIEC Year 2000 guidance on customer awareness, which was issued on May 13, 1998. This guidance clarifies all the agencies' expectations that banks and savings associations provide forthright and honest responses to questions and concerns raised by their customers. The OCC expects each national bank to develop a proactive customer awareness program by September 30, 1998, that includes appropriate communications channels to effectively respond to customer inquiries. As part of each Year 2000 examination, OCC examiners will review the adequacy of each bank's Customer Awareness Program.
- *Servicer and Vendor Exams:* The OCC and the other bank regulatory agencies are distributing examination findings on multi-regional data processing servicers (MDPS), consenting software vendors, and independent data processing servicers (independent data centers -- IDCs) to the banking clients of those firms. The first round of examinations of these servicers and vendors should be completed by June 30, 1998, and distribution of reports reflecting the exam results will be completed shortly thereafter. OCC examiners also are updating information on servicers and vendors that provide services or software to national banks so that we can cross-check and properly identify all the servicers and vendors banks are using. The OCC will list on its Web page the names of servicers and consenting vendors examined so that a bank that is a customer can check the Web page to determine whether it should expect a report. Any bank that has not received a copy of its servicer or vendor's report by August 15, 1998, should check with its examiner in charge or Assistant Deputy Comptroller with supervisory responsibility for the bank.

- *Presidential Council:* The OCC is a member of the President's Council on Year 2000 Conversion. This council monitors the progress federal government agencies have made in preparing their own mission-critical systems for Year 2000 readiness. In addition, the council is encouraging the agencies to expand their Year 2000 outreach efforts to those in the private sector, state, local, and tribal governments, and leaders in other countries. The council will serve as a catalyst, using existing organizational structures and resources, to create an ongoing dialogue on Year 2000 implications in specific sectors of the economy, such as financial institutions, telecommunications and energy.
- *International Efforts.* The OCC monitors Year 2000 risks posed by the international financial system through our examinations of internationally active national banks and foreign branches and agencies, as well as our coordination with foreign bank supervisors. We are also engaged in a number of multilateral coordination efforts involving bank supervisors and financial institutions, such as the Basle Committee, the Joint Year 2000 Council, and the Global 2000 Coordinating Group.² The OCC will use information gathered through these various sources to identify problems and work toward solutions that will serve to minimize any adverse effects on U.S. banks.
- *OCC Web Site.* The OCC recently updated the Year 2000 page on its Web site (<http://www.occ.treas.gov/y2k/default.htm>). It includes information on the status of the OCC's internal compliance program, the full text of all OCC Year 2000 Advisory Letters, OCC Congressional Testimony and Reports, and a selection of links to useful information contained in other Web sites. The page also provides information about the Year 2000 readiness of OCC-developed software and information on where to obtain Year 2000 compliance data for non-OCC developed software.³

Request for Completion of a Bank Self-Assessment Survey by June 30, 1998

We expect each national bank to actively and aggressively address its Year 2000 readiness on an ongoing basis. To assist in that effort, we have devised a self-assessment tool called "Year 2000 Banker Self-Assessment" (Attachment A), which will help you assess your bank's Year 2000 readiness. This tool, developed with the assistance of the Gartner Group, a well-known Year 2000 consulting firm, is based on the "GAO Assessment Guide," and primarily focuses on the remediation of bank systems.

This self assessment will be a companion to the surveys completed by OCC's examiners as part of OCC's quarterly assessment process. We ask that you have your staff complete the self

² The Global 2000 Coordinating Group includes representatives from financial services firms that are located in and operate across multiple markets (including banking, securities, and insurance markets) and jurisdictions. The Group will focus on the Year 2000 readiness of trading, settlement, and payment systems and will coordinate testing schedules in key markets. The Joint Year 2000 Council is a parallel group of regulatory authorities comprised of the conference's sponsoring organizations. It will share information on regulatory and supervisory strategies, discuss possible contingency measures, and establish contacts with national and international private sector initiatives.

³ Much of this information is also available on the OCC Information Line, an automated fax-back service. To use the Information Line, dial (202) 479-0141 from a touch-tone telephone or a telephone attached to a fax machine. Follow the system prompts to obtain a copy of the index and select the documents you wish to receive.

assessment by June 30, 1998. Your examiner in charge or portfolio manager will contact you during the third quarter of this year to discuss the self assessment, answer any questions, and collect the completed form. Your responses and those of other national banks will assist the OCC in determining industry readiness for the Year 2000 and will help us determine what steps we should take to increase the efforts of those banks that have fallen behind. The OCC will combine the results of your self-assessment surveys with our examiners' surveys to produce information that we hope will help you compare your efforts against some industry "best practices."

Conclusion

As we work together to address our common Year 2000 challenges, I intend to provide periodic reports such as this one in order to summarize our progress to date, address problems that we are finding, identify new issues that emerge, and share helpful information. I would appreciate your letting me know, through the Assistant Deputy Comptroller with supervisory responsibility for your bank or, for banks in the large bank program, through your examiner in charge, what information you find most useful and whether there are any other Year 2000 issues you would like to see addressed.

Sincerely,

Julie L. Williams
Acting Comptroller of the Currency

Attachments:

[Attachment A - Year 2000 Banker Self Assessment](#)

[Attachment B - Summary List of Guidance Issued](#)

[Attachment C - Examiner Guidelines Used in Performing Year 2000 Examinations](#)