



- The completion dates for renovation, testing, and implementation of the new system.

NCUA recognizes that there are circumstances that may warrant system conversions in 1999. In general, NCUA does not prohibit credit unions from changing systems, adding new features, or installing upgrades<sup>5</sup> prior to Year 2000. However, there may be extenuating circumstances in a particular credit union which may adversely impact its safety and soundness if the credit union proceeds with a change to one or more of its systems. In such circumstances, NCUA would not approve of those changes and expects its examiners to address those issues on a case-by-case basis.

All critical-system conversions must meet NCUA's milestone dates and be made in accordance with NCUA Year 2000 guidances (such as testing requirements). **If credit union management elects to convert a critical system during 1999 and cannot meet one or more of NCUA's milestone dates, they must contact their examiner and/or NCUA Regional Office (State Supervisory Authority if a state-chartered credit union) to seek a waiver of administrative action.** NCUA will consider approval of the waiver based upon the individual circumstances of the credit union, including (but not limited to), the ability of management to handle the conversion, the credit union's conversion plans and contingency plans, and the new vendor's conversion experience in regard to the credit union's current system.

NCUA expects credit unions to comply with the Examination Parity And Year 2000 Readiness For Financial Institutions Act and notify NCUA<sup>6</sup> if they plan a system conversion (critical and non-critical). NCUA expects each credit union to develop and test its contingency plans to ensure that the conversion does not negatively affect the ability of the credit union to process its transactions and meet member needs. For conversions initiated after September 30, 1999 (NCUA's full implementation milestone date), NCUA expects credit unions to run Y2K-ready parallel systems (old and new systems) until they determine and document that their new systems are Y2K ready and provide correct data and information. The Appendix contains a further discussion concerning milestone dates, guidelines, and expectations.

If you have any questions, please contact your examiner, NCUA regional office, or State Supervisory Authority, in the case of state chartered credit unions.

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Norman E. D'Amours  
Chairman, NCUA Board

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<sup>5</sup> See the Appendix for a specific discussion concerning upgrades to existing systems.

<sup>6</sup> Notify the NCUA of the existence of the service relationship not later than 30 days after the earlier of: (a) the date on which the contract is entered into; or (b) the date on which the performance of the service is initiated.

## Appendix

NCUA expected credit unions to have their critical systems fully renovated by January 31, 1999. NCUA's Y2K Contingency Plan establishes the following remaining milestone dates for systems credit unions deem critical:

June 30, 1999	Final system testing for Y2K compliance completed.
July 31, 1999	Implementation of Y2K compliant systems substantially completed.
September 30, 1999	Critical Y2K compliant systems in full use.

A credit union that does not meet these milestone dates is subject to an administrative action by NCUA or State Supervisory Authority unless the credit union receives a waiver to extend administrative action to a later date. With approved waiver extensions, NCUA expects each credit union to have its critical Y2K compliant systems in full use by September 30, 1999. In general, NCUA has taken the position that it will not grant an extension of the September 30, 1999 milestone date.

Conversions initiated during the first and second quarters of 1999, must meet the above milestone dates. NCUA expects the new system to be fully tested by June 30, 1999, and substantially implemented by July 31, 1999. NCUA will not grant an extension of the September 30, 1999, final implementation milestone date unless extenuating circumstances exist. **Credit unions planning a conversion should contact their state or federal examiner, as applicable, to discuss the necessity of obtaining a waiver and extension.**

If a credit union's system conversion can not meet one of the above milestone dates, or is initiated between the third quarter of 1999 and first quarter of 2000<sup>1</sup> (September 1, 1999 through March 31, 2000), NCUA expects the credit union to do the following:

1. Test its current system(s) for Y2K compliance and meet the above milestone dates including the September 30, 1999, final implementation date.
2. Request an extension of the above milestone dates, except for the September 30, 1999, final implementation date regarding its current system(s), if needed.
3. Operate its current Y2K compliant system(s) until the credit union completes the conversion to the new system(s) and tests the new system(s) for Y2K compliance (including interfacing systems) and data accuracy.
4. Provide timely training for the credit union's staff in operating the new system(s).
5. Notify the Regional Director of its conversion plans in a timely manner and prior to the conversion.

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<sup>1</sup> Systems implemented in the Year 2000 must still be able to process across the rollover (19xx to 20xx and 20xx to 19xx) to allow for past date accounting adjustments and must be able to correctly process for the leap year (February 29, 2000).

Credit unions are required to keep their current Y2K ready system(s) on line until they fully test the upgraded system(s) and determine it to be Y2K ready. The availability of vendor testing results and any user group's testing results related to conversions by other credit unions will be helpful in making a determination of a credit union's Y2K waiver and extension request.

If extenuating circumstances exist and the previous criteria cannot be met, the credit union must immediately request an extension of the milestone dates from its NCUA Regional Director or State Regulator, as applicable, for its current system. NCUA's decision will be made based on the:

- reasons for the request;
- credit union's conversion and contingency plans;
- vendor's experience in converting its credit union clients from the credit union's current system(s) to the new system(s);
- plans for training the credit union's staff;
- credit union's testing plans (including interfacing systems);
- timetable for implementing a fully Y2K compliant system prior to December 31, 1999; and
- methodology for ensuring the new system is Y2K ready and provides correct data and information (see Running Parallel Systems below).

Again, if unusual circumstances exist, the credit union must immediately notify its NCUA Regional Director or State Regulator, as applicable, of the need for an extension approval before it proceeds with a conversion.

### **Running Parallel Systems To Ensure Data Accuracy**

As previously stated, for conversions initiated after September 30, 1999, NCUA expects credit unions to run Y2K-ready parallel systems until they determine and document that their new systems are Y2K ready and provide correct data and information. Two acceptable methodologies for meeting this requirement are:

1. Run both systems (old and new) concurrently (real-time environment). Each transaction entered into the old system will also be entered into the new system. Any discrepancy between the old and new systems must be reconciled. The period of concurrent processing should be of sufficient length, and encompass sufficient types of transactions, in order for the credit union to conclude and document that the new system is Y2K ready and provides correct data and information. NCUA recommends that the credit union include at least one dividend period in the test period.
2. Bring the new system up to a point in time (i.e. start date, such as a month end or quarter end) prior to the current date. Enter the transactions that occurred since the "start date" to a predetermined "end date". Any discrepancy between the old and new systems must be reconciled. The period between the start and end dates (test period) should be of sufficient length, and encompass sufficient types of transactions, in order for the credit union to conclude and document that the new

system is Y2K ready and provides correct data and information (sufficiency test). NCUA recommends that the credit union include at least one dividend period in the test period. The test period may be any period the credit union elects provided it meets the sufficiency test previously described.

*To further illustrate (as an example only), assume a current date of May 3, 1999, a start date of January 31, 1999 and an end date of March 31, 1999. The credit union would enter, into the new system, the transactions which occurred during February and March bringing the new system up to March 31, 1999. The credit union would generate its month-end and quarter-end reports from the new system, including financial statements and delinquency reports, for March 31, 1999. The credit union would compare the reports and accounts balances between the old and new systems as of March 31, 1999.*

There may be other methodologies which NCUA may accept. If a credit union elects to use a different methodology than described above, it must provide a detailed written plan and description of that methodology, prior to the conversion, to its NCUA Regional Office or State Supervisory Authority (for state-chartered credit unions).

### **Upgrades to Existing Systems**

It is not uncommon for credit unions to receive annual upgrades to their systems (such as IRS updates). To determine the applicability of this Letter to Credit Unions, a credit union must determine if the upgrade is, or affects, a mission-critical system and has a Year 2000 impact. If the upgrade is not, or does not affect, a mission-critical system, or does not have a Year 2000 impact, then NCUA expects the credit union to document that determination (obtain and review a system-impact analysis<sup>2</sup> from the vendor or user group; or, conduct its own impact analysis). If the upgrade is, or affects, a mission-critical system and has a Year 2000 impact, then the milestone dates, conditions, and expectations in this letter, its appendix, and previous Year 2000 guidances apply.

### **Pre-Existing Conversion Contracts**

This letter and appendix applies to all system conversions (see the exception in the Execution of Contingency Plans section below), including those which a credit union may have contracted for prior to the issuance of this letter. If a credit union has a concern with an existing contract, it should consult with its legal counsel.

NCUA has issued at least 22 Letters to Credit Unions since August 1996 providing Year 2000 guidance. NCUA Letter #97-FCU-2 (February 1997) states, in part:

NCUA expects credit unions to exercise caution when entering into, or extending, any contract beyond the year 2000 for systems which may be impacted by the Year 2000 problem. Examples of these systems include electronic data processing systems, computer hardware, automated teller machines, security systems, etc. NCUA is

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<sup>2</sup> Nature of the upgrade; systems, modules, and/or components impacted; nature of any Year 2000 implications or considerations.

concerned that legal issues may arise from the lack of specificity in contract terms dealing with Year 2000 commitments and responsibilities. Credit unions should ensure that current and future purchases require Year 2000 compliance.

NCUA Letter #98-CU-4 (April 1998) provides the Year 2000 milestone dates NCUA expects credit unions to meet. The letter also delineates the administrative actions NCUA would consider if a credit union failed to meet one or more of those dates. NCUA Letter #98-CU-13 (July 1998) delineates NCUA 's expectations regarding testing as well as system changes and upgrades prior to Year 2000. Due to inquiries from credit unions and vendors, NCUA is providing this letter to supplement its previous guidances. NCUA expects all conversions to meet these Year 2000 guidances.

### **Execution of Contingency Plans**

In the event that a credit union must execute a conversion contingency plan due to a Y2K failure or problem for one or more systems, this Letter to Credit Unions does not apply for that conversion. NCUA recognizes that contingency plans trigger dates may not require early enough execution in order to meet NCUA milestone dates. NCUA's Letter to Credit Unions 97-CU-12 states:

As with other system implementation efforts that are date reliant, Year 2000 implementation efforts should include a contingency plan in case progress of the primary repair plan is impeded. A contingency plan provides an alternative path to follow to ensure that there is something in place at the time that the system is needed. The repair plan should define a specific point in time at which progress is measured to determine if the contingency plan should be activated. This trigger must allow sufficient time for the implementation of the contingency plan to be completed before December 31, 1999.

The letter also states:

Knowing when to revert to Plan B will be key as your timing could affect whether your credit union is in compliance in sufficient time to ensure adequate Year 2000 processing. The following timeline may help you to determine the amount of time you have available and when your Plan B should be put into effect.

Time is of the essence. And remember, you have achieved **Year 2000 compliance when all of your critical systems have been either renovated or replaced and are able to process both 20<sup>th</sup> and 21<sup>st</sup> century transactions.** To evaluate whether your efforts, both past and present, are in line with NCUA's guidelines, review the following critical dates around which all of your Year 2000 activities should be centered:

**September 30, 1997** - Credit unions should have completed the awareness and assessment phases of their Year 2000 plan.

**December 31, 1998** - Credit unions' critical systems, at a minimum, must be renovated or replaced and tested for Year 2000 compliance.

**September 30, 1999** - Credit unions must have implemented all new or enhanced systems necessary to process data for Year 2000.

**December 31, 1999** - All critical systems must be operational.

Accordingly, a credit union must ensure that trigger dates for its conversion contingency plans require execution in sufficient time for the credit union to meet the September 30, 1999 milestone and December 31, 1999 deadline dates. If a credit union cannot meet the September and/or December milestone date, it must contact its examiner, NCUA Regional Office, and/or State Supervisory Authority (for state-chartered credit unions) to determine whether a waiver of administrative action is needed and warranted.