

Basle Committee
on
Banking Supervision

Supervisory Cooperation on Year 2000 Cross-Border Issues

For some time, the Year 2000 issue has been perceived as a predominantly domestic issue rather than a cross-border one. Many people have taken the view that if every jurisdiction were to make adequate preparations with respect to its own infrastructure and institutions, the risk of serious disruptions would be significantly reduced, if not eliminated.

Therefore, while putting emphasis on the need for internal and external testing and paying increased attention to infrastructure (telecommunications, power, etc.), supervisors have focused primarily on their domestic markets in initial reviews of Year 2000 programmes.

During the last months, it has become obvious that global implications and cross-border aspects of the Year 2000 issue merit increased attention. Cross-border coordination will likely be more challenging for supervisory authorities, as special issues may arise when the systems involved are in different jurisdictions.

When addressing Year 2000 cross-border issues, bank supervisors have to consider:

- foreign activities of domestic banks, including the readiness of foreign markets and infrastructures, and
- domestic activities of foreign banks, including the quality of head office preparedness and the readiness of the local branch or subsidiary to conduct business, typically within the domestic market.

As a general rule, the Year 2000 compliance of a bank's information systems is probably best evaluated by the supervisors in whose jurisdiction the systems are located or managed. But this is not a principle easily applied since corporate structures and Year 2000 programs vary considerably and technology permits processing to occur almost anywhere without regard to national boundaries. In practice, cross-border banking establishments have many information systems, some of which are physically located in the host country, some centralised in the home country, and some located in third countries. Additionally, the

management of these systems as well as programmes to address Year 2000 problems are likely to present very different degrees of decentralisation. Consequently, supervisory responsibilities will necessarily vary across countries and groups.

Some Basic Recommendations for Year 2000 Oversight

The Basle Committee believes that the following five recommendations provide a sound basis from which supervisors can address Year 2000 cross-border issues. The recommendations are consistent with previous Basle Committee documents that deal with cross-border supervisory issues¹, in particular the sharing of tasks between home and host country supervisors, although, because of the special nature of the Year 2000 issue, a considerable degree of flexibility may be appropriate in applying the recommendations.

1. As a general rule, the home country supervisors have organisation-wide supervisory oversight responsibility for the consolidated Year 2000 programme. The home country supervisor should be prepared to share information with other supervisors on its oversight programme and be prepared to cooperate with host supervisors on issues related to the progress of organisations operating in the host markets.
2. The focus of the host country supervisor is limited to the readiness of local operations. This includes assessing local preparedness and sharing any possible concern or deficiency of information with the home country supervisor. Local management should be able to provide appropriate information² on the status of any systems upon which it depends, including those supported by the head office or other affiliates. If considered useful, the host country supervisor should advise the home country supervisor on the extent and status of implementation of the local part of the Year 2000 programme.
3. Due to diversified corporate structures and the resulting differences in supervisory responsibilities, situations must be addressed on a case-by-case basis in order to avoid

¹ *Principles for the supervision of banks' foreign establishments* (The Concordat). May 1983.

Minimum standards for the supervision of international banking groups and their cross-border establishments. July 1992.

The supervision of cross-border banking. October 1996.

The core principles for effective banking supervision. September 1997.

² In many cases, local managers may be able to provide information orally to avoid the need for translating documents prepared by the head office.

unnecessary (and burdensome) overlaps as well as material underlaps. Therefore, there is no need to establish an automatic and continuous information-sharing arrangement among supervisors. It is recommended instead that timely communication of supervisory assessments and significant developments take place.

4. Financial institutions have full responsibility for ensuring Year 2000 readiness, through:

- developing a strategic approach,
- creating organisational awareness,
- assessing actions and developing detailed plans,
- renovating systems, applications and equipment,
- validating the renovation through testing,
- implementing tested, compliant systems, and
- developing appropriate contingency plans.

The financial institutions are responsible for providing all relevant information to home and host country supervisors. They are also expected to disclose to counterparts and markets sufficient information in a timely manner to permit an accurate assessment of the actions taken and potential, residual risks.

5. Supervisors worldwide should be ready to respond to questions on their overall market and infrastructure readiness³ and help domestic and foreign banks operating in their markets to respond to these same questions.

The Contact List

To apply the above-mentioned recommendations and to address possible future disruptions or failures, bank supervisors need to be able to contact their foreign counterparts responsible for monitoring Year 2000 programmes. Therefore, the Basle Committee has developed a contact list which has been provided to bank supervisors as well as supervisors of other financial market participants worldwide.

In the coming months, the Committee will update the list periodically.

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³ Because of the critical dependencies that banks often have on telecommunications and electrical power, bank supervisors may want to consider working closely with other governmental groups, where appropriate.