

**Gathering Year 2000 Information from
Financial Institutions:
Recommendations for Supervisors**

Basel Committee on Banking Supervision

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Overview

This document recommends an approach for supervisors to use in gathering reliable information from their financial institutions in a timely and efficient fashion during the Year 2000 rollover period. The successful implementation of this approach requires that it be properly planned and tested before the Year 2000 event takes place.

Supervisors will need to be well informed during the rollover period to identify internal and external problems that could disrupt financial institutions and markets and to dispel misinformation. There will also be heavy demand for information on progress not only from other supervisors and national coordinators but also from customers and counterparties of financial institutions, and from the general public. Gathering and disseminating accurate information on the Year 2000 rollover in a timely manner will therefore be a priority for banks and their supervisors.

The approach put forward recognises that clear expectations for information flows between the private and public sector are essential for efficient communications. Although needs will vary among the various parties and as specific situations unfold, advance agreement on a minimal set of very basic information will avoid redundant, inefficient communication links and information gathering. For stand-alone entities or head offices there may well be a need for more detailed and intensive reporting arrangement, though these would not be mandatory. For globally active institutions, reporting can be minimised if normal relationships are maintained between the local supervisors and institutions they regulate. When any material problem is identified, more detailed information specific to the particular circumstances can be sought.

This approach is flexible. It does not suggest a standard form for the financial institution to complete. While some supervisors may not want to use a form, others will.

Recommendations for Supervisors

1. Reporting Efficiency

Obtaining information efficiently requires a careful balancing of the need for information and the burden for developing and collecting the information. A paper being released simultaneously with this one develops guidance for supervisory information sharing¹. This

¹ *Year 2000 Cross-Border Communications between Supervisors during the Millennium Period.*

paper suggests four basic principles for communication strategies during the Year 2000 rollover period. These principles are:

- Keep communications as simple as possible.
- Focus on material issues.
- Leverage off existing information flows, existing groups, and work being done by others to develop communication links².
- Define communication responsibilities in advance.

These same principles apply in developing strategies for collecting information from financial institutions. The attached annex extends these principles more specifically to such information-gathering.

2. Exception Reporting

The primary need for supervisors will be exception reporting³ of problems encountered by financial institutions. Supervisors should therefore take steps to ensure that Year 2000 problems which pose material risks⁴ for the normal conduct of business and prudential health are identified and reported to supervisors as soon as they are identified.

3. Status Reports

Most supervisors will want to consider instituting some type of supplemental information-gathering on whether the financial institutions and the supporting infrastructure are ready for business and are expected to operate normally. In collecting supplemental information, supervisors need to recognise that information gathering processes can divert scarce resources from the first priority of financial institutions, which will be to identify and fix any problems that may arise.

² This paper should be read in concert with the work that the Joint Year 2000 Council and the Global 2000 Co-ordinating Group are currently doing on information sharing. It is the intent of this note that it complements the work of these groups.

³ Problems are encountered every day in the normal course of business. For Year 2000 purposes, it may be useful to distinguish this normal level of problems from Year 2000 ones by considering a scale of potential disruptions: 1) operating normally, 2) some partial or intermittent disruptions, 3) significant disruptions, and 4) unable to operate.

⁴ Materiality is always a difficult concept to define, especially when related to operational events or issues and for different organisations and circumstances. Examples of Year 2000 events that may be regarded as material are: a shutdown of significant business, production, or product delivery operations; significant interruption of internal risk management or information processes; considerable revenue loss or the probability of a significant litigation expense; and significant reputational risk.

4. Information Gathering Methods

Information from financial institutions may be gathered in a variety of ways. Under normal circumstances, supervisors collect information using a combination of structured reports, on site reviews, and telephone inquiries. Each approach has its advantages and limitations. For information with a short time life, structured reports often are more difficult to compile but easier to analyse, while less structured approaches simplify the information-gathering process but often make the analysis more difficult. The relative burden and benefit of the alternative approaches for information gathering to both the reporting institution and the supervisor should be considered.⁵ Whatever method is used, supervisors need to be confident that the information received is accurate and reliable.

5. Basic Information

However gathered, status information should be kept as simple as possible and focus on five basic questions:

- Is the Year 2000 rollover proceeding satisfactorily to allow the *normal conduct of business*?⁶
- Are there *material internal problems* affecting the core businesses?
- Are there *external issues* affecting the ability to do business?
- If there are problems encountered, is the core business nonetheless able to keep functioning by making *use of business contingency plans*?
- Are there *other factors* such as market conditions or rumours materially affecting the business?

If the answers to these questions indicate no difficulties, the inquiry can effectively end in most instances.⁷ If any of these answers elicits supervisory concerns, further inquiries are appropriate to obtain more detailed information on the business lines/entities affected, the contingency and problem resolution measures being put in place or considered, and the expected duration of the problem.

⁵ Supervisory personnel often complete structured reports using information gathered through less structured contacts. Where accountability is sought, a more structured approach to reporting may be appropriate including sign-offs by senior officials – providing such sign-offs do not risk impeding both the timeliness and/or the candour of the information provided.

⁶ Note that Year 2000 problems encountered as a result of testing over the event weekend may be capable of being fixed without any adverse effect on normal business activity on the first business day.

⁷ Stopping the information gathering process at this point applies equally to both structured reports and to less structured forms of communication.

6. Timing

Supervisors need to recognise that information needs will change during the rollover period and design the timing of their information gathering activities accordingly. In general, there are three basic time periods:

- *The period immediately after the date change*, up until the normal opening of business on the first business day. During this period information needs will focus on testing of systems to assure readiness for the normal opening of business and issues with the infrastructure or other external dependencies⁸.
- *The first business day*. During this period the focus will be on whether systems are operating normally and whether any unusual market behaviours are being noted.
- *From the close of the first business day*, including the successful completion of overnight processing. If problems are encountered, the duration of this third period may be extended to ensure that all problems are resolved.

Exception reporting for material matters will be necessary throughout all three periods. Status information should be gathered at frequencies at the supervisors' discretion. In order to monitor market conditions, the greatest need for information may occur on the first business day. Different criteria may be appropriate for status information from large and small financial institutions depending on their potential systemic impact.

⁸ Information needs will also focus on 24-hour retail business such as ATM/POS performance.

Y2K Rollover

Principles for Supervisory Information Gathering

Application by supervisors of the following principles will help ensure that the collection and use of information by supervisors is as efficient as possible from the point of view of both supervisors and supervised institutions. This in turn will help both to concentrate on achieving adequate business continuity over the event period without having to commit disproportionate resources to information gathering and management. Although the principles have been developed by bank supervisors, the Basel Committee considers that they have general relevance to reporting by securities and insurance market participants and potentially other market participants.

In all cases, it is key to keep in mind the following principles and to attempt to limit the flow of information to only what is absolutely necessary or essential to address the supervisory issues that may surface.

1. Information demands should be *prioritised* according to impact, risk and materiality.
2. The *timing and content* of supervisors' information demands should not risk distorting firms' own event management timetables.
3. Supervisors should be interested primarily in *readiness for opening*. They should not seek to track in detail firms' progress.
4. Supervisors' principal requirement should be for *prompt and open notification* (through exception reporting) by financial institutions of material problems either in progress towards readiness for business or in live operation (and a rapid indication of the possible impact and duration of the problem).
5. Supervisors may require larger institutions to provide not only exception reports but *status reports at specified times*; in so doing they should give full weight to institutions' need to focus on their rollover tasks in a timely manner.
6. Supervisors should so far as possible *limit requests* for detailed information to *exceptions*, and then only so far as necessary to assess and act on the implications of the exception.
7. In considering *materiality*, and in monitoring progress over the event period, supervisors should take into account that firms typically have New Year bugs, every year; that, in the course of preparing for opening for business, firms may well run into minor Year 2000 bugs which they are well able to fix in good time; and that firms may experience some slippage in their own event timetables without threatening failure to achieve readiness in good time for opening for business.

In providing information on the macro status of the financial sector or the country more generally, care must be taken to provide information in a timely manner and in a balanced way to avoid over-reaction. This is especially true because some problems will almost certainly occur - a blanket "everything is fine" statement will often lack credibility if there are

even a few known problems in relatively unimportant areas. Similarly, the failure to provide any information may well be interpreted in a way that will magnify any problem and add credibility to any rumours that may develop.