

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

**Basel Committee on Banking Supervision**

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

Today's global financial markets require cooperation and close coordination among bank supervisors both within countries and across borders. Such coordination will be especially important in the remaining months of 1999 and early 2000 as banking organisations and markets deal with the Year 2000 challenge.

Unlike most challenges faced by bank supervisors, the Year 2000 is a known and time-certain event. Although excellent work is being done to avoid serious problems, almost everyone recognises that some problems will develop. Prudent contingency planning suggests that designing and testing channels for communicating information on Year 2000 matters can be beneficial in many ways. In particular, it can: (i) promote the public confidence necessary for stable markets; (ii) lead to greater efficiencies and more accurate information during the period of the date change; and (iii) provide for more efficient resolution of any problems that may develop.

This note outlines an approach that bank supervisors<sup>1</sup> may want to consider as they develop their national and cross-border Year 2000 event management and communication strategies. Four principles are central to the suggested approach:

- **Keep communications as simple as possible.**

The demand for information before, during, and immediately after the date change will be tremendous. Although needs may vary among the various parties and the specific situations that unfold, advance agreement on a minimal set of very basic information that will be needed to identify problem areas will avoid redundant, inefficient communication links. Once an issue is identified, more detailed information can be sought specific to the particular circumstances.

- **Focus on material issues.**

Examples of what might be designated by supervisors as material events include:

- A shutdown of business, production, or product delivery operations
- Significant interruption of internal risk management or information processes

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<sup>1</sup> Recognition is given to the fact that bank supervisors need to coordinate their communication strategies with insurance and securities supervisors, taking into account the multi-regulatory environment that many major cross-border financial institutions operate in. In addition, these strategies will need to be shared with central banks and operators of payment systems having a direct impact on banking operations.

- Considerable revenue loss or the probability of a significant litigation expense
- Significant reputational risk
- **Leverage off existing information flows, existing groups, and work being done by others to develop communication links.**

Existing groups like the Basel Committee on Banking Supervision, the Executive Meeting of East Asia and Pacific Working Group on Banking Supervision, and the Association of Supervisors of Banks of the Americas and their various working groups have a long history of working cooperatively on difficult cross-border issues.<sup>2</sup> Using groups such as these to communicate on Year 2000 issues provides a level of trust that helps ensure that information will move efficiently and accurately. Where new channels of communication are deemed necessary for Year 2000, these channels need to be identified well in advance and procedures for communication developed to instil quality control on information being provided.

- **Define communication responsibilities in advance.**

The date certain nature of Year 2000 offers a unique opportunity to plan for a more structured and efficient way to handle communications on all levels. What type of information will be needed and when it should be provided can be defined in advance. Who provides the information and to whom it is provided can also be agreed upon. Additionally, the process for communicating the information in a timely and efficient way can be developed cooperatively. By addressing the information needs, the parties having access, and the processes for sharing information in advance, sharing of critical Year 2000 information during the event rollover period can be greatly enhanced.

### **Gathering Information**

Information sharing protocols of a general or conceptual nature are useful to facilitate initial discussion of cross-border arrangements. However, one of the first responsibilities of any group developing plans to communicate on Year 2000 issues must be to define the specific flows, the content<sup>3</sup> of the flows and the party responsible for each aspect of the flow. This needs to be done as soon as possible and well before the end of the year.

The suggested approach for effective cross-border communications for the bank supervisors has several key components:

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<sup>2</sup> Regional groups of bank supervisors provide yet another level of trusted parties with a history of working together on issues of mutual interest. Additionally, 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 all of these groups.

<sup>3</sup> In many cases, as discussed below, the definition of "content" will be more conceptual in nature rather than a list of specific items because the specific information needs will be shaped by the nature of issues as they are encountered.

- I. It identifies protocols for communications and issue resolution that escalate issues in a predetermined fashion.
- II. It builds on existing principles for cross-border communication and cooperation. The paradox of needing to disseminate information widely and the general reluctance to share information of a negative nature is addressed.
- III. It discusses the process that needs to be established over the remaining months of 1999 to ensure that cross-border communications can occur effectively.

## **I. A Hierarchy for Communication and Issue Resolution<sup>4</sup>**

### **Bilateral Communications**

If problems arise concerning an individual bank or banking groups, it is very probable that the supervisors will only wish to discuss them in detail with trusted partners who are directly affected. Such bilateral issue resolution will be in many ways “business as usual” activities. Accurate identification of normal bilateral contact points -- that is specific information on how trusted contacts can be reached around the date change -- will be essential. In many cases, supervisors are setting up Year 2000 event management communication centres where a variety of people will collect, often on a 24-hour basis, information from different institutions and markets. If this approach is used, special efforts need to be made to ensure that the experts on specific issues will be talking to each other. Since it is likely that in bilateral contacts confidential information will be shared, it is recommended that, before the end of the year, opportunities be sought to test communications channels, get to know each other and develop mutual trust. Without such contact, the level of information exchange is likely to be hampered. In addition, key decision-makers should be available at all times and reachable through contact points, which may become facilitators for bilateral conversations conducted at higher levels.

While contact lists may be developed and shared within existing or newly formed groups, individuals on the lists may want to contact each other bilaterally no later than in early December to develop personal protocols for dealing with each other.<sup>5</sup> Such contacts can also be helpful in agreeing in advance on how certain types of information will be shared between organisations. While it is expected that most bilateral communication will occur on an exception basis, the possibility of scheduling specific conversations during the period between supervisors that have mutual areas of common interest might be considered.

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<sup>4</sup> In order to facilitate communications between the private and public sector as well as within the public sector, a common terminology as developed by the Global 2000 Co-ordinating Group is used. While the specific needs of each for cross-border communication will differ, the logic of escalating communications in the way suggested seems to be equally applicable.

<sup>5</sup> One approach being considered by many organisations is a central contact point and call-back procedure. While the contact point is publicly available, the call-back is between two parties that have been identified in advance as appropriate bilateral contacts. If something like this approach is used, it may mean that individual contact lists are agreed upon bilaterally and not published more generally.

In a few cases it may be appropriate to pre-schedule bilateral general status conversations between supervisors who share mutual information needs and require positive confirmations of Year 2000 readiness to permit general feedback to the markets. Typically, these conversations would focus on the largest institutions and be timed after local status updates have been conducted.

### **Multilateral Communications**

Multilateral communications will likely occur between organisations that are already networked on a bilateral basis. Effective communication on Year 2000 issues at this level requires consideration of two factors: efficiency and openness of discussion. To address the efficiency issue, specific opportunities for multilateral communication can be established in advance for the event period in order to avoid having to make such arrangements on an *ad hoc* basis.

Exactly who will participate, when (and how) the communication will occur, and the expected content of the communication need to be established in advance. The larger the group, the less likely that sensitive issues will be raised. Leveraging off existing groups of people that routinely work together may be the most effective way to conduct such communications. In many instances, pre-arranged multilateral communications may be limited to situations where a supervisor provides macro views of current status while avoiding any mention of individual organisations.

The Joint Year 2000 Council Secretariat plans to help facilitate and support cross-border exchanges of information among key financial market authorities during the transition period by setting up an information-sharing platform which would provide various services. The central services include maintaining up-to-date contact lists, collecting and disseminating information on the operational status of core infrastructure components, enabling financial market authorities to announce emerging developments and facilitating the organisation of conference calls.

## **II. Information Sharing Mechanisms**

Existing supervisory groups will rarely be constituted in a way that can address and resolve a particular issue most effectively. Instead, an *ad hoc* group drawn from one or more of the existing groups with multilateral communication structures and strong internal bilateral relationships will likely become the "working level" to address issues. Again, good information on how key people can be reached during the period is essential. *Ad hoc* groups formed to address specific issues may also want to take advantage of pre-established multilateral communication opportunities to report on the status of their issue resolution.

Bank supervisors need to ensure in advance that there is agreement about their respective roles and responsibilities in a cross-border context, both for information sharing and for decision-making. Over the years, the Basel Committee and other regional bank supervisory

groups have developed a structure for sharing of information on globally active organisations based on the concept of home and host country responsibilities and the need to protect confidential information. In June 1998, the Basel Committee issued specific guidance on sharing Year 2000 information.<sup>6</sup> To assist in the information sharing mechanisms, the Basel Committee will be requesting supervisors to provide updated information on the contact list issued with the June 1998 guidance. While that guidance focused on the tracking of Year 2000 preparations, the same basic principles for information sharing should carry over into the date change event itself.

## **The Roles of Home and Host Supervisors**

Home supervisors of a financial institution should be responsible for information and issues relating to the status of the institution, and its group, not only as regards its activities in the home market but as a whole. Home country supervisors do not generally provide status information on individual institutions. However, during the date change period they should consider providing cross-market views of the financial sector to foster public confidence and/or to promote accurate understanding of overall conditions in order to help develop sound solutions to any problems that may develop. Such cross-market views are likely to be macro in nature and not deal with issues affecting only specific institutions. Additionally, home country supervisors should facilitate access to Year 2000 information on the infrastructure supporting the financial sector and the country's status more generally. This may be done most effectively by either providing links to national communications centres or by providing periodic summaries during the date change period.

Host country supervisors should focus on the operations affecting their local market. Host supervisors should limit their information requirements to those entities and (to a greater extent than normal) branches which are material to their responsibilities and to their local market. Where head office support of remote operations is critical for the local markets, information on normal functioning of these activities should generally be obtained through the local offices and in less detail than might be provided to the home country supervisor by the head office.<sup>7</sup> To the extent that host country supervisors identify Year 2000 issues for a foreign bank operating in their market, they should contact the home country supervisor regarding the problem on a bilateral basis and work together in resolving it.

Understanding in advance how such communications will be handled in individual countries will help assure that information shared across borders will be accurate and timely.

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<sup>6</sup> *Supervisory Coordination on Year 2000 Cross-border Issues*, Basel Committee, June 1998.

<sup>7</sup> For global institutions that are key players in two or more markets, it may be helpful to reach jointly agreement on how cross-border contacts will be handled on issues affecting a particular firm, country or market. Confirming how communications will occur in advance where warranted may avoid confusion and save time over the date change period.

## Multilateral Information Sharing

For multilateral information sharing among supervisors, a paradox exists between the need to share information broadly – including sharing some level of sensitive information – and the willingness to share information with supervisors with whom there has been only limited contact or a need-to-know relationship. This paradox may be at least partially overcome by recognising that some Year 2000 issues may have greater regional significance and regional groups may be better positioned to gather and share information, an approach which may be particularly effective for smaller countries and issues that may be regional in nature, such as energy, telecommunications, or local settlements<sup>8</sup>. Existing regional groups of supervisors may want to explore this possibility. Such an approach might also be enhanced if larger market supervisors were included in some subset of communications to provide feedback on Year 2000 issues that may be external to the region in order to provide a more global perspective.

Pre-scheduled multilateral calls among public sector participants or public bulletin boards would provide information sharing opportunities primarily for macro level information at the time the rollover occurs or on market conditions during the first business day. These calls are likely to be of the greatest benefit to those that have not yet experienced the particular event.<sup>9</sup> This approach avoids having several hundred individual calls being placed to New Zealand or Australia to see how the date rollover was affecting them. To the extent that the focus of market interest is on infrastructure issues, it may be appropriate to look to the United Nations national coordinators or other public sector bodies rather than having financial regulators look to each other for such information.

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 by others having access to the information. 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 know 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.

Multilateral calls of an *ad hoc* nature are likely to be required to address Year 2000 issues that have been identified and discussed bilaterally. In many instances, these calls may include selected representatives from both the private and public sector as issues will need to be addressed cooperatively.

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<sup>8</sup> For example, if telecommunications was experiencing sporadic problems in the Caribbean, individual supervisors in the region might need detailed information on each specific jurisdiction. From the perspective of the London market, however, it might be sufficient to know that there was some level of telecommunications problems in the region and that many organisations were resorting to alternative approaches for processing transactions as developed in their contingency plans.

<sup>9</sup> Note that markets not opening until January 4<sup>th</sup> will be very interested in markets open on January 3<sup>rd</sup> or earlier.

### III. Process Considerations for Implementing Cross-Border Communications

The home/host principles for Year 2000 communications can be applied most effectively if the bilateral parties needing to share information agree in advance on how such communications can best be accomplished. Unlike many home/host communications that occur only after a specific problem is encountered and on an *ad hoc* basis regarding the information to be shared, the date certain nature of Year 2000 provides an opportunity to develop a common understanding on how the communications might unfold.

To this end, bank supervisors will want to identify who the key players are in their market and, for each foreign banking organisation, who the home country supervisor is. Where it is clear that a host country will want to have either *ad hoc* or planned communication with a home country on one or more of the latter's banks, bilateral conversations should take place prior to yearend. Such conversations will help establish both the working relationship necessary for effective communication of sensitive information and specific arrangements for any planned communications.

In some instances, the identification of a single home country supervisor may not be entirely clear.<sup>10</sup> While clarification of specific responsibilities and appropriate channels for sharing general supervisory information is a task beyond the scope of this note, efficient communications on Year 2000 issues require a proactive discussion between home and host supervisors regarding respective roles and communications responsibilities *prior* to the event change period. Where the responsibility is in any doubt, host and home country supervisors should endeavour to identify a single "millennium information coordinator" (MIC) as the contact point to facilitate bilateral communications.<sup>11</sup>

To facilitate the development of home and host country communication protocols, existing regional groups of banking supervisors may want to work together with other Groups like the Basel Committee to develop general procedures for Year 2000 communications during the period. This approach might not only avoid the need for numerous bilateral contacts but also form the basis for scheduled multilateral mechanisms for information sharing.

While this general approach appears widely applicable for sharing Year 2000 information cross-border within the public sector and, in some instances, with the private sector, it must be adapted to local market situations. In particular, information needs and flows will likely vary before, during, and immediately after the date rollover depending on local holidays and whether the market is at the leading edge of the rollover or among the last to experience it.

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<sup>10</sup> For example, in the U.S. the Federal Reserve would be the home country supervisor for Chase and JP Morgan, the SEC for Goldman Sachs and Morgan Stanley, but there might be some ambiguity for Citigroup because of the OCC's oversight of Citibank, the SEC's oversight of Salomon Smith Barney, and the Federal Reserve's oversight of the overall holding company. Similarly, for a UK subsidiary of a US bank holding company, it is not entirely clear who a third country such as Singapore would view as the home country for a branch of that UK subsidiary.

<sup>11</sup> In instances where there are multiple national supervisors with responsibility for different parts of an organisation and no single umbrella supervisor, MICs might be identified for specific types of information. If an overall picture of the organisation is needed, multiple parties representing the different MICs may need to be present on one side of a bilateral communication. This clearly leads a level of complexity to the communication and should be avoided if at all possible.