



RESCINDED

Office of Thrift Supervision
Department of the Treasury
1700 G Street, N.W., Washington, DC 20552 • (202) 466-6500

Richard M. Riccobono
Deputy Director

Any attachments to this document are rescinded only as they relate to national banks and federal savings associations.

May 25, 1999

MEMORANDUM FOR: Chief Executive Officers

FROM: Richard M. Riccobono *Richard M. Riccobono*

SUBJECT: Year 2000 Examinations

The Office of Thrift Supervision (OTS) is embarking on a new round of Year 2000 examinations that will be completed by September 30, 1999. Thereafter, we plan to contact each thrift at least once during the fourth quarter. Concurrently, OTS and the other federal banking agencies will continue to closely monitor the Year 2000 preparations of data service providers and software vendors.

As we noted in testimony to the Congress and in *MMillennium* articles, results from our most recent round of examinations are encouraging. Of the thrifts we regulate, 97 percent are rated "Satisfactory," reflecting well on the industry's commitment to properly prepare for Year 2000. Nonetheless, as we move toward the calendar rollover date, boards of directors, management and staff must place greater and continuing emphasis on contingency planning, cash / liquidity planning, and customer awareness.

As in past Year 2000 examinations, OTS examiners will not issue any statement as to whether your institution is or will be "Year 2000-ready," but will conduct a risk-focused review to determine whether your institution is making adequate plans and preparations. We will continue to apply the interagency definitions for assigning Year 2000 ratings of "Satisfactory," "Needs Improvement," or "Unsatisfactory." As we near the calendar rollover, follow-up supervisory action will be intensified and due dates for corrective action will be accelerated for thrifts receiving less-than-satisfactory ratings.

For a "Satisfactory" Year 2000 examination rating to be assigned, the thrift must meet FFIEC guidance addressing Year 2000 project management, customer risk, customer awareness, and contingency planning (including cash and liquidity planning). In particular, by June 30, 1999, testing of mission-critical systems should be complete, implementation should be substantially complete, and a contingency plan and a method to validate the contingency plan should be developed and approved by the board of directors. Our examiners will focus on these matters. A copy of our examination program is attached.

We recognize that business resumption planning and cash and liquidity planning are dynamic processes. As additional Year 2000 information becomes available throughout 1999, you should assess the potential effect on your thrift and make any needed changes to your plans. Additionally, you may want to conduct further testing to add a layer of caution, to ensure that your systems remain Year 2000 compliant after enhancements or modifications, or to test interfaces with non-mission-critical systems.

Please provide a copy of this letter to the person managing your Year 2000 project. You are also encouraged to monitor the web sites of OTS (www.ots.treas.gov) and the FFIEC (www.ffiec.gov) for new information and updates. Should you have any questions, please contact your Regional Year 2000 Coordinator (as listed in our Y2K newsletter, *MMillennium*, and on our web site), National Year 2000 Coordinator Dorothy Van Cleave at (202) 906-7380, or Technology Risk Management Director Jennifer Dickerson (202 906-5631).

Attachment

OTS YEAR 2000 WORK PROGRAM (PHASE III / ROUND 4)

Wkp. Ref.

Procedures identified with an asterisk “ * “ are required to be performed at all round 4 Type 23 examinations. Other procedures must be completed unless: (a) they were fully addressed at the preceding examination; or (b) they are not applicable to the institution’s operations.

The number in parenthesis at the end of an examination procedure references the corresponding number of the identical or similar examination procedure performed for the Phase II/Round 3 examination, if applicable.

SECTION 1 - GENERAL

1.1*	Review prior report and related documentation (work papers, Y2K3, correspondence, etc.). If there are any outstanding items, determine the adequacy of management’s corrective action(s). (Pre-Examination Planning)	
	[Click&type]	[Click&type]
1.2*	Obtain and review copies of management status reports to the board on Year 2000-related activities since the Phase II/Round 3 examination. (1.2)	
	[Click&type]	[Click&type]
1.3*	Obtain and review any internal/external audit(s) or review(s) of Year 2000 activities prepared since the Phase II/Round 3 examination. (1.3)	
	[Click&type]	[Click&type]
1.4*	Review correspondence pertaining to Year 2000 between the service provider(s) or software vendor(s) and the client institution(s) since the Phase II/Round 3 examination. (2.2)	
	[Click&type]	[Click&type]

GENERAL - YEAR 2000 EXTERNAL COUNTERPARTY, CUSTOMER RISK, AND FIDUCIARY ACTIVITIES

1.5*	Determine if systems used to conduct trust activities are included in the institution’s Year 2000 project. (FFIEC Guidance Concerning Fiduciary Services and Year 2000 Readiness dated September 2, 1998) (1.21)	
	[Click&type]	[Click&type]
1.6*	For institutions engaging in trust and other designated fiduciary activities, determine if the institution has adequately evaluated and addressed the risks associated with: (1.22)	
	a. Fiduciary and transactional counter parties.	

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	b. Disclosure requirements within the Investment Company Act of 1940 and the Investment Advisors Act of 1940.	
	[Click&type]	[Click&type]
1.7	Determine if a due diligence process was implemented that identified, assessed, and established controls for Year 2000 risk posed by customers such as funds takers, funds providers, and capital market/asset management counter parties and whether this process included: (1.23)	
	a. Material customers.	
	b. An evaluation of their Year 2000 readiness.	
	c. An assessment of their Year 2000 risk to the institution.	
	d. Implementation of appropriate controls to manage and mitigate their Year 2000 related risk to the institution.	
	[Click&type]	[Click&type]

SECTION 2 - VALIDATION

2.1*	Determine if the institution completed the following tasks: (3.5)	
	Validation of internal mission-critical systems. (This should have been substantially complete by December 31, 1998 and should be complete by June 30, 1999.)	
	[Click&type]	[Click&type]
	Validation with service providers for mission-critical systems. (This should have been substantially complete by March 31, 1999 and should be complete by June 30, 1999.)	
	[Click&type]	[Click&type]
	Validation with software vendors for mission critical systems. (This should have been substantially complete by Dec.31, 1998 and should be complete by June 30, 1999.)	
	[Click&type]	[Click&type]
	External testing with material other third parties (This should be complete by June 30, 1999). In testing with third parties determine if the thrift tested external interfaces, including any that are unique to its technology environment. Also determine whether it has conducted point-to-point or end-to-end testing of mission-critical applications with third parties with whom it does business, including customers, other financial institutions, business partners, payments systems	

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	providers, clearinghouses, and telecommunications vendors.	
	[Click&type]	[Click&type]
2.2	For examinations completed before June 30, 1999 where testing of mission-critical systems, applications, interfaces, etc. is not complete, determine the likelihood that the milestone will be met and the appropriate method to subsequently verify completion. (3.5)	
	[Click&type]	[Click&type]
2.3*	Determine if the institution took steps to prevent contamination or corruption of operational systems and related databases during and after the testing process. (3.14)	
	[Click&type]	[Click&type]
2.4	Has the institution determined and tested the relevant critical dates necessary to ensure Year 2000 readiness of its mission-critical systems? (3.16)	
	[Click&type]	[Click&type]
2.5	Determine whether the evaluation of the testing process included participation by project managers, system owners, end users, independent third parties (internal auditors, external auditors, other qualified individuals): (3.21)	
	[Click&type]	[Click&type]
2.6	Assess the effectiveness of the institution's testing of any custom code. (3.29)	
	[Click&type]	[Click&type]
2.7	Evaluate whether the institution has obtained sufficient information to determine if its mission-critical service providers and software vendors have successfully tested products and services to ensure Year 2000 readiness. (3.25)	
	[Click&type]	[Click&type]
2.8	If the institution is using proxy testing, determine if management analyzed the applicability of proxy testing to their institution, and evaluate the institution's process for assessing the testing results provided by the party(ies) or user group(s) conducting proxy tests. (3.26) (3.28)	
	[Click&type]	[Click&type]
2.9	<u>Turnkey Institutions</u> - verify that a Year 2000-compliant version of the operating system has been installed in the testing environment. (3.38)	

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	[Click&type]	[Click&type]
2.10*	Assess the thrift's processes and controls to test that its systems remain Year 2000 compliant following enhancements or modifications. Evaluate <u>clean management</u> practices. (3.23)	
	[Click&type]	[Click&type]
2.11*	Evaluate management's plans for additional testing—extra credit testing, testing of non-mission-critical items, testing for clean management purposes, testing with third parties that were not ready earlier, etc. (This examination procedure should be performed from <u>broad</u> overview approach.)	
	[Click&type]	[Click&type]

SECTION 3 - IMPLEMENTATION

3.1*	Determine the status of the thrift's implementation of mission-critical systems, applications, etc. (Implementation should be substantially complete by June 30, 1999). (3.5)	
	[Click&type]	[Click&type]
3.2	For examinations completed before June 30, 1999 where testing of mission-critical systems, applications, interfaces, etc. is not complete, determine the likelihood that the milestone will be met and the appropriate method to subsequently verify completion.	
	[Click&type]	[Click&type]
3.3*	If the institution did not have an adequate implementation plan at the last examination determine if they now have a plan that covers: (4.6)	
	a. An assessment of the adequacy of system capacity and DASD/tape storage requirements.	
	b. Implementation procedures (steps for getting the program into the production environment and steps for database and archive conversion).	
	c. Implementation dates.	
	d. Audit review of changes and/or change methodology.	
	e. Documented sign-off by management and users.	
	f. Methods the organization will use to validate the conversions of existing data files and databases.	
	[Click&type]	[Click&type]
3.4		

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	Determine if management coordinated the institution's implementation schedule with outside entities with whom electronic data is exchanged. (4.7)	
	[Click&type]	[Click&type]
3.5	Determine if the institutions' implementation plan provides for the use of data bridges and filters, where applicable, to allow for the continued exchange of information between compliant systems, non-compliant systems or systems renovated using different date format methods. (4.8)	
	[Click&type]	[Click&type]
3.6	Determine if adequate controls have been established over the implementation process. (4.9)	
	[Click&type]	[Click&type]
3.7	Determine if system security features have been compromised or removed due to Year 2000 renovations. (4.10)	
	[Click&type]	[Click&type]
3.8	<u>Turnkey Institutions</u> -Review management's efforts to ensure that all applicable hardware and software at the contracted back-up site has been updated to match Year 2000 compliant versions being used by the institution. (4.14)	
	[Click&type]	[Click&type]
3.9	<u>Turnkey Institutions</u> -If the institution has source code in escrow, determine whether the institution received independent verification that the most recent version of the compliant product is being held in escrow. (4.15)	
	[Click&type]	[Click&type]
3.10	Large / Complex /In-House: Determine if the organization can recover its production system in the event newly renovated applications fail during the implementation process. (4.18)	
	[Click&type]	[Click&type]

SECTION 4 - CONTINGENCY PLANNING

By June 30, 1999, thrifts are to have completed all four phases of business resumption contingency planning:

- establishing *organizational planing guidelines* that define the business continuity planning strategy.

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- completing a *business impact analysis* in which the thrift assesses the potential impact of mission-critical system failures on the core business processes;
- developing a *business resumption contingency plan*; and
- designing a method of *validation* so the business resumption contingency plans can be tested for effectiveness and viability.
- Note: For examinations conducted before June 30, 1999, where the institution has not completed contingency planning, see examiner guidance.

4.1*	Obtain and review Year 2000 contingency plans. (5.4)	
	[Click&type]	[Click&type]
4.2*	Obtain and review any reports or documents provided to the board of directors or senior management pertaining to Year 2000 business resumption contingency planning. (5.1)	
	[Click&type]	[Click&type]
4.3*	Obtain and review a sample of risk analyses developed for core business functions. (5.2)	
	[Click&type]	[Click&type]
4.4*	Determine if contingency planning focuses on identifying, restoring, and continuing core business functions and mission-critical systems that pose the greatest risk to the institution (5.7) and whether management has analyzed and documented how long the institution could operate under its Year 2000 business resumption contingency plan (e.g. manual mode) and the required resources needed before alternate action would be required (e.g. conversion).	
	[Click&type]	[Click&type]
4.5*	Determine if the organization has identified all customer links into its systems, and addressed such links in the organization's contingency and business resumption planning. (5.10)	
	[Click&type]	[Click&type]
4.6*	Evaluate whether the business resumption contingency plan addresses the following: (5.12)	
	a. Assignment of responsibility to an individual or team for implementing the business resumption plan.	
	b. Development of a specific recovery plan for each core business process.	
	c. A master list of customers, clients, suppliers, institutions, and government agencies that share data with the institution.	
	d. Documentation of products necessary for recovery including machine-readable copies of master and transaction files, printed trial balances, and electronic-text format copies of	

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	all master files and trial balance reports.	
	e. Printouts of transactions received but not posted as of year- end (e.g., Fed letter, ACH warehouse, ATM).	
	f. If environmental systems, hardware, and software at the back-up site are Year 2000 compliant.	
	g. If manual processing is to be relied on as a back-up measure, whether the thrift has written manual processing procedures to follow and whether they are a viable option.	
	h. If key personnel are trained to implement the resumption plan.	
	i. If it includes specific “event planning” strategies, does it cover monitoring specific operations prior to and during the century roll over or other critical dates, resolving problems and issues related to whether and how to implement business resumption contingency plans and communicating with appropriate thrift officials and customers? Has it been reviewed by the board of directors?	
	[Click&type]	[Click&type]
4.7*	Validation of the Business Resumption Contingency Plan, including event planning: (5.14)	
	a. Determine the adequacy of the method used, or planned to be used, to validate or test the business resumption contingency plan.	
	b. Determine that validation or test strategies adequately cover all core business processes.	
	c. Determine if the party who is responsible for executing the test or validating the plan is qualified and independent (i.e., internal auditor, external auditor, employee who was involved directly in developing the business resumption contingency plan.	
	d. Determine if senior management and the board of directors have reviewed and approved the method of validation of the business resumption contingency plan. (If not reviewed and approved by June 30, 1999, the board should review and approve the plan in the third quarter.)	
	e. Determine the adequacy of test objectives and scope.	
	f. Determine the institution’s documentation requirements for business resumption contingency plan testing.	
	g. Determine the adequacy of the process for updating the business resumption contingency plan.	
	[Click&type]	[Click&type]
4.8*	Cash / Liquidity Planning: Evaluate whether the business resumption contingency plan includes plans for liquidity and cash contingencies. Such plans should include:	
	a. Assigning a person responsible for liquidity and cash management for Year 2000.	
	b. Identifying all key staff involved in the flow of cash resources.	
	c. Identifying all internal and external systems which may affect the level of cash needs.	
	d. Establishing (or updating if needed) line of credit relationships with correspondent banks,	

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	the Federal Reserve bank, and/or theFHLB's.	
	e. Evaluating alternative sources of cash.	
	f. Developing a procedure for ascertaining the potential level of customer, both individual and commercial, cash needs.	
	g. Identifying the requisite process for obtaining extra cash.	
	h. Planning for handling extra cash such as storage, transportation, security, and insurance.	
	[Click&type]	[Click&type]
4.9	<u>Serviced / Turnkey Institutions</u> - Determine if the institution's business resumption contingency plans are consistent with those of its third-party software vendor or service provider.	
	[Click&type]	[Click&type]

SECTION 5 - CUSTOMER AWARENESS

5.1*	Obtain and review any reports or documents provided to the board of directors or senior management pertaining to Year 2000 customer awareness and training.	
	[Click&type]	[Click&type]
5.2*	Obtain and review a sample of communications with customers.	
	[Click&type]	[Click&type]
5.3*	Review the institution's Year 2000 training materials and/or procedures and determine: <ul style="list-style-type: none"> a. Whether it addresses how staff will respond to customers should Year 2000 disruption(s) occur, whether caused by internal problems or external events. b. Whether it includes the training of tellers and other direct customer contact personnel to ensure accurate information is provided in response to customer inquiries. c. Whether it designates a trained Year 2000 contact person at each office as well as a centralized contact to review inquiries and consider adverse trends. 	
	[Click&type]	[Click&type]
5.4*	Determine if the board of directors and senior management have assigned responsibility to appropriate personnel for developing and maintaining a Year 2000 customer awareness program.	
	[Click&type]	[Click&type]

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5.5*	Determine if a process has been established to report progress and changes in the Year 2000 customer awareness program to the board of directors and senior management.	
	[Click&type]	[Click&type]
5.6*	Determine if the customer awareness program considers appropriate communications channels to effectively respond to and anticipate customer concerns. (Town meetings with city, power, telecommunications, and businesses. Offering to speak to civic, fraternal, religious and retirement groups.)	
	[Click&type]	[Click&type]
5.7*	Determine if the institution provides informational brochures or other written disclosures in monthly or quarterly statements and/or uses other communication approaches such as educational seminars; a toll-free hot line for customer inquiries; and/or a Year 2000 web site.	
	[Click&type]	[Click&type]
5.8*	Determine if the institution has attempted to identify customers who should be proactively informed of efforts to address business risks arising from the Year 2000 problem and if management has considered the most effective ways of communicating with the various types of customers.	
	[Click&type]	[Click&type]
5.9*	Determine if the institution has developed a customer communication statement. (FFIEC guidance, "Year 2000 Customer Communication Outline")	
	[Click&type]	[Click&type]

SECTION 6 - EXAMINATION CONCLUSIONS

6.1	Develop overall conclusions and recommendations for follow-up action based on examination findings, assign overall rating, and prepare report of examination. If the recommended rating is Needs Improvement or Unsatisfactory, promptly contact Field Manager, Regional Coordinator and Regional Counsel. (See Supervisory Follow-up and Enforcement instructions in Examiner Guidance memorandum for Round 4) (6.1) (6.19)	
	[Click&type]	[Click&type]
6.2	If the institution missed or will missed any of the FFIEC deadlines or there are any other serious Year 2000 weaknesses, determine and evaluate the reason(s). Determine whether the situation reflects management weakness that should be factored into the "M" or CAMELS rating. If so, update the Regulatory Plan or otherwise communicate that finding within region.	

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	[Click&type]	[Click&type]
6.3	Include consideration of factors recorded in OTS Year 2000 examination database (Y2K4) in assigning rating.	
	[Click&type]	[Click&type]

SECTION 7 - SUPPLEMENTAL OTS YEAR 2000 EXAMINATION PROCEDURES

7.1*	<p>Y2K4: Complete OTS's Year 2000 assessment.</p> <p>Follow regional instructions for data entry.</p>	
	[Click&type]	[Click&type]
7.2	<p>Transfer Agent Reviews: Determine if the institution is a registered Transfer Agent. If so, assess the Year 2000 environment of the transfer agent functions and responsibilities and include comments in the ROE.</p> <p>Check the national listing of registered transfer agents. Update if the institution is incorrectly included in that list or incorrectly omitted from that list, send an email to the National Coordinator.</p>	
	[Click&type]	[Click&type]
7.3	<p>SEC Disclosure Reviews: The SEC may require certain disclosures by public companies regarding Year 2000 issues. If security filings disclosures inconsistent with the exam findings come to your attention, contact the Regional Accountant.</p>	
	[Click&type]	[Click&type]

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