

AL 98-1

Subject: Year 2000 and System Integration
Considerations in Corporate Application Decisions

TO: Chief Executive Officers of all National Banks and Federal
Branches and
Agencies, Department and Division Heads, and all Examining
Personnel

PURPOSE

This advisory is to alert bankers and examiners that the OCC's review of certain corporate applications will take into consideration the following matters:

- o Year 2000 preparedness for de novo charters, conversions, business combinations, certain operating subsidiaries that are heavily reliant upon technology [Note: Examples include operating subsidiaries that perform data processing activities or provide electronic banking services such as stored value, remote banking, or electronic authentication activities.], and establishment of federal branches and agencies (hereafter referred to as "covered corporate applications"); and
- o Hardware and software systems integration issues related to any business combination.

YEAR 2000 PREPAREDNESS

All national banks, by now, are expected to have an action plan to address Year 2000 issues. The OCC issued Advisory Letter 97-6 (AL 97-6), dated May 16, 1997, which outlines comprehensive guidance for banks to effect a Year 2000 compliant system. AL 97-6 established the following target time frames to accomplish critical actions concerning Year 2000 compliance:

- o September 30, 1997 -- The bank should have identified affected applications and databases. Mission critical applications should be identified and an action plan set for Year 2000 work.
- o December 31, 1998 -- Code enhancements and revisions, hardware upgrades, and other associated changes should be largely completed. In addition,

for mission critical applications, programming changes should be largely completed and testing should be well underway.

Between January 1, 1999 and the end of that year, the banks should be testing and implementing their Year 2000 conversion programs.

YEAR 2000 APPLICATION REQUIREMENTS

When filing a covered corporate application, the applicant needs to ensure that it is in compliance with the target time frames of AL 97-6, the safety and soundness guidelines for Year 2000 business risk issued by the Federal Financial Institutions Examination Council and the guidance contained in OCC Advisory Letter 97-10 (December 17, 1997), and any other subsequent OCC Year 2000 guidance. During the corporate review process, the licensing staff will consult with the appropriate supervisory staff to verify that the bank is in compliance with these guidelines.

In the case of a charter, federal branch or agency, or covered operating subsidiary application, the licensing staff will coordinate a review of Year 2000 preparedness in consultation with the supervisory staff and seek a representation from the applicant with respect to Year 2000 compliance. The OCC expects that any new, internally-developed systems for this entity will be Year 2000 ready. [Note: When the entity is part of a larger domestic or foreign banking organization, existing in-house systems will be subject to the Year 2000 compliance time frames of OCC Advisory Letter 97-6 or subsequent guidance.] If the bank plans to purchase applications software or systems or to contract for data processing services, the OCC strongly encourages that it choose a Year 2000 ready vendor if possible. In the event that the bank selects a vendor that is not yet Year 2000 ready, the OCC will examine whether the bank has sufficient due diligence in place to ensure:

- (1) the vendor has a Year 2000 compliance plan;
- (2) the vendor has sufficient resources (hardware, people, dollars) to complete its Year 2000 conversion project within the time frames of AL 97-6 or subsequent OCC Year 2000 guidance;
- and (3)

bank management monitors vendors' Year 2000 conversion efforts and develops contingency plans, including trigger dates, for mission critical applications should vendor solutions or time frames prove inadequate.

SYSTEMS INTEGRATION ISSUES

National banks involved in business combination transactions must address any associated systems integration issues. These could include software or systems compatibility and hardware capacity and backup. When a bank merges with another financial institution, even an affiliate, it can exacerbate its transaction and reputation risk exposure if it fails to properly identify and plan for systems compatibility and consolidation issues during the due diligence and merger planning stages. Inadequate planning for a systems consolidation, or poor implementation, could result in increased cost, decreased revenues, loss of consumer confidence, and in worst-case scenarios, inability to operate the bank or bank failure. During the review of any business combination application, the licensing staff will consider the Examiner-In-Charge's (EIC) assessment of the resulting bank's ability to effectively address systems integration issues. On any major expansion proposal, the licensing staff will ascertain, through the appropriate bank EIC, that the applicant has an adequate systems integration plan in place. The OCC's assessment and degree of scrutiny will take account of the applicant's track record of integrating acquisitions.

APPLICATIONS WITH DEFICIENCIES OR CONCERNS

Any covered application where the applicant bank is not in compliance with the OCC's Year 2000 guidelines or any business combination where significant systems integration concerns are identified, will be subject to additional review, which could warrant removal from expedited processing status. The OCC will assess the applicant bank's financial and managerial ability and plans to remedy any Year 2000 deficiencies or systems integration concerns. If after careful evaluation, the problem represents a significant supervisory concern, the OCC may impose

appropriate conditions, enforceable under 12 U.S.C. § 1818, to address the concern. These could include requirements and time frames for specific remedial actions as well as specific measures for assessment and evaluation of the bank's Year 2000 status or systems integration progress. The OCC may deny a filing under 12 CFR § 5.13 if the problems represent a significant supervisory concern or if approval would be inconsistent with applicable law, regulation, or OCC policy.

CONTACTS

For further information on overall Year 2000 issues, contact the Bank Technology unit at (202)874-2340. Year 2000 discussions and procedures are being incorporated into appropriate booklets of the forthcoming Comptroller's Corporate Manual. However, in the interim, specific questions related to Year 2000 considerations in corporate applications should be directed to Darrell Sheets or John W. Graetz in Bank Organization and Structure at (202) 874-5060.

Julie L. Williams
Chief Counsel
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