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Summary of Statement of  
Eugene A. Ludwig  
Comptroller of the Currency

Mr. Chairman, and members of the Subcommittee, thank you for conducting these important hearings and focusing public attention on the impact the year 2000 may have on American industry and the U.S. government. These hearings raise awareness of the issue, and help move businesses and the government toward solutions. I welcome the opportunity to discuss the progress that national banks and the Office of the Comptroller of the Currency (OCC) are making to address the year 2000 problem.

The OCC takes the year 2000 issue very seriously, and we have an aggressive strategy to see that national banks are prepared, which includes an on-site examination of every bank under our supervision. While anyone using communications, computer, or office automation technology must prepare for the year 2000, bank readiness is especially important, given that banks are at the center of our payments and credit systems. Any malfunctions caused by the century date change could have an impact on a bank's ability to meet its obligations. Or, they could have an impact on the ability of others to meet their obligations to the bank.

The federal banking agencies first alerted the industry to our concern over the year 2000 problem in a June 1996 Federal Financial Institutions Examination Council (FFIEC) statement, and we issued a second statement with examiner guidance on year 2000 project management this past May. We will issue additional guidance later this year that is more detailed and will emphasize the importance of verification and testing cycles and timetables for a successful resolution of the year 2000 problem.

Our initial guidance stressed two points: First, banks need to account for several external sources of potential risk attributable to the year 2000 problem, including their reliance on vendors, their linkages with other systems, both domestic and international, with which they exchange data and funds, and their potential credit risk exposure if large corporate borrowers fail to address their own year 2000 problems. Second, banks must implement a comprehensive project management process, because correcting systems and software for the year 2000 involves a broad sweep of a bank's operations. Effective project management also can be broken down into five phases -- awareness, assessment, renovation, validation, and implementation.

The member agencies of the FFIEC are working together to promote uniformity in year 2000 supervision across depository institutions and to combine forces when tackling shared problems. The OCC surveyed each banking company we supervise to get a snapshot of their current state of readiness for the year 2000. What we found is that 85 percent of the large banks -- controlling about the same percentage of national bank assets --

have programs in place. These results are mirrored in our assessment of large data processors and vendors. However, our survey also shows that a number of the community banks -- holding the remaining 16 percent of national bank assets -- need to step up their efforts. We found that about 15 percent of these smaller banks are not aware of the effect the year 2000 will have on their businesses. Another 20 percent, though aware, are just starting to address the issue. The OCC is taking measures to see that they are fully aware of the year 2000 issue and are addressing it, by making sure that our examiners stay in close contact with them and clearly explain the banks' responsibilities, particularly where vendors are concerned.

In addition, the OCC recently completed two additional year 2000-related surveys. The first indicates to what degree large national banks are considering the year 2000 exposure of their major corporate borrowers. Our results show that while large national banks are aware of the credit implications of the year 2000, most need to take additional actions to address the issue with current or potential borrowers. Our second survey considers the drain on bank resources of preparing for the scheduled 1999 introduction of the new European Monetary Union (EMU) currency, the Euro. We found that the handful of national banks that are affected say that their EMU and year 2000 projects are not in conflict.

In May of last year, just prior to sending our first advisory to the banks, the OCC implemented its own transition program to address the year 2000 problem. We have been aware of the year 2000 problem for quite some time and have been following a 4-digit year standard in all development efforts since 1991; even so, we have a number of conversion projects underway. We expect to meet an early deadline of September 30, 1998, for completion of all programming and testing.

The OCC is committed to making sure national banks are making adequate preparations for the year 2000. It is important to recognize, however, that given the complex web of technologies used within banks, as well as the many other institutions with which banks exchange data electronically, malfunctions may still occur. Thus, our supervisory strategy tries to prepare for the unexpected, by having back-up strategies in place at the banks and joint contingency plans ready to implement among the supervisory agencies. These efforts are of great importance to the public welfare. By making this issue a high priority for banks and for ourselves, we hope to minimize disruptions to bank operations and bank customers.