

AL 98-7

Subject: Year 2000 Guidance on Contingency Planning

Date: May 19, 1998

TO: Chief Executive Officers of National Banks and Federal Branches and Agencies, Service Providers, Software Vendors, Department and Division Heads, and Examining Personnel

This advisory is to alert you to the recent release of FFIEC "Guidance Concerning Contingency Planning in Connection with Year 2000 Readiness" (attached). This guidance supplements previous FFIEC interagency statements and describes FFIEC expectations regarding the Year 2000 contingency planning efforts of financial institutions.

The FFIEC guidance highlights the differences between "Business Resumption Contingency Planning" and "Remediation Contingency Planning." Business resumption contingency planning, the primary subject of the guidance, is a bank's plan for the possibility of the failure of its systems at critical dates in the future. Remediation contingency planning, discussed in more detail in previously released FFIEC guidance, is a bank's plan to mitigate the risk associated with a failure to successfully complete renovation, validation, or implementation of its mission-critical systems.

The FFIEC guidance identifies and discusses four phases of the Year 2000 business resumption contingency planning process:

1. Organizational Planning Guidelines defining the business continuity planning strategy;
2. Business Impact Analysis assessing the potential impact on the bank of mission-critical system failures;
3. Contingency Plan establishing a timeline for implementation and action, circumstances, and trigger dates for activation; and
4. Validation designing a method to test the contingency plan for viability.

The OCC expects national banks to complete the first and second phases of the business resumption contingency planning process by September 30, 1998 and phases three and four by December 31, 1998.

The FFIEC's guidance also clarifies the agencies' expectations regarding remediation contingency planning. The guidance specifies that:

If a mission-critical application or system has been

remediated, tested, and implemented, a remediation contingency plan is not required.

If internal remediation efforts or vendors are expected to provide Year 2000 ready products and services within a short period of time, remediation contingency plans may not be necessary for those systems.

If a system is in process of remediation, and is on schedule to meet FFIEC timeframes, comprehensive remediation contingency plans may not be necessary.

If a remediation contingency plan calls for insuring the availability of an alternative servicer or vendor, payment of a fee may be required. Whether or not to pay this fee is a business decision that the board of directors and senior management of each financial institution will have to make. Some of the issues management should consider when making this decision are detailed in the guidance.

For further information on Year 2000 issues, contact the Year 2000 Supervision Policy Division at (202) 874-2340.

Emory W. Rushton  
Senior Deputy Comptroller  
Bank Supervision Policy

Attachment