The Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision issued the attached joint statement that addresses the agencies' supervisory approach to possible temporary balance sheet growth due to potential unusual market responses around the century date change.

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Related Links

- Joint Agency Statement
Introduction

As part of their efforts to foster readiness for Year 2000, the Federal banking agencies have issued guidance to banking organizations calling for the development of contingency plans to address funding, liquidity, and other issues. In this regard, bank and thrift management are responsible for establishing realistic liquidity and funding plans and programs that are supported by the organization's financial strength, capital position, and risk management capabilities.

Unusual market responses to the century date change could lead to temporary balance sheet growth at some banking organizations during the century date change period. This growth could occur if a banking organization were to receive unusually large deposit inflows during the period. Similarly, such temporary asset growth could occur if corporate borrowers make unusual draws on their existing lines of credit, or request new lines, in response to a perceived need for extra liquidity during the century date change period. Absent other factors, large deposit inflows or increases in extensions of credit would likely result in an increase in total assets.

Supervisory Approach to Temporary Balance Sheet Growth

All banking organizations are responsible for managing prudently any temporary balance sheet growth that may occur. As part of the Federal banking agencies' Year 2000 supervisory program, supervisors will assess the development and content of banking organizations' contingency plans, including those that address funding and liquidity needs. These plans should address possible effects on the organization's balance sheet that may arise as a result of unusually large deposit inflows and significantly increased lending. It is likely that relatively few banking organizations will experience Year 2000-related asset growth that is significant in relation to their size, and any such asset growth is expected to be temporary. Some organizations that experience significant Year 2000-related asset growth may,
despite prudent balance sheet management techniques, also experience a temporary decline in their regulatory capital ratios as a result of responding to customers' needs over the century date change period. Such a decline has the potential to result in certain consequences for the organization under statutes and regulations that the Federal banking agencies administer. If an organization believes such a situation could arise, management is urged to contact its primary supervisor to discuss options to address these issues. In assessing supervisory options, the Federal banking agencies will consider whether the institution exercises prudent and responsible measures to manage its balance sheet, maintains a fundamentally sound financial condition, and provides evidence that any drop in capital ratios is temporary.

Any questions on this issue should be directed to the banking organization's primary supervisor.