



## ***DCU BULLETIN***

***Division of Credit Unions***

***Washington State Department of Financial Institutions***

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November 25, 1997

No. 97-15

### **Year 2000 (Y2K) Supervision**

As you are aware, Year 2000 (Y2K) non-compliance may cause safety and soundness issues for credit unions and other financial institutions. Consequently, state and federal regulators are agreed that financial institutions should complete the evaluation, renovation, and validation/testing of their mission-critical systems for Y2K compliance **by December 31, 1998**. This will allow financial institutions the year of 1999 to work out any unanticipated problems.

**Your Y2K compliance efforts are critical to the future of your credit union. DO NOT DELAY in addressing this problem and arranging for the necessary changes to achieve Y2K compliance.**

#### **Supervisory Timetable**

Enclosed is a copy of the Division's Year 2000 Supervisory Timetable. As appropriate, the Division will use its various enforcement tools to deal with deficient Y2K compliance efforts.

After January 1, 1999, the Division will begin the process of issuing cease and desist orders on credit unions with deficient Y2K compliance efforts. In addition, the Division will begin to identify those with severely deficient compliance efforts as candidates for merger into Y2K-compliant credit unions.

### **Credit union actions**

1. **Submission of Division's Y2K questionnaires.** Credit unions that have not yet completed and returned the Division's Y2K questionnaire should do so as soon as possible.
2. **Submission of Y2K Supervisory Letter and Action Plan by February 16, 1998.**  
The Board of Directors and Managing Officer of each credit union should discuss the enclosed Supervisory Letter at the next Board meeting. The Division is requesting the Chairperson and Managing Officer of each credit union to sign the enclosed Supervisory Letter and return it, along with the credit union's Y2K Action Plan, to the Division by February 16, 1998.

At least sixty credit unions noted in their response to the Division's Y2K questionnaire that they had a Y2K Plan in place. Consequently, the Division expects that many of these credit unions will submit their Action Plans to the Division well before the February 16, 1998 deadline.

Please give us a call at the Division if you have any questions about this Bulletin. Mike Delimont is heading up the Y2K project internally. Mike's phone number is (360) 902-8790.

November 25, 1997

«First\_Name» «Last\_Name», «Position»  
«CREDIT\_UNION»  
«MAILING\_ADDRESS»  
«CITY», «ST» «ZIP\_CODE»

Subject: Year 2000 Compliance Efforts

Dear «Title» «Last\_Name»:

As you know, Year 2000 (Y2K) non-compliance may cause safety and soundness issues for your credit union. In order to ensure credit unions are making adequate Y2K compliance efforts, the Division is requesting that you agree to and comply with the provisions of the Supervisory Letter set forth below.

You should discuss the Supervisory Letter with your Board of Directors at its next meeting. **Please sign where indicated below and return this letter and your Y2K Action Plan to the Division by February 16, 1998.**

### **Supervisory Letter**

«CREDIT\_UNION» (Credit Union) agrees to the following provisions:

**1. Recognition of critical nature of problem.** The Board of Directors of the Credit Union (Board) agrees that:

- The mission-critical systems utilized by the Credit Union are critical to the ongoing operation and safe and sound condition of the Credit Union, and are critical for the protection of the Credit Union's members and the public.
- Y2K poses a threat to the mission-critical systems utilized by the Credit Union unless they are fully capable of handling Y2K accurately.

**2. Y2K Action Plan.** The Board will adopt a written Y2K Action Plan by February 16, 1998. The Plan will include, at a minimum:

- **List and priority of mission-critical systems.** A list of each mission-critical system utilized by the Credit Union, as well as the priority of renovation of each system.
- **Identification of project phases, with timetable.** Identification and description of the five phases of the Y2K project: awareness, evaluation, renovation, validation/testing, and implementation; the timetable for each of the phases of the project, with significant milestones indicated.
- **Completion date.** A requirement that the Credit Union will use its best efforts to complete its evaluation, renovation, and validation/testing of all mission-critical systems utilized by the Credit Union for Y2K compliance by December 31, 1998.
- **Estimate of hours to complete.** An estimate of the hours required to complete the necessary renovation and validation/testing for Y2K compliance.
- **Designation of responsible individual(s).** Designation of an individual(s) in management (Y2K Officer/Committee) responsible for implementation of the Plan.
- **Resources.** A description of the estimated fiscal and other resources necessary to implement the Plan.
- **Fix.** If known, a brief description of the fix methodology for each mission-critical system, such as upgrade, decompression, compression, window, etc.
- **Servicers and vendors.** A requirement that the Credit Union use its best efforts to secure a Y2K compliance certification from each servicer and vendor of a mission-critical system utilized by the Credit Union.
- **Contingency plan.** A thorough, written contingency plan for use when one or more of the mission-critical systems fails to handle Y2K properly, whether the need arises because the Credit Union was not able to complete renovation/validation/testing in time, or because unanticipated problems arose.
- **Board reports.** A requirement that the Y2K Officer/Committee provide periodic (at least quarterly) progress reports to the Board, and the nature of such reports, and that the Y2K Officer/Committee will review the reports with the Board.
- **Quarterly progress reports to the Division.** A requirement that the Managing Officer provide quarterly written progress reports to the Division, at the end of each calendar quarter, beginning March 31, 1998.

The reports will indicate for each mission-critical system, at a minimum: the name or number of the system; its general function; the fix methodology, if known; the name of the servicer/vendor, if any, along with the servicer/vendor's address and phone number; critical dates for completion of each of the five project phases; and the priority of renovation of the system. The reports should also include a copy of any servicer or vendor certifications or assurances received since the last report, as well as any other documentation that the Credit Union feels is important to demonstrate its compliance efforts.

- **Communication plan.** A plan to deal with inquiries from members and the media, including a designation of the individual(s) responsible to deal with such inquiries. To the extent necessary, the plan should address informing members about the Credit Union's Y2K compliance efforts and potential Y2K problems.

**3. Definition of terms.** As used in this Letter, the term:

- "Mission-critical system" has the meaning as set forth on the enclosed; and
- "Y2K" includes the dates of September 9, 1999; January 1 and February 29, 2000; and the years 2000 through 2005.

Sincerely,

J. Parker Cann  
Assistant Director

«CREDIT\_UNION»

Signed: \_\_\_\_\_

Print name: \_\_\_\_\_  
Chairman of the Board of Directors                      Managing Officer

## Definition of Mission-Critical System

The term "mission-critical system" includes, at a minimum:

Any data processing services provided by third parties, software and equipment provided by vendors, interfaces with third party service providers (e.g., clearinghouses, ATM exchanges, etc.), and systems maintained or serviced in-house, that:

1. Are used to maintain or calculate balances, transactions, interest, or terms for:
  - a. General ledger;
  - b. Shares or deposits;
  - c. Loans;
  - d. Any other type of member or customer account (loans serviced for others, credit card processing, etc.); or
  - e. Funds transfer or check/item processing.

The systems described above in this item 1 are referred to below as "primary systems;"

2. Are relied upon by a primary system for continued operation, such as computer operating systems, customer information files, third party interface systems, in some circumstances temperature control, etc.; or
3. Control or restrict access to primary systems or are necessary for continued operation of the credit union during normal business hours, such as vault or door locks, computer security, etc.

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The board of directors and management of each credit union must use their own prudent judgment in determining whether:

- (a) Any system within the definition is clearly non-essential and therefore should be excluded from treatment as a mission-critical system; or
- (b) Any system not included within the definition is truly mission-critical and therefore should be treated as a mission-critical system.

**DCU YEAR 2000 (Y2K) SUPERVISORY TIMETABLE**  
(issued November 25, 1997)

November 25, 1997	DCU issues Y2K Supervision Bulletin.
January 10, 1998	DCU's consultant begins assisting the Division in evaluating credit unions on their Y2K compliance progress.
February 16, 1998	Credit unions furnish Y2K Supervisory Letters and Y2K Action Plans to the Division.
March 31, 1998	Credit unions furnish first quarterly Y2K progress report to the Division.
December 31, 1998	Credit unions should have completed renovation and validation/testing of mission-critical systems to ensure Y2K compliance.
January 1, 1999	DCU begins the process of issuing cease and desist orders on credit unions with deficient Y2K compliance efforts. DCU begins to identify those credit unions with severely deficient compliance efforts as candidates for merger into Y2K-compliant credit unions.
July 1, 1999	DCU notifies all credit unions to arrange for data back-ups in late 1999.
January 1, 2000	DCU staff is on alert for unanticipated problems.