

The Managing Director/ Chief Executive Officer
All Primary / Satellite Dealers

Dear Sir,

Year 2000 (Y2K) Problem – Standards of Compliance and Testing

Please refer to DO letter IDMC.DO.No./ /10.04.08/97-98 dated March 26, 1998 apprising you of the critical operating risks associated with the year 2000 (Y2K) problem. You were advised to put in place appropriate time bound strategies to assess, convert and validate all systems and applications so as to achieve fully compliant systems well before September 30, 1998. You were also required to keep your Board of Directors suitably apprised of the matter. You were also advised to report to Reserve Bank of India the progress made in this regard periodically.

2. While we appreciate that your institution is addressing the problem, it is observed from the feedback received so far that some of the Primary / Satellite Dealers would have failed to comply with our stipulated deadline. We would like to emphasize that the Y2K problem is a serious one. Year 2000 is a finite date and consequently time over-runs could have serious operating repercussions. You may, therefore, have to gear up your institution's efforts to assess, convert and thoroughly validate all systems and applications immediately. In this connection we are enclosing herewith certain relevant excerpts of the September 1997 release of the Basle Committee on Banking Supervision in Appendix A, Appendix B and Appendix C titled 'The Year 2000 Challenge in more Detail', 'Action Plans for Managing the Year 2000 Process in More Detail' and 'Checklist for a Successful Year 2000 Programme' which you may find useful.

3. The components of any credible action plan for managing the Year 2000 process should include the following:

- Developing a strategic approach
- Creating organisational awareness
- Assessing actions and developing detailed plans
- Renovating/ replacing systems, applications and equipment
- Validating renovated systems through testing
- Implementing compliant and tested systems
- Developing appropriate contingency plans

We expect all Primary / Satellite Dealers to be at an advanced stage of implementation of their Year 2000 readiness programme. This envisages that your institution should have completed the above minimum processes including renovating / replacing systems, applications and equipment and should be at the stage of implementing compliant systems with an ongoing continuous testing programme. In view of the serious risks inherent in individual participants / institutions in the financial system not being Year 2000 compliant, we expect all Primary / Satellite Dealers to send us a certificate as on December 31, 1998 that all primary measures envisaged by us above are fully complied with. The Certificate of Compliance may be noted by your Board of Directors and a confirmation to this effect appended thereto.

4. While institutions may adopt their own norms for Y2K compliance, certain minimum qualitative and technical standards for Y2K compliant systems are expected. In this

connection the definition prepared by the British Standards Institute Technical Committee and reproduced below could serve as a benchmark for Y2K compliant systems. According to this definition “Year 2000 conformity shall mean that neither performance nor functionality is affected by dates prior to, during and after the year 2000. In particular:

Rule 1 No value for current date will cause any interruption in operations.

Rule 2 Date-based functionality must behave consistently for dates prior to, during and after year 2000.

Rule 3 In all interfaces and data storage, the century in any date must be specified either explicitly or by unambiguous algorithms or inferencing rules.

Rule 4 Year 2000 must be recognized as a leap year.”

5. Commencing with immediate effect Primary / Satellite Dealers are expected to continuously validate their renovated systems through testing and identifying alternate approaches if the renovations are not successful. Detailed test schedules may have to be developed and coordinated with customers / correspondents and other market participants / structures for validating external linkages/ interfaces. In this connection we draw your focused attention that the testing may be done with reference to the following minimum mandatory and operational dates:

01-01-1999, 01-12-1999

09-09-1999 to 10-09-1999

29-12-1999 to 06-01-2000

14-01-2000, 28-01-2000

28-02-2000 to 01-03 2000

31-03-2000, 10-10-2000

27-02-2004 to 01-03-2004

You are also advised to maintain proper records of your Y2K Compliance efforts including test documentation for post facto verification/ audits.

6. In view of the fast approaching millennium and the need to ensure that the Y2K problem is being effectively addressed within each institution, Primary / Satellite Dealers are required to now report the progress made by them in their Y2K compliance efforts at monthly intervals (position as at the last day of each calendar month) so that the report is received by us (in the Y2K Project Cell of the Department of Banking Supervision) within 10 days of the close of the month. A copy of the report may also be endorsed to the Chief General Manager, Internal Debt Management Cell, Reserve Bank of India, Central Office, Mumbai. The first such report may please be sent to us as on October 31, 1998. You may also keep your Board of Directors apprised of the progress made in your Y2K compliance efforts at least bimonthly and incorporate a confirmation to this effect in your monthly progress reports.

7. We would like to emphasize that the problem is more than a technical issue and needs the attention and commitment of the top Management. We would therefore, expect the top Management to closely monitor the progress made by their respective institutions. It is needless to emphasize that the responsibility to appropriately address the problem within each institution, its subsidiaries and external linkages/ interfaces would solely rest with its top Management and the Board of Directors.

Yours faithfully,

Sd/-

(A.Q.Siddiqi)

Chief General Manager