

The Chairman/ Managing Director/ Chief Executive
All Commercial Banks

Dear Sir:

Year 2000 (Y2K) Issues – Supervisory Enforcement

As you are aware, the Reserve Bank of India attaches a great deal of importance to the Year 2000 preparations of institutions and markets in the financial sector. In terms of the broad remediation framework communicated by us, banks were expected to put in place appropriate time bound strategies to assess, convert, validate and implement fully compliant systems by December 31, 1998. Banks were also advised to work on a contingency plan to assure business continuity in the event of vendor default or unforeseen Year 2000 induced breakdown. Banks are expected to complete this exercise by March 31, 1999 and forward to us a copy of their Contingency Plans duly approved by their Board of Directors.

2. From the feedback received from banks, we are concerned to note that some of the banks are lagging behind in their compliance efforts. We would like to once again impress upon you that the Year 2000 problem is more than a technical issue and has serious business related implications. Apart from business continuity problems for the bank and loss to customers, Y2K non-compliance also has serious system-wide consequences. Hence we have been always emphasising that the issue needs the attention and commitment of the top management. Banks were also advised to ensure adequate budgets for their Year 2000 programmes.

3. In order to ensure that Y2K issues are adequately addressed by each bank and keeping in view international supervisory practices in this regard, the Reserve Bank of India has decided on a set of enforcement measures in the event of compliance efforts of individual banks being assessed by us as being less than satisfactory. While specific course of action will be decided by the Reserve Bank taking into account the findings of the on-site inspections and information contained in the monthly reports submitted by banks, the enforcement measures may include one or combinations of the following:

- Issue Supervisory Letter of Caution
- Impose higher CRAR
- Impose monetary penalties on a graduated scale as may be decided on a case by case basis
- Restricting expansionary strategies of banks like opening new branches, subsidiaries
- Y2K compliance will be an over-riding criterion while evaluating the performance of the Chairman/ Managing Director/ Chief Executive
- Suspension from participation from Call Money Markets, Clearing, Securities Trading

4. It is needless to emphasise that the responsibility to appropriately address the Y2K problem within each institution, its subsidiaries and external linkages/ interfaces would solely rest with the Top Management and Board of Directors. In the light of the impending penal measures proposed by the Reserve Bank of India, it is expected that banks will review their compliance strategies to make their systems Y2K compliant and develop appropriate contingency plans well before the terminal deadline, i.e. 31st March 1999.

Yours faithfully
Sd/-
(Khizer Ahmed)
Executive Director