



Division Bulletin

Division of Credit Unions

Washington State Department of Financial Institutions

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Year 2000 Compliance Examinations and Quarterly Reports

On-site Examinations

The Division of Credit Unions (Division) has begun the first round of on-site examinations to assess credit union progress toward Year 2000 (Y2K) compliance. We anticipate that the on-site Y2K examinations will continue through April of 1998.

Most credit unions will be examined by Division personnel. However, a combined team from the Division and CASE Associates, Inc. will examine a limited number of credit unions. CASE is under contract to provide qualified technical expertise to the Division regarding Y2K assessment. We selected CASE because CASE personnel have had extensive experience with the evaluation of Y2K projects both in the public sector and the private sector, including credit unions and other financial institutions. CASE is also under contract with the Washington State Department of Information Services to assess state agency progress in achieving Y2K compliance.

Attached to this Bulletin are:

- Summary Information request lists, which will be provided again a few weeks before the Y2K exam team visits your credit union; and
- Y2K Examination Scope Guide. This Scope Guide outlines the direction of our exam. It is a series of questions intended to focus the examination on the most critical points of credit union Y2K action plans. As you will see, the Scope Guide has a number of sections. Each section builds on those that precede it.

It will be helpful if the individuals working on your Y2K plan are available to the exam team during the exam.

Our exam team will be evaluating Y2K action plans as well as the specific progress toward Y2K compliance. Please ensure that your credit union's plan includes a timetable

for actions and identifies those individuals who will be responsible for implementing the plan.

Notification of Commencement of Y2K Exam

Approximately three weeks prior to your credit union’s Y2K examination, we will notify you of the timing and plans for the examination of your credit union. Given the tight schedule for examinations, the specific date for initiating your examination may need to shift by one or two days as we encounter delays. Our staff will be in contact the week prior to your examination to verify the actual date the examiners will arrive.

Y2K Examination Ratings

The following rating system will be used to identify each credit union’s status in achieving Y2K compliance. This rating will be assigned at the time of the Y2K examination and will be updated each quarter as we receive the quarterly reports.

<u>Y2K Exam Rating</u>	<u>Explanation</u>
Complete	Fully Y2K compliant; must include adequate final implementation, an adequate contingency plan, and a communications plan
1	Final testing complete; must include adequate final testing documentation, an adequate contingency plan, and a communications plan
2	Adequate plans and on schedule but not yet compliant
3	Inadequate plan or behind schedule
4	Severely deficient plan or behind schedule
5	No plan or inadequate assessment

The Y2K rating is separate from the CAMEL rating derived from safety and soundness exams. However, the Y2K rating may effect a credit union’s CAMEL rating, as discussed below.

Exam Response

During the exit conference, we will provide you with a draft of the Y2K exam report. Our goal is to mail out the final report a week later. The credit union will then have 30 days from the date of the final exam to provide a written response to the Division.

Confidentiality of Y2K Exam Findings

Y2K exams are considered confidential under state law, just as safety and soundness exams. Because of the potential adverse effect that could result from a loss of member confidence, credit unions should take particular care that management, directors, and employees of the credit union maintain exam findings in strictest confidence. We suggest that management discuss the statutory requirement for confidentiality with individuals at the credit union who need to be aware of the exam findings.

Effect of Y2K Rating on CAMEL Rating

Your progress in resolving the Y2K issue may have a significant impact on the safety and soundness of your credit union. Consequently, your Y2K rating may impact the

components of your CAMEL rating, particularly management, as well as your composite CAMEL rating.

Based upon the Y2K examination and off-site Y2K assessments, the Division may revise your CAMEL ratings between regular safety and soundness examinations. We will not re-assess your CAMEL rating based on your Y2K rating until after you have had the opportunity to respond to the Y2K exam report. We will provide you with a written explanation of any such revisions in your CAMEL ratings.

Y2K Action Plan

As you will recall, Division Bulletin 97-15 (November 25, 1997) contained a Supervisory Letter which identified specific elements to be addressed in the written Y2K action plan adopted by each credit union. As indicated in the Bulletin, we are requesting that credit unions sign and return the Supervisory Letter, including their Y2K plans, by February 16, 1998.

No credit union should rely completely upon their software vendor to determine compliance for Y2K purposes. Each credit union is expected to perform sufficient testing to ensure that mission-critical systems will operate accurately in the environment of that credit union.

Quarterly Reporting on Y2K

To supplement the on-site Y2K examination, the Division has established a quarterly reporting process. The first report will be due in the Division's office by March 31, 1998.

The Division's Y2K reports are in addition to the quarterly Y2K reports required by the NCUA and should be a good deal more comprehensive. They should follow closely the Y2K plan developed by the credit union and should address each point noted in the Supervisory Letter. The quarterly reports are intended to provide enough information on Y2K progress so that the Division does not have to resort to additional on-site Y2K exams, other than those credit unions with a Y2K rating of 3, 4, or 5.

Credit unions should file the NCUA quarterly Y2K reports directly with the Division. The Division has made arrangements with the NCUA to receive and input these reports. Please note that the NCUA may impose civil money penalties on any credit union not providing the NCUA quarterly Y2K reports in an accurate and timely manner.

Should you have questions about the Division's Y2K examination and assessment process, please contact Mike Delimont at (360) 902-8790.