YEAR 2000

The Year-2000 Challenge

> In preparation for the year 2000, the Bank adapted and tested its internal systems and reviewed and modified as necessary its contingency plans. From 1997 to 2000, the cost of meeting the year-2000 challenge was approximately $23 million (external expenditures of $11.7 million for year-2000 compliance work; $5.1 million for contingency planning and bank note transportation; and $6.0 million for the work of regular Bank staff).

Participants in Canada's financial sector, including the Bank of Canada, recognized early the need to address potential problems associated with the date change to the year 2000. Extensive preventive measures were undertaken. Critical systems were identified, changes were made where necessary, and then these systems were tested. Testing with external partners and on an industry-wide basis was also carried out.

The financial sector fully expected to operate on a "business as usual" basis. Nevertheless, contingency plans were examined and revised to address possible year-2000 concerns. In addition, arrangements were put in place to manage the rollover weekend into the new year. These extraordinary activities were regarded as prudent measures to facilitate the uninterrupted delivery of financial services into the year 2000. Indeed, major banks and other deposit-taking institutions guaranteed to their customers that their money would be safe in deposit accounts and that financial records would be fully protected. The Bank of Canada made similar guarantees to holders of Canada Savings Bonds and other retail government debt.

Contingency Planning

Financial institutions and the operators of important systems shared by the financial sector developed contingency plans to deal with possible year-2000 problems, including plans to address possible liquidity needs. Typically, these plans included the availability of alternative operation sites, alternative communication arrangements, and manual backup procedures. The Bank of Canada, like other central banks around the world, examined the role that it could play in dealing with the consequences of any interruption in the operation of major clearing and settlement systems, or with extraordinary liquidity needs at financial institutions. Some of the special arrangements put in place by the Bank were outlined in its press release of 2 September 1999.

First, the Bank established a Special Liquidity Facility for solvent financial institutions with acceptable collateral that participate directly in the Large Value Transfer System (LVTS). This special facility assured these institutions—as well as users of the financial system—that if unusual demands for liquidity arose, they would be met. This facility was made available from 1 November 1999 to 31 March 2000.

Second, the Bank of Canada expanded the range of collateral it was prepared to accept during this period to support the provision of liquidity under normal or extraordinary circumstances. Ordinarily, liquidity loans must be fully collateralized by securities such as Government of Canada securities. By expanding the range of collateral to include such things as commercial paper and security in loan portfolios, the Bank helped to address concerns of financial institutions regarding their ability to borrow large amounts from the Bank to meet unusual liquidity demands. The Bank put measures in place to reduce any risks associated with this expansion of eligible collateral.

The third measure addressed concerns that normal year-end technical factors, magnified by year-2000 concerns, might cause the overnight interest rate to move above the top of the Bank's operating band. To keep the average interest rate for overnight funds within the operating band during the year-end period, the Bank stated that it would supply additional settlement balances in the LVTS and extend its use of Special Purchase and Resale Agreements (SPRAs). SPRAs are transactions between the Bank and primary dealers that are used to offset upward pressure on the overnight rate when it is trading above the centre of the operating band.

Bank Notes

The Bank of Canada worked with financial institutions to prepare for possible increases in the demand for bank notes around the end of 1999. Although it normally maintains a large reserve of notes to meet public demand in peak periods and extraordinary circumstances, the Bank felt that it was important for Canadians to be confident that bank notes would be available to meet their needs. The Bank significantly increased its note inventory to approximately $23 billion, about four times the normal amount. This was done cost-effectively by printing notes that otherwise would not have been printed until 2000 and 2001 and by stockpiling old notes that would otherwise have been destroyed. The Bank worked closely with armoured car companies and deposit-taking institutions to ensure that the larger-than-normal inventory was distributed across the country, where it would be easily accessible to financial institutions to meet potential increases in demand.

Canadians appeared to be very confident that their financial institutions, as well as payment methods such as debit or credit cards, would continue to function normally going into the year 2000 and beyond.

During December 1999, the value of bank notes in circulation increased somewhat beyond the normal levels for that time of year. As of 31 December 1999, it is estimated that there was about $5.5 billion more in circulation than would otherwise have been expected. Most of this increase reflected the larger-than-normal inventories of bank notes that were being held by financial institutions as a precaution against possible increases in demand from households and businesses. The demand for extra bank notes from the public did not prove to be very great. Canadians appeared to be very confident that their financial institutions, as well as payment methods such as debit or credit cards, would continue to function normally going into the year 2000 and beyond. By the second week in January 2000, the value of bank notes in circulation had almost returned to normal levels.

Communication

Financial sector participants recognized that informing the public of the extensive preparations that they were undertaking was essential to a successful rollover into the year 2000. As 1999 wound down, many believed that the Canadian financial sector was so well prepared that the major issue was no longer a technical one. Rather, it was an issue of dealing with possible responses by individuals or market participants, whose year-2000 concerns could prove to be more damaging than the year-2000 problem itself.

As part of the effort to inform the public of the high degree of financial sector preparedness and to encourage the public to take appropriate and well-considered responses to year-2000 concerns, the Bank of Canada established an extensive Y2K Web page (with links to other year-2000 Web sites).

There were also speeches by members of the Governing Council, media interviews and briefings, articles, and press releases. The Bank emphasized that no problems were expected with various non-cash methods of payment including credit cards, debit cards, other forms of electronic funds transfer, and cheques. The Bank advised Canadians that the safest place for their money was with their financial institutions and that they should prepare for the century-changeover weekend much as they would for any other long weekend.

The Changeover

The transition into the year 2000 went very smoothly, both in Canada and abroad. In the financial sector, markets and institutions closed normally on 31 December. Retail payment systems, including debit cards, credit cards, and automated banking machines functioned with no disruptions into the new year. Services such as on-line and telephone banking operated smoothly, and branches reopened without incident following the long weekend. The increased demand for bank notes was easily accommodated from the larger-than-normal inventories held by the Bank of Canada and financial institutions. Major financial service infrastructures, such as payments systems operated by the Canadian Payments Association and clearing and settlement systems that handle transactions involving securities, equities, derivatives, and mutual funds all performed normally. The Bank did not receive any requests for loans from financial institutions eligible to borrow under the Special Liquidity Facility. Primary dealers did make some use of SPRAs in December. No unusual movements occurred in overnight interest rates. As expected, it was “business as usual” during the century-changeover weekend and beyond. Nevertheless, financial sector participants will continue to monitor developments over the next year for any year-2000-related issues.

Cross-Border Communication

Efficient communication among financial market authorities around the world was essential for a smooth transition into 2000.

The Joint Year 2000 Council—representing banking, insurance and securities supervisors, and payments-system experts worldwide—established the Market Authorities Communications Services to help share information and coordinate action.

Developed and operated by the Bank for International Settlements, this service provided timely contact information for regulators in major financial markets. It collected and disseminated information on the operational status of core financial markets, institutions, and infrastructures, and created an electronic service to post announcements on developments in national markets. It also made arrangements for conference calls within the global regulatory community.

The Bank of Canada, along with the Office of the Superintendent of Financial Institutions and the Ontario Securities Commission, provided information regarding year-2000 developments in Canadian financial markets.

The extraordinary preparations taken by the private and public sectors during the last few years undoubtedly contributed a great deal to the smooth transition to the year 2000. Of particular note was the high degree of co-operation between private and public sector entities. Information was readily shared, and contingency plans and communications initiatives were harmonized. As a result, the financial sector now has more robust contingency plans and better communications networks that will stand it in good stead in the future.