

# MEETING THE YEAR-2000 CHALLENGE





## The Challenge

The potential for disruptions to computer systems when the year 2000 arrives has been recognized as a problem that must be addressed to prevent or limit possible interruptions to services that could have more widespread economic implications. The Bank has been working for several years to prepare its own systems and is co-operating with government and the private sector to minimize any effects on the Canadian financial system.

### Inside the Bank

Among the Bank's most important operations are supplying currency, settling financial transactions, and acting as fiscal agent for the government. Included in the latter are paying interest on government debt and providing banking services to the government.

During 1997, the Bank prepared an inventory of the systems supporting these operations and identified elements that were not ready for the year 2000. This identification process revealed that the Bank was in a favourable position, in large part because so many systems had been upgraded and replaced in recent years. A schedule was then developed to ensure that the Bank's critical systems would be thoroughly tested and ready for the year 2000. By the end of December 1998, all of the Bank's main systems requiring attention had been corrected. A very small number of new systems that are still being developed will be year-2000 ready when they are completed this summer. To reduce the number of changes to systems that already meet year-2000 standards, a controlled freeze on further developments in automated systems has been put in place.

### Coordination with government and the private sector

Much of what the Bank does involves external partners in government and in the private sector, and the Bank is co-operating closely with them as the year

2000 approaches. Joint testing of automated systems has already begun and will be completed through the spring and summer of 1999.

### *The financial system*

*The Bank has been working for several years to prepare its own systems and is co-operating with government and the private sector to minimize any effects on the Canadian financial system.*

The Department of Finance meets regularly with representatives of the Bank, the Office of the Superintendent of Financial Institutions, and the Canada Deposit Insurance Corporation to share information on the preparations of participants in the financial sector. The Bank pays particular attention to major clearing and settlement systems such as the Large Value Transfer System and the Debt Clearing Service. The operators of these systems have reported excellent progress in preparing for the year 2000. The Office of the Superintendent of Financial Institutions supervises over 400 institutions (banks and federally incorporated trust and loan companies and insurance companies) and has established target dates for their preparations. The vast majority of these institutions have met their December 1998 targets.

### *Bank notes*

The Bank is working with financial institutions to prepare for possible increases in the demand for bank notes towards the end of 1999. The Bank routinely maintains a large reserve of notes to meet public demand in peak periods and in extraordinary circumstances such as the 1998 ice storm in eastern Canada. While the Bank does not expect demand to increase dramatically, it is important that Canadians be confident that bank notes will be available to meet their needs in advance of the year-2000 date change. Consequently, in 1999, inven-



tories of bank notes will be increased significantly. Additional notes will be printed, and old notes that would otherwise have been destroyed are being stockpiled.

### *Canada Savings Bonds and marketable debt*

The Bank maintains the register of Canada Savings Bonds and other retail government debt and pays interest based on the register. The main systems supporting the register have been completely redeveloped and are year-2000 ready. The Bank is confident that the register will continue to operate without problems after 1 January 2000. Internal testing has also been successfully completed on the systems that issue treasury bills and marketable bonds for the federal government and pay interest on the outstanding amounts. Testing of these systems with other institutions will take place mainly in the first half of 1999.

### **Contingency planning**

The Bank is confident that its ability to meet its responsibilities will not be impaired by disruptions related to the year-2000 issue. Nevertheless, it is developing contingency plans to address any problems that might arise in its critical systems. In addition, the Bank, the government, and the private sector are establishing contingency plans to deal with the consequences for payment flows in the unlikely event that they are interrupted.

The smooth functioning of the Bank's operations and those of the financial sector depend on various infrastructure services such as electricity and telecommunications. Canada started early to prepare these essential services for the year 2000, and progress to date indicates that, should there be any disruptions, they would have only a limited and localized impact on the financial sector.

### **Expenses**

The extra cost to the Bank over the 1997-99 period of the resources needed to meet the year-2000 challenge is estimated to be about \$14 million. The bulk of these costs are for external specialists in information technology. In addition, the equivalent of about 55 person-years of Bank staff time will have been devoted to year-2000 preparations. Close to half of the allocated funds had been spent by the end of 1998, most of it to make the mission-critical systems year-2000 ready. The remaining funds will be spent on completing the testing of these systems with external parties, completing the development of contingency plans, and bringing non-mission-critical systems to a year-2000-ready status. This work is scheduled to be completed by the third quarter of 1999.

