

**CANADIAN SECURITIES ADMINISTRATORS NOTICE 31 - 301**  
*The Year 2000 Challenge*

The upcoming change of century presents a challenge to financial market participants. The Year 2000 challenge arises from technological issues associated with changing calendar dates but also has a major impact on other business and regulatory issues. The members of the CSA are concerned that many securities market participants may not be adequately addressing the risks associated with the Year 2000. It is essential because of the inter-connection of the securities markets that all market participants be Year 2000 compliant. The failure of individual market participants to deal with this issue could very well impact on other market participants.

The risks that the Year 2000 issue pose must therefore be carefully identified and addressed. In order to assist all parties in understanding and identifying risks, the Technical Committee of the International Organization of Securities Commissions has released the attached statement on Year 2000 computer problems. Readers should review it carefully.

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Dated: November 21, 1997

**Technical Committee of the International  
Organization of Securities Commissions  
ON YEAR 2000**

The Year 2000 issue presents a serious challenge to the world's financial markets. Calendar dates are part of every securities transaction, and directly or indirectly affect such critical processes as delivery and payment obligations, risk management and product design. At midnight on January 1st, 2000, the internal date in many of the world's computers will change from "12/31/99" to "01/01/00". All hardware and software that uses the two-digit year convention will potentially malfunction because the systems will incorrectly read the latter date as the year 1900 or some other erroneous date. "It has been estimated that, without corrective measures, 90% of all computer applications worldwide will fail or create erroneous results because of an inability to properly recognize the century change." 1

Two features of the Year 2000 event stand out: it will occur simultaneously for all organizations, and it cannot be delayed or deferred. The potential operational problems will range from obvious, such as hardware shut down, to subtle, such as data corruption resulting from embedded date calculations. Because the world's securities markets are highly interconnected, a disruption in one segment can spread quickly to others.

The Technical Committee is concerned that securities market participants and related parties should be adequately addressing the risks associated with Year 2000 in sufficient time. While the Technical Committee recognizes that there are competing resource demands on firms and regulators alike, the failure to adequately confront this problem may have very serious, and in some cases catastrophic, consequences for firms and markets. The Technical Committee therefore exhorts all IOSCO members and market participants in their jurisdictions to take all appropriate and necessary action to address this critical matter.

Year 2000 is not simply a technology issue, but a core business and regulatory concern. As such, it must receive the attention and support at the highest levels within all affected organizations. The risks that Year 2000 pose must be carefully identified and addressed. The following risks should be considered, at a minimum:

- completion risk: priorities must be established and a business plan developed in the event that all computer processes cannot be converted in time;
- implementation risk: adequate planning must consider that projects may be delayed or encounter unforeseen problems;
- relationship risk: all external system relationships (e.g., vendors, counterparties, agents, clients, regulators) must be evaluated for their potential effect on the organization if these external systems are not ready in time;

- contingency risk: the organization must identify reasonably foreseeable operational disruptions that could occur even if it believes that all of its internal and external systems are Year 2000 compliant; and
- legal risk: the organization must evaluate what liabilities it will incur if its systems are not ready in time, including the likelihood that market authorities will not accept a failure to prepare for Year 2000 as an excuse for non-compliance with regulatory requirements.

The key elements of dealing with these and other risks are thorough evaluation, planning (including contingency planning for possible post-implementation problems), implementation, and testing. As of the date of this statement, evaluation, planning, and implementation should be well under way, with the objective of completing these stages by the end of 1998 in order to allow for a year of testing in 1999. Timely preparation for this event also requires cooperation and communication within and across markets. The Technical Committee encourages IOSCO members to consult with each other on efforts within their jurisdictions to meet this challenge.

Moreover, members should have in place effective information sharing arrangements to deal with firm or market disruptions that may occur at the start of the next millennium. In this regard, the Technical Committee directs members to its publications dealing with cooperation and information sharing to deal with market and firm disruptions.

To further promote member readiness, the IOSCO Secretary General will serve as a clearinghouse for references to Year 2000 materials that members consider useful. This information will be available on the IOSCO Internet Web Site, located at <http://www.iosco.org/>.