

MEMO# 11023

May 28, 1999

SECURITIES INDUSTRY ASSOCIATION (SIA) - REPORT ON Y2K CONTINGENCY PLANNING

[11023] May 28, 1999 TO: PRIMARY CONTACTS - MEMBER COMPLEX No. 58-99 BOARD OF GOVERNORS No. 40-99 OPERATIONS COMMITTEE No. 21-99 TECHNOLOGY TASK FORCE MUTUAL FUND YEAR 2000 PROJECT LEADERS RE: SECURITIES INDUSTRY ASSOCIATION (SIA) - REPORT ON Y2K CONTINGENCY PLANNING

Enclosed is the report of the SIA's Ad-Hoc Policy Committee on Y2K Contingency Planning (the "Committee"). The report is directed at senior executives of securities firms and provides a policy-oriented framework for preparation of Y2K contingency plans. A number of specific recommendations are offered to assist firms to develop plans that address issues such as failure of public and financial utilities, evaluation of counterparty risk, liquidity management, establishment of communication and coordination centers, etc. While the report has a securities industry orientation, it includes information that should assist mutual fund firms in preparing or refining their contingency plans. The report is organized into four major sections: ` First, the Introduction and Executive Summary provides background information on the Committee's work. ` Second, the Recommendations and Suggestions section, pages 8 through 33, covers (1) a framework for development of firm specific contingency plans, (2) issues to consider when establishing coordination and communication centers, and (3) universal issues to consider when preparing contingency plans such as systemic market failures, extreme liquidity pressures and coordination of efforts between the private and public sectors. ` Third, the Trade Flow Scenarios section, pages 34 through 48 plus Appendix 1, traces the "life cycle" of several classes of financial transactions, identifies potential breakdowns that could occur in the trade flows and then considers the business implications of, and steps that could be taken to respond to, such breakdowns. ` Fourth, the Managing Processing and Settlement Volumes section, pages 49 through 59, describes efforts being taken by various sectors of the securities markets to manage transaction volumes during the crossover into year 2000 in order to cushion pressure on the payment and settlement systems. Market sectors planning special steps include the repo, commercial paper and other short term debt markets, and the foreign exchange, mortgage and asset backed securities, and futures and swaps markets. As you will see on page 56, the report suggests that mutual funds with discretion as to the timing of December income and capital gain distributions pay those distributions prior to Christmas 1999 in order to assist with efforts to reduce transaction volumes during the last week of the year. The report includes information of interest to year 2000 project managers, portfolio managers, trading desk personnel and other personnel responsible for securities processing, settlement and portfolio liquidity. We encourage you to review this

information with the appropriate personnel in your organization and consider the issues raised in this report as you complete the preparation of your Y2K contingency plans. If you have any questions please contact me at (202) 326-5857, Don Boteler at (202) 326- 5845 or Kathy Joaquin at (202) 326-5930. Lawrence R. Maffia Senior Vice President Enclosure

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