



EUROPEAN CENTRAL BANK

Dr. W. F. DUISENBERG
President

Mr. Oskar Lafontaine
President of the ECOFIN Council
Rue de la Loi, 175
B-1048 Brussels

9 March 1999

Dear Mr. President,

The European Central Bank (ECB) has been closely following developments related to the Year 2000 problem in view of the implications for the European financial industry and advocates a proactive approach in order to minimise any repercussions. The Governing Council of the ECB has come to the conclusion that it would significantly enhance the security of the transition to the first day of operation in the year 2000 (3 January 2000) if all systems in the financial industry could be closed and fully backed up before midnight on 31 December 1999. In that respect, the European Banking Federation has written to the ECB asking for total closure of the TARGET payment system on 31 December 1999. In the same vein, the Joint Year 2000 Council,¹ established by the Basle Committee on Banking Supervision and other organisations, urges financial market authorities to decide as soon as possible whether to schedule exceptional holidays in the period prior to and/or following the transition to the year 2000. The above-mentioned initiatives are evidence that the whole European financial community is concerned about the maintenance of operations on 31 December 1999.

The European System of Central Banks (ESCB) has been taking action to ensure that all its information systems are fully prepared to withstand the Year 2000 problem. By the end of April 1999 the national central banks (NCBs) and the ECB will have finalised the individual testing of local and ESCB-wide system components and further testing exercises will be carried out immediately thereafter. The timetable should make it possible for any problems to be identified and any necessary changes to critical systems to be implemented and tested before the end of the third quarter of 1999. The planned testing and corrective activities should enable the ESCB to gain an acceptable degree of certainty that the ECB's and the ESCB's systems will be Year 2000 compliant.

¹ Created by the Basle Committee on Banking Supervision and inclusive of the International Organization of Securities Commissions (IOSCO), the International Association of Insurance Supervisors and the Basle Committee on Payment and Settlement Systems.

However, no matter how detailed the testing is, it is not possible to give a 100% guarantee that all components that have time-critical elements can be identified and tested in advance. Moreover, there are a number of factors that are beyond the control of the ESCB, such as the Year 2000 compliance of the utilities (electric power, the water supply for the air conditioning, heating, telecommunications links, etc.) which could endanger the functioning of the ESCB. Likewise, the ESCB is to some extent dependent on vendors and suppliers with regard to their ability to achieve Year 2000 compliance in time, for those components which they have to deliver. In addition, any lack of preparedness of the ESCB counterparties and other financial intermediaries could affect the ESCB. Therefore, it is envisaged to close ESCB systems on 31 December 1999.

Nevertheless, making 31 December 1999 a non-operational day for the ESCB would have implications for the markets. The closure of TARGET would mean that no payments could be settled in central bank money on that day. Also other major EU-wide wholesale payment systems which settle daily through the TARGET system, could not settle on that day. The absence of a means of interbank settlement could have legal and financial implications, since financial contracts with payments falling due on 31 December 1999 could only be settled on 3 January 2000. Legal risks would also arise, in view of the different market definitions of "business day", some of which are connected to the ESCB operational calendar. For all these reasons, it would be more efficient if all Member States declared 31 December 1999 a bank holiday, since standard market agreements provide for the consequences of being unable to settle on a bank holiday.

In order to facilitate the performance of end-of-year procedures and complete the full backup of all systems before midnight on 31 December 1999 by all market participants – including credit institutions, securities markets, clearing systems and depositories, and related financial industries – the governors of the NCBs of the euro area have unanimously agreed that the ECB should recommend to the members of the ECOFIN Council that 31 December 1999 be declared a non-business day throughout the European Union.

Under normal circumstances, two EU countries already have a bank holiday on 31 December every year. One Member State has already declared 31 December 1999 a bank holiday on account of the millennium risks.

If an EU-wide political decision to declare 31 December 1999 a non-business day is adopted, in order to limit the risks associated with the transition to the year 2000 for all information systems, the governors of the NCBs of the euro area would also unanimously recommend to the ECOFIN Council that this decision should be announced to the public as soon as possible.

I should be very grateful if you would circulate a copy of this letter to the members of the ECOFIN Council.

Yours sincerely,

A handwritten signature in black ink, consisting of several overlapping, fluid strokes that form a cursive representation of the name Willem F. Duisenberg.

Willem F. Duisenberg