

# SEC Issues Third Report on Year 2000 Readiness

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August 1999

In a report dated July 1999, the SEC has offered its most recent assessment of the Year 2000-readiness of the U.S. securities industry and public companies. *See Readiness of the United States Securities Industry and Public Companies to Meet the Information Processing Challenges of the Year 2000 (last modified July 1999)* (available at <http://www.sec.gov/news/home2000.htm>). While the report addresses a broad range of issues, it contains several highlights:

## **Securities Industry Progress Toward Year 2000 Readiness**

The report is generally optimistic about the current level of Year 2000 preparedness of the U.S. securities industry. It bases its conclusions on its review of mandatory Year 2000 disclosures, examinations conducted by the SEC's staff, and cooperation among industry organizations (such as the Securities Industry Association and Investment Company Institute) and self-regulated organizations in conducting testing and preparing contingency plans. However, the report expresses concern regarding "the progress in resolving the Year 2000 problem at the international level." According to the report, the U.S. financial services industry has devoted far more resources to Year 2000 efforts than foreign firms. As a result, the report concludes that "[r]isks from Year 2000 failures abroad must be a major focus of contingency planning for U.S. firms."

## **Broker-Dealers**

The report stresses the efforts made by the SEC to encourage the Year 2000 readiness of registered broker-dealers through the review of mandatory reports on Year 2000 progress and by monitoring the Year 2000 testing taking place. The SEC also notes that it has proposed a rule that would require any registered broker-dealer that is not Year 2000 compliant by October 15, 1999 to cease doing business. *See Operational Capability Requirements of Registered Broker-Dealers and Non-Bank Transfer Agents and Year 2000 Compliance*, Release No. 34-41142 (March 8, 1999) (available at <http://www.sec.gov/rules/proposed/34-41142.txt>). Since the report was issued, the SEC has adopted a final rule that pushes the deadline to November 15, 1999. *See Year 2000 Operational Capability Requirements for Registered Broker-dealers and Transfer Agents*, Release No. 34-41661 (July 29, 1999) (available at <http://www.sec.gov/rules/final/34-41661.htm>).

## Public Company Disclosure

The report reveals that in December 1998, the SEC's staff surveyed public companies' periodic reports for Year 2000 disclosures following the issuance of Interpretive Release No. 33-7558 (*Statement of the Commission Regarding Disclosure of Year 2000 Issues and Consequences by Public Companies*) (July 29, 1998) (available at <http://www.sec.gov/rules/concept/33-7558.htm>). According to the report, the staff searched the EDGAR database for quarterly and annual reports to determine whether they contained Year 2000 disclosures. Thereafter, on December 28, 1998, the staff sent letters to 973 companies requesting that they provide an explanation for the absence of any Year 2000 disclosure in their reports or that they amend their reports to include such disclosures.

The staff also reviewed the filings of 349 companies that did include some discussion of the Year 2000 problem in their reports. It found that the Interpretive Release had resulted in a significantly improved level of disclosure in every industry that was reviewed. At the same time, however, the report cautioned that "disclosure needs to be improved in several areas." These areas include: the risks of Year 2000 failures abroad; the failure to meet any internal or external Year 2000 deadline; and the extent of a company's contingency plans. The report also noted that companies need to explain the worst case scenario resulting from the Year 2000 issue and to "quantify (a) the costs associated with Year 2000 issues, including historical and internal costs, (b) third party responses and (c) the stages of completion."

The monitoring efforts of the SEC apparently are ongoing. According to the report, in April 1999 the SEC reviewed the filings of companies in several unidentified industries for the purpose of assessing the adequacy of their Year 2000 disclosures. On April 30, 1999, the SEC reportedly sent letters to the Chief Financial Officers of the companies whose Year 2000 disclosures could, in the staff's opinion, be improved.

## Investment Company Disclosure

The SEC found a "high level" of Year 2000 disclosure by investment companies. Nevertheless, it continues to issue a "Year 2000 comment" to any registrant who files a new registration statement or amendment to an existing statement without a Year 2000 disclosure. The SEC also indicated that it directs investment companies to improve their disclosures "as needed," and that it makes referrals to its inspections and examinations personnel if it identifies "firm-specific problems."

## Overall Assessment

Although the report identifies discrete issues, its general assessment is positive. "The staff believes that the securities markets have made significant progress in resolving their Year 2000 problems during the past year. . . . In sum, the staff is confident in the ability of the securities industry to meet the transition [to the Year 2000] without major disruptions."