

**CANADIAN SECURITIES ADMINISTRATORS  
STAFF NOTICE 31-302*****Securities Industry Contingency Planning***

During 1998, various members of the Canadian Securities Administrators (the "CSA") issued staff notices emphasizing the importance of devoting the necessary human and financial resources to deal with the problems associated with the Year 2000 and encouraged market participants to assess and test their computer and technical systems, identify areas of concern and develop timely solutions<sup>1</sup>.

**Testing Initiatives**

CSA staff are working with the Canadian securities industry to develop and implement a Year 2000 industry test program. To this end, CSA staff are leading two industry testing task forces, a broad securities industry testing task force and a second task force focused on the mutual fund industry. These task forces have developed Year 2000 tests for the Canadian securities and mutual fund industries. The objectives of these tests are to identify in advance areas requiring remediation and to foster industry and public confidence in the ability of the Canadian securities industry and the electronic order processing cycle used by the Canadian mutual fund industry to operate in the Year 2000. Work on the industry tests is progressing with "Beta" tests (tests of the tests) scheduled for the week beginning March 13, 1999 and full scale tests for the week beginning May 29, 1999.

A third Year 2000 testing initiative is under way for the Canadian debt market. Recognizing the role of the Canadian Depository for Securities Limited ("CDS") as the central utility in the Canadian debt markets, the CDS demonstration test will serve as the industry test for the Canadian debt market. The purpose of this test is to demonstrate to the public the Year 2000 readiness of the infrastructure of the Canadian debt market by confirming that components of the Canadian debt market tested previously (through internal testing at each firm and through various point-to-point tests) can operate together. This test will occur in March 1999.

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<sup>1</sup> Staff of the Ontario Securities Commission issued Year 2000 Staff Notice 31-703, dated June 12, 1998; staff of the Commission des valeurs mobilières du Québec issued "An 2000 - Etat de la situation à la Commission des valeurs mobilières du Québec", dated June 12, 1998; and staff of the British Columbia Securities Commission issued NIN#98/43 on Industry Responsibility Regarding the Year 2000, dated July 22, 1998.

## Need for Contingency Planning

With work relating to Year 2000 testing in the Canadian securities industry under way and market participants sensitized to the importance of Year 2000 testing, staff now draw the attention of the Canadian securities industry to the need to develop and update contingency plans for the Year 2000.

In November 1998, CSA staff led the creation of an industry task force charged with developing contingency plans to support the smooth functioning of the Canadian financial markets into the Year 2000. The mandate of the contingency planning task force is to provide guidance to market participants in establishing contingency and continuity plans to deal with potential Year 2000 issues. The task force will work closely with the CSA and with the industry testing task forces.

The industry contingency planning task force will address issues related to the continued operation of industry infrastructure providers such as exchanges, clearing corporations, information systems providers, custodians, bank dealers and other market participants. To this end, the task force will identify core industry processes and establish strategies to mitigate Year 2000 risks. It is not in the task force's mandate, however, to develop contingency and continuity plans for individual market participants.

CSA staff believe that the work undertaken by the industry contingency task force is essential to ensure the smooth functioning of the Canadian financial markets. It is clear, however, that these industry-wide efforts must be matched by concerted efforts on the part of individual infrastructure and market participants to develop and update their own contingency plans. CSA staff urge infrastructure and other market participants in the Canadian securities and mutual fund industries and in the Canadian debt market to develop Year 2000 contingency plans for their organization as soon as possible. At a minimum, an organization's contingency planning effort should involve assessing the risks of failure of its core business processes, establishing strategies to deal with these risks, including a plan to test these strategies, and updating these strategies as new information becomes available.

CSA members themselves are currently addressing their individual contingency planning needs and have formed a joint CSA staff committee to address regulatory contingency planning issues in the event of Year 2000 market disruptions.

CSA staff are committed to encouraging Year 2000 contingency planning within the capital markets. If it becomes evident that an infrastructure or other market participant will not be in a position to operate smoothly at the turn of the century, as a result of inadequate testing or remediation or a failure to develop or implement appropriate contingency plans, staff of various members of the CSA are prepared to take regulatory action to avert or minimize disruption to the operation of the Canadian capital markets.

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