



EXPANDING OUR
HORIZONS
2004/05 ANNUAL REPORT

“SHARING DEPOSIT INSURANCE EXPERTISE WITH THE WORLD”

The objects of the International Association of Deposit Insurers (IADI) are to contribute to the stability of financial systems by promoting international cooperation and to encourage wide international contact among deposit insurers and other interested parties. In particular, IADI:

- enhances the understanding of common interests and issues related to deposit insurance;
- sets out guidance to enhance the effectiveness of deposit insurance systems taking into account different circumstances, settings and structures;
- facilitates the sharing and exchange of expertise and information on deposit insurance issues through training, development and educational programs;
- provides advice on the establishment or enhancement of effective deposit insurance systems;
- undertakes research on issues relating to deposit insurance; and
- takes such other action as may be necessary or useful for its objects and activities.





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MESSAGE FROM THE CHAIR

JEAN PIERRE SABOURIN

Chair of the Executive Council & President
International Association of Deposit Insurers
E-mail: jpsabourin@pidm.gov.my

This year our Association marked its third anniversary. Already three years old, and so much accomplished!

Many of the founding Members who still form part of the Association's Executive Council vividly remember the first planning session we held at the Bank for International Settlements. The Council had gathered soon after IADI was formally established to discuss our expectations of



our new Association, to set out our mission, vision and to develop a strategic business plan that would guide us over the first several years. We also defined a benchmark for success and set out initiatives to move the Association forward. We knew that it was imperative to the ongoing success of the Association to set out a plan that was realistic based on the environment under which it would operate.

The Executive Council fully understood that our major constraint would be limited funding sources – annual membership fees. We also fully understood that in some years the Association could find itself in a deficit position due to needs or unforeseen circumstances. It was, therefore, decided when the Association was formed that Members would also be required to pay a capital contribution to provide for another source of funding in times of need. As a result, one might say we planned for years of feast and for years of famine! The Council acknowledged the fact that to be international in scope, we needed to find a different business model given the distances between Members and the costs of managing an Association. We dared to dream of what we could accomplish!

Although a Chairman's remarks do not usually deal with operational issues, I would be remiss if I did not address the matter of the financial result for this year. The Executive Council, together with the Association's Finance and Planning Committee and Secretariat, has been well challenged. This is the first year that the Association has had a deficit in its three years of operations, a deficit far more than we had budgeted for in our 2004/05 Business Plan.

While the annual deficit (–\$98,473) is large for the size of our Association's financial position, we should remember that we did record surpluses of \$42,298 in our first two years of operation resulting in a net deficit for the three years of –\$56,175, a sum financed this year from



capital contributions of \$355,000. While recording deficits is troubling to say the least, we had planned for such occurrences, as explained above. Suffice it to say, we must not allow for more annual deficits. The Finance and Planning Committee and Secretariat are hard at work developing a Business Plan for 2005/07 that will result in a break-even situation.

The Executive Council fully accepts the responsibility of managing the business and affairs of the Association and will be renewing its efforts to ensure that it manages the Association's resources within the planned budget. We have been focused on building a strong foundation and infrastructure for the smooth functioning of the Association and have implemented a rigorous governance framework. The governance of IADI is aligned with best practices and is well supported by many standing committees. Those standing committees are highly important to the sound functioning of the Association's business and affairs. During the year, we developed and approved a number of governance policies which will provide guidance for the future. As part of good governance, the terms of reference and membership of each standing committee (disclosed in this Annual Report) are reviewed and updated annually to ensure adequate representation.

Outstanding regional committees have also been established by the Executive Council. These committees are able to reach out to fellow deposit insurers within their respective regions in many ways and, as a result, many Members have strengthened their relationships both on a corporate and personal level. Over time, these close ties will result in the strengthening of deposit insurance systems, as well as the enhancement of the stability of the financial system. Our regional committees have been and continue to be a great strength to us and have contributed significantly to IADI's success. Their activities are well documented and well known to those who have participated in their initiatives. We owe a special thanks to their respective Chairs for all of their efforts.

I also wish to thank our Members, Associates, Observers and Partners who continue to support IADI by making available to us their resources and expertise, as well as to all of the people who have participated in IADI's various seminars and conferences and who continue to accept our invitation to share their knowledge.

I also acknowledge the great support that IADI continues to receive from the Bank for International Settlements. The Bank for International Settlements celebrated its 75th Anniversary this year and we are proud to be associated with such an outstanding organization. I wish to sincerely thank all of the members of the Executive Council, including those that serve as alternates. Your continued support, wisdom and contribution to the success of our Association are well recognized and I thank you for making my job that much easier. I am also grateful for the dedication and hard work of the members of the Secretariat who manage the day-to-day affairs of IADI and that support its activities.

This year, the Association has held and/or participated in a number of conferences and seminars in many different locations around the world. The Association is indeed becoming recognized as the strong voice of deposit insurers and has successfully attracted a number of new Members this year. Welcome to the Association! We look forward to your contribution and involvement.

J. P. Sabourin

REPORT OF THE SECRETARY GENERAL

JOHN RAYMOND LABROSSE

Secretary General

International Association of Deposit Insurers

ray.labrosse@iadi.org

The theme of the Annual Report this year is “Expanding Our Horizons” and it is our accountability statement to the Members on the progress that has been made following the adoption of the Business Plan on 27 October 2004 in Brunnen, Switzerland.

IADI achieved excellent results this year and, once again, we made substantial progress on all our objects. One of the first areas to note is the sharing and exchange of



expertise and information on deposit insurance issues. In this regard, the Latin America Regional Committee organized a seminar in Acapulco in August 2004 and it focused on Deposit Insurance in Latin America: Challenges and Perspectives. As part of our goal to expand the network of deposit insurance practitioners, the Third Annual Conference held in October 2004 attracted many outstanding, world-class presenters to an audience of 148 from 47 countries. This was followed by an International Conference held in Almaty, entitled “Early Banking Resolution and Effective Bank Liquidation Issues” hosted by the Kazakhstan Deposit Insurance Fund. It was attended by 85 deposit insurers and others interested in deposit insurance issues mainly from Eastern Europe and Central Asia and presenters traveled from Armenia, Canada, France, Japan, Korea, Poland, Sweden, Switzerland, Taiwan, Turkey, Ukraine, the U.K. and the USA. The fourth major event was the seminar on “Minimizing the Cost of a Financial Crisis”. That event took place in Cartagena, Colombia on 1–3 June 2005 and it was hosted by Fondo de Garantías de Instituciones Financieras.

Communications, as always, remains a top priority for IADI. Our performance was measured in the preparation of nine newsletters, the publication of the Annual Report, the creation of a profile on IADI, and the development of a list of deposit insurers from around the world. To the surprise of many, there are now 115 countries with a deposit insurance system in operation, pending, planned or under serious study (i.e. 89 in operation, 17 pending, 9 planned or under serious study). Some systems are explicit; the rest are implicit. The growing number of explicit systems attests to their value.

Governance has emerged as a top priority in financial markets around the world. As part of the need to build a strong foundation for IADI, the Executive Council developed and adopted a number of important building blocks drawn from best practices that included the adoption of Codes of Conduct and a Governance Policy and it also



developed accountability profiles, selection profiles and job descriptions for key staff and members of the Council, updated the IADI by-law and reviewed the Statutes. All of these documents plus others pertinent to the operations of IADI are on our Web site so that the Members and others can better understand how the Association manages its business and affairs.

Responding to the needs of the Members, the Research and Guidance Committee researched and prepared guidance for differential premiums systems and it advanced work in a number of important areas. Research was initiated in the area of measures to promote effective interrelationships among safety-net participants and guidance to address bank resolutions. These latter papers have been issued for consultation and will be featured at the Fourth Annual Conference that will be held in Taipei from 28–29 September 2005.

We expanded participation in IADI substantially over the year. The SEACEN Training Centre joined as a Partner in August 2004 and applications for membership were received from The Deposit Guarantee Fund in the Banking System (Romania), Bank Al-Maghrib, Fonds Collectif de Garantie des Dépôts (Morocco), the Bank Deposit Security Fund (Sudan), the Institut National de Garantie des Dépôts (Lebanon) and the Deposit Insurance and Credit Guarantee Corporation (wholly owned subsidiary of Reserve Bank of India). They were all welcomed and admitted as Members. Bank of Thailand joined as an Associate and, as our financial year was coming to a close, the Hong Kong Deposit Protection Board became a Member through the special transitioning provisions that allow Associates to become Members once they implement a deposit insurance system.

The Chair of the Executive Council in his message to the Members has already drawn attention to the larger than expected deficit that occurred in 2004/05. The Management Discussion and Analysis found later on in

this document presents a full review of the factors that led to the higher deficit. Needless to say, a major source of the problem was the decline in the value of the US dollar against currencies important to the operations of the Association. Management took steps to mitigate the impact but there were limits to what could have been done.

The management and staff of Canada Deposit Insurance Corporation continue to be a great source of help to IADI in meeting its objects and addressing our growing pains. As well, the support of the Bank for International Settlements at our head office was recognized by the Members at the Third Annual General Meeting through the unanimous passage of a special resolution in recognition of their ongoing logistical support of the Association's day-to-day operations and events, and the provision of accounting and other services.

Members of the Executive Council delivered a special presentation on the occasion of the 75th anniversary of the Bank for International Settlements, which addressed the importance of interrelationships in promoting effective financial system safety nets, and how good relationships can strengthen them. The Bank for International Settlements has promoted international co-operation among central bankers for three-quarters of a century so IADI now has a target to reach out for. In doing so we shall not only "expand our horizons" but in doing so we shall "raise the bar", the theme of the business plan that the Members will be asked to approve on 27 September 2005.

John Raymond LaBrosse

ABOUT THE ASSOCIATION

MISSION

To contribute to the enhancement of deposit insurance effectiveness by promoting guidance and international cooperation.

IADI is a non-profit organization constituted under Swiss Law. As stipulated in its Statutes, the ultimate authority in all matters of the Association is the General Meeting of the Members. The Association is governed by an Executive Council composed of individuals elected by the Members. The Executive Council is structured as a working body with broad participation encouraged by means of a committee structure that is largely self-reliant. The business model utilized by the Association encourages Participants to share expertise and information in cost-effective ways.

VISION

To share deposit insurance expertise with the world.

IADI relies heavily on Web-based technology thereby allowing the Association to function effectively without the need of a large secretariat. Thus, those interested in deposit insurance issues may participate in IADI activities at the lowest possible fee structure.

THE EXECUTIVE COUNCIL

The Executive Council meets at least three times a year. To maximize benefits, and economize on time and travel costs, these meetings are organized to facilitate the exchange of knowledge and expertise on other matters of interest to the Association. In Council meetings organized on this basis, for example, members of the Executive Council participated in strategic planning session conducted by Anna Celner, Partner, Deloitte Consulting Group GmbH, on 29 June 2005. The session reviewed the accomplishments of the Association over its first three years and helped to set priorities and work plans of the Executive Council for the period going forward. The Standing and Regional Committees have also developed their work plans, and quarterly reports are being produced by each of them to further the communication of the Association's activities.

Much of IADI's work is initially addressed through the Executive Council and, where appropriate, is then carried out through the committees and the Secretariat. All members of the Executive Council serve on at least one of the Association's six standing committees; to which also other Members' and Associates' representatives may pertain. The terms of reference of the committees are as follows:

Audit Committee: Ensures the integrity of published financial information of the Association.

Finance and Planning Committee: Monitors the financial resources of the Association, prepares business plans, budgets, and reports on the financial position of IADI.

Governance Committee: Establishes by-laws and policies governing the business and affairs of IADI; establishes and maintains codes such as the Code of Conduct for Executive Council Members; develops and keeps current the terms of references of the other committees; and reviews and recommends amendments to the by-laws, policies and Statutes.

Membership and Communications Committee: Contributes to the furtherance of the objects of IADI by expanding and maintaining membership of participants and undertaking communication activities.

Research and Guidance Committee: Develops guidance to enhance the effectiveness of deposit insurance systems.

Training and Conference Committee: Assesses the needs of the Members, leverages the resources of Participants, and works with Partners of IADI and other interested parties on training and development matters.



2005 CONFERENCE TASK FORCE

The Fourth Annual IADI Conference and Annual General Meeting will be held on 27–29 September 2005 at the Grand Hotel in Taipei, Taiwan. The Conference will be hosted by the Central Deposit Insurance Corporation, which will also be celebrating its 20th Anniversary. The Chair of the Conference is Chin-Tsair Tsay, Chairman of the Board, Central Deposit Insurance Corporation. Information on the conference can be found at www.iadi.org and www.cdic.gov.tw.

CONFERENCE TASK FORCE MEMBERS

Chin-Tsair Tsay (Chair)

Central Deposit Insurance Corporation

András Fekete-Györ

National Deposit Insurance Fund of Hungary

Mohammed Al-Jafari

Jordan Deposit Insurance Corporation

Winston Carr

Jamaica Deposit Insurance Corporation

Carlos Isoard

Instituto para la Protección al Ahorro Bancario (Mexico)

Dong Il Kim

Korea Deposit Insurance Corporation



JOIN IN THE CELEBRATION

Sharing Deposit Insurance Expertise with the World



J P Sabourin
Chair of the
Executive
Council and
President of the
IADI



Chin-Tsair Tsay
Chairman of the
CDIC

On behalf of the International Association of Deposit Insurers and Central Deposit Insurance Corporation, we want to welcome you to the Fourth Annual IADI Conference which is being held at The Grand Hotel in Taipei, Taiwan.

Our Mission is to contribute to the enhancement of deposit insurance effectiveness by promoting guidance and international cooperation. The Vision of IADI to share deposit insurance expertise with the world is accomplished through conferences, seminars and workshops.

As a founding member of IADI, the Central Deposit Insurance Corporation has every reason to be proud of all that IADI has accomplished over its three years of existence. We also on this occasion want deposit insurers from around the world to join in the 20th Anniversary celebration of the Central Deposit Insurance Corporation and its ongoing contribution to the stability of Taiwan's financial system.

The Fourth Annual Conference will greatly expand the network of deposit insurers in the true spirit of fellowship as it will bring together an outstanding group of deposit insurance practitioners from around the globe.

And, as 2005 is the Year of the Rooster in Chinese folklore and the Rooster symbolizes good fortune and wealth, we take this auspicious opportunity to wish all of you the best of luck and prosperity this year and in the years to come.

With our warmest regards and best wishes for a most successful conference,

Jean Pierre Sabourin

Chin-Tsair Tsay



**The 2005 IADI
4th Annual General Meeting & Conference**
"Challenges for Deposit Insurers in Resolving Bank Failures"
27-29 September 2005 Taipei

For detailed information, please visit
the 2005 IADI Annual Meeting & Conference
website at www.cdic.gov.tw/2005iadi_conference/



International Association of
Deposit Insurers



Central Deposit
Insurance Corporation



FIGURE 1

Executive Council	Executive Council Meetings 2004/05	Standing Committees					
		Governance	Research and Guidance	Membership and Communications	Finance and Planning	Training and Conference	Audit
	Number of Meetings Attended/ Number of Meetings Held	Participation on Standing Committees					
Jean Pierre Sabourin	5/5	Chair	<i>Ex officio</i>	<i>Ex officio</i>	<i>Ex officio</i>	<i>Ex officio</i>	<i>Ex officio</i>
Charles Cornut	5/5	Member	Member	Member	Chair		Observer
Mohammed Al-Jafari*	3/5		Member	Vice-Chair			
Antonio Carlos Bueno	4/5		Member				
Winston Carr	5/5	Member	Member			Chair	Member
Juan Pablo Cordoba	2/3		Member				
Juan Ricardo Ortega**	1/2				Member		
Normand Côté	5/5						Vice-Chair
András Fekete-Győr	5/5	Member			Member	Chair until April 2005 Member	
Junior Frederick	5/5	Member	Member		Observer		Chair
Carlos Isoard	5/5	Member	Member	Member			
Eunice Kagane	1/1					Member	
Jacinta Mwatela	2/2					Member	
Kakai Cheloti	1/1					Member	
Dong Il Kim***	2/5		Member				
Arian Kraja	2/3			Member	Member		
Silvana Sejko	2/2			Member	Member		
Bisser Manolov	4/5				Member		
Bakhyt Mazhenova	5/5		Member				Member
Valeriy I. Ogiyenko	4/5	Member	Member	Member		Member	
Ganiyu A. Ogunleye	5/5	Member		Member		Member	
Hajime Shinohara	5/5	Member	Member	Member			
Ricardo M. Tan	3/5				Member		
Josef Tauber	4/5			Member			
Chin-Tsair Tsay****	4/5	Member	Chair				
Oscar Armando Perez Merino	0/3			Member	Member		
Arthur Murton*****	1/3				Member		

Meetings of the Executive Council were held on 5–6 August 2004, 25 October 2004, 28 October 2004, 14–15 April 2005, 30 June – 1 July 2005.

* Yasein Al Jaghbeer attended as an Alternate on 25 and 28 October.

** Edgard Pinto attended meetings on the 30 June 1 July 2005 as an Alternate for Juan Ricardo Ortega.

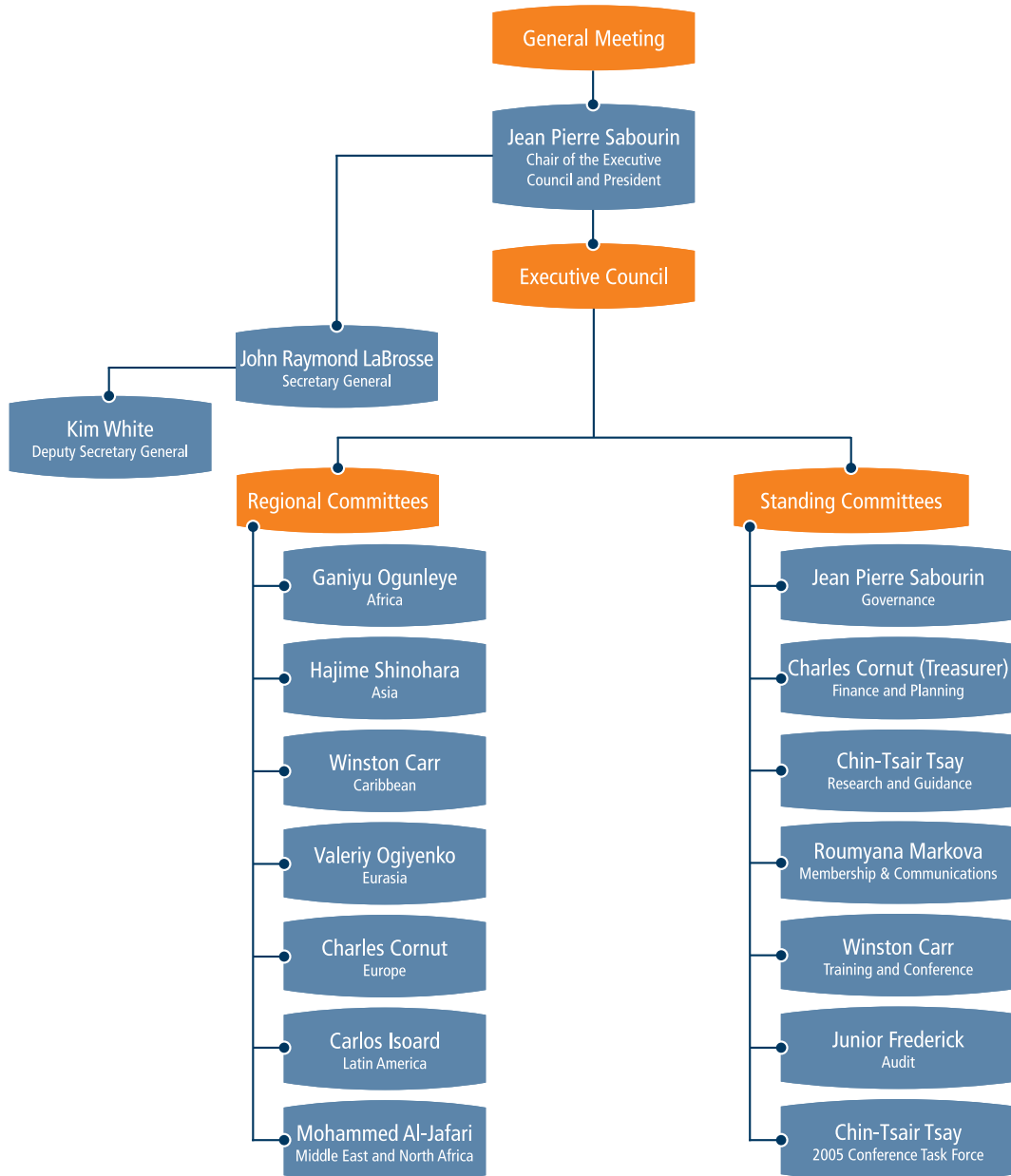
*** Gi Don Kim attended as an Alternate on 14–15 April 2005; Song Ok Kim attended as an Alternate on 30 June and 1 July 2005

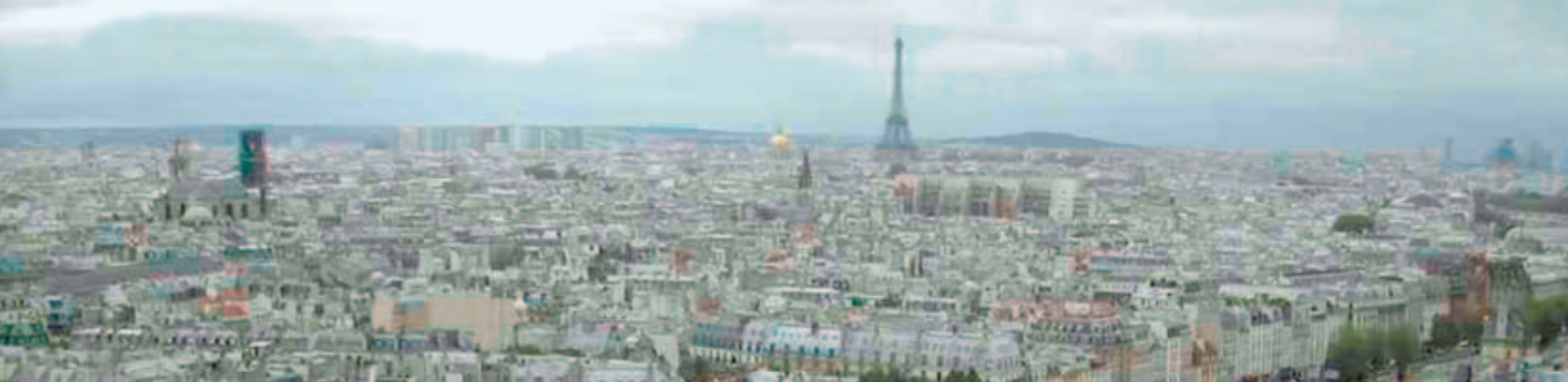
**** Johnson Chen attended as Alternate on 14–15 April 2005.

***** Fred Carns attended as an Alternate on 28 October 2004 and 30 June/1 July 2005.

ORGANIZATION CHART

FIGURE 2





REGIONAL COMMITTEES

These committees reflect common interests shared regionally and have been created for Africa, Asia, Caribbean, Eurasia, Europe, Latin America, and the Middle East and North Africa.

The chairs of regional committees review applications for participation in IADI and communicate plans and activities at meetings of the Executive Council.

Africa: Ganiyu A. Ogunleye, Managing Director/Chief Executive Officer, Nigeria Deposit Insurance Corporation

Asia: Hajime Shinohara, Deputy Governor, Deposit Insurance Corporation of Japan

Caribbean: Winston Carr, Chief Executive Officer, Jamaica Deposit Insurance Corporation

Eurasia: Valeriy Ogijenko, Managing Director, The Deposit Guarantee Fund (Ukraine)

Europe: Charles Cornut, Président du Directoire, Fonds de Garantie des Dépôts (France)

Latin America: Carlos Isoard, Member of the Board of Governors, Instituto para la Protección al Ahorro Bancario (Mexico)

Middle East and North Africa: Mohammed Al-Jafari, Managing Director, Jordan Deposit Insurance Corporation



EXECUTIVE COUNCIL MEETING, PARIS, AUGUST 2004

MAIN ACCOMPLISHMENTS

During 2004/05, IADI undertook a number of initiatives and delivered the following results in relation to its Objects:

Object	Initiatives and Outcomes
<p>To enhance the understanding of common interests and issues related to deposit insurance.</p>	<p>Regional Committees held meetings, conferences and seminars in Mexico (August 2004), Trinidad and Tobago (December 2004), Japan (March 2005), Kazakhstan (May 2005) and Colombia (June 2005). 85 people attended the International Conference held in May 2005 in Almaty. Attendees came mainly from central Asia, a key target region consistent with the Mission and Vision of IADI to share deposit insurance expertise and to promote international co-operation. Presentations were delivered by the Chair of the Executive Council and a number of other members of the Executive Council and the Secretary General.</p> <p>The Chair and the Secretary General represented IADI at the 75th Annual General Meeting of the Bank for International Settlements held in Basel in June 2005.</p> <p>Members of the Executive Council made a presentation in June 2005 on the importance of effective interrelationships between safety net players, in Basel on the occasion of the 75th Anniversary of the Bank for International Settlements.</p> <p>The Secretary General worked with <i>INSOL International</i> to produce a publication on insolvency issues relevant to deposit insurers. The book was published in February 2005.</p>
<p>To set out guidance to enhance the effectiveness of deposit insurance systems taking into account different circumstances and settings.</p>	<p>A guidance paper on differential premiums was prepared by the Research and Guidance Committee and published on the IADI Web site in May 2005.</p> <p>A sub-committee was established to undertake research and develop guidance to promote effective inter-relationships among safety-net participants. A draft discussion paper has been issued.</p> <p>A sub-committee was established to develop guidance on the role of deposit insurers in bank resolutions. A draft discussion paper has been issued.</p> <p>A sub-committee has been established to develop guidance to evaluate the effectiveness of deposit insurance systems.</p>
<p>To facilitate the sharing and exchange of expertise and information on deposit insurance issues through training, development and educational programs.</p>	<p>The Chair and other members of the Executive Council and the Secretary General represented IADI at the Third Annual Conference held in Brunnen in October 2004. The Conference attracted 148 people from 47 countries and the presentations focused on assembling the tool kit for deposit insurers.</p> <p>Nine newsletters were published and Member and Committee profiles were prepared and are available on the Association's Web site.</p> <p>Invitations to IADI conferences and seminars were extended to representatives of the International Monetary Fund, Bank for International Settlements, The World Bank, Asian Development Bank, the European Bank for Reconstruction and Development, and the Inter-American Development Bank.</p>



Object	Initiatives and Outcomes
<p>To provide advice on the establishment or enhancement of effective deposit insurance systems.</p>	<p>The Chair represented IADI at the International Conference on "Measures to Improve the Confidence in the Kyrgyz Banking System" held in Bishkek in July 2004.</p> <p>The Chair conducted a seminar in June 2004 entitled "Early Banking Resolution and Effective Bank Liquidation Issues" for the employees of the Kazakhstan Deposit Insurance Fund, the Central Bank of Kazakhstan and the Agency for Financial Supervision.</p> <p>With the financial support through the European Bank for Reconstruction and Development from the State Secretariat for Economic Affairs of the Swiss Department of Foreign Affairs and USAID, an International Conference on Deposit Insurance was held in Almaty, Kazakhstan in May 2005 for 85 deposit insurers and other interested parties from Central Asia.</p>
<p>To manage the affairs of the Association and take such other actions as may be necessary or useful for its objects and activities.</p>	<p>The Executive Council:</p> <ul style="list-style-type: none"> – revised the by-law dealing with operational matters; – formulated its governance practices in line with international "best practices" (see Governance Policy in Annex B); – established a policy regarding proposals to amend the Statutes; – proposed and implemented a change to the Statutes regarding vacancies that emerge on the Executive Council and; – established a Code of Conduct for Executive Council members.

THIRD IADI ANNUAL CONFERENCE

ASSEMBLING THE TOOL KIT FOR DEPOSIT INSURERS



An international audience of 148 deposits insurers, central bankers and supervisors from 47 countries attended the conference, chaired by Charles Cornut, Président du Directoire of the Fonds de Garantie des Dépôts (France).

Jean Pierre Sabourin, Chair of the Executive Council and President of the International Association of Deposit Insurers, delivered the Keynote Address. He reviewed the origins and mandate of the Canada Deposit Insurance





Corporation as well as the innovative techniques CDIC has implemented over the years. Mr. Sabourin then emphasized IADI's role in *international cooperation* and as a contributor to *financial stability*.

The first session, moderated by Hans Jacobson, from Sweden, featured a review of the APEC Policy Dialogue on Deposit Insurance by David Walker from Canada and provided an opportunity for experts to share "country experiences" with the single regulator model in the U.K., in Germany by Jens-Hinrich Binder, and in Japan by Mamiko Arai.

Insolvency Issues, and the role of deposit insurers, was the topic of the next session, moderated by Christine Cumming of the Federal Reserve Bank of New York. She also outlined the different stages in the decline of a troubled bank, touching on the roles of supervisors, management and deposit insurers.

Philip Wood reviewed "World Trends in Bank Insolvencies" and then Robert Sanderson (KPMG), and Gale Rubenstein (Goodmans LLP) focused on loss minimizing for deposit insurers in the event of insolvency, before and during insolvency and they also updated the attendees on work being undertaken by *INSOL International*.

The first afternoon session, moderated by Oscar Armando Pérez Merino from El Salvador focused on bank failures and what could be learned from recent experiences. Ernesto Aguirre discussed the internationally agreed principles to deal with banking resolution and insolvency being developed by The World Bank. Fred Carns of the Federal Deposit Insurance Corporation addressed issues associated with large banks and Juan Pablo Cordoba Garcés from Colombia presented a case study of a small bank. The discussant was Dong Il Kim who responded to the presentations taking into account the experiences in Korea.

Chin-Tsair Tsay from Taiwan turned the audience's attention to the work that IADI has been doing to prepare Guidance on Bank Resolutions. This session began with a presentation by Mike Mackey (Deloitte&Touche) that was followed by a look at "Handling a Systemic Financial Crisis and Interrelationships among Financial Safety Net Players" by Carlos Isoard from Mexico. Daniel Jánossy from Hungary focused on reimbursement and liquidation issues, while Ganiyu Ogunleye from Nigeria reviewed the exit mechanisms and the resolution of problem financial institutions.

The dinner speaker was Otbert de Jong, Executive Vice President, Head of Risk Advisory Services, ABN AMRO, who addressed the conference participants on enterprise risk management with a focus on Basel II: Raising the Global Risk Bar.



OTBERT DE JONG

The second day opened with a presentation on "where deposit insurers can get help for technical assistance" with a focus by James Rives of BearingPoint on the missions and activities of several international funding institutions and a presentation by Chris Barltrop from USAID.



Session VI looked at Strategic Planning and it was moderated by Ray LaBrosse. Keith Adam from Canada Deposit Insurance Corporation examined the techniques they use and this knowledge has been shared with the Deposit Insurance Corporation (Trinidad and Tobago) through Junior Frederick and Winston Carr of the Jamaica Deposit Insurance Corporation who were also on the panel.

Cross-border issues and their implications for deposit insurers was the topic of the final session moderated by Gavin Bingham of the Bank for International Settlements. Anthony Beaves spoke about the challenges that result, whereas Neil Cooper and Eva Hüpkes, Head of Regulation, Legal Department of the Swiss Federal Banking Commission, reviewed the General Principles of

a Functional Approach to Regulation, and the objectives of deposit insurers, the challenges of foreign branch deposits and cross border cooperation.

The Secretary General provided the conference participants with an update on IADI's recent and planned activities for the Association and Yvonne Fan of the Central Deposit insurance Corporation invited everyone to next year's conference in Taipei.

Proceedings from the conference are available at the following location:

<http://www.iadi.org/html/App/SiteContent/Final%20Proceedings%20IADI%203rd%20Ann%20Conference%20Feb%202005.pdf>



REGIONAL CONFERENCES AND SEMINARS

DEPOSIT INSURANCE IN LATIN AMERICA: CHALLENGES AND PERSPECTIVES

On 25–27 August 2004, the Instituto para la Protección al Ahorro Bancario, Mexico (IPAB) hosted the seminar *Deposit Insurance in Latin America: Challenges and Perspectives* in Acapulco. On 25 August, the Latin America Regional Committee held a working session open to all seminar participants.

Carlos Isoard, Chair of the Latin America Regional Committee (LARC) and Member of the Board of IPAB, chaired the Seminar. There were nine sessions that began with a focus on financial stability and then turned to key elements of an effective deposit insurance system, deposit insurance in Chile, conclusions from the APEC Policy Dialogue on Deposit Insurance, recent experience with FSAPs in Latin America, banking sector concentration and the implications for deposit insurers, the resolution of insolvent banks, deposit insurance and market discipline, and deposit insurance including capitalization issues.

The keynote speaker was Francisco Gil Diaz, Minister of Finance and Public Credit, who addressed crucial challenges for deposit insurance.



The seminar was honored by the presence of the Chair of the Executive Council and President of IADI and of the representatives of various international organizations including the Bank for International Settlements, International Monetary Fund, The World Bank, Inter-American Development Bank, CEMLA, and CMCA, as well as of deposit insurance and bank supervisory agencies and central banks from 11 countries in Latin America.

Presentations given at the Seminar are available at IPAB's Web site <http://ipab.org.mx>





EARLY WARNING SYSTEM AS A KEY ISSUE TO BANK SOLVENCY AND FINANCIAL STABILITY



Kazakhstan Deposit Insurance Fund was the host for the Eurasia Regional Committee's second international conference. The conference was held in Almaty, Kazakhstan from 17–20 May 2005.

Consistent with IADI's vision "to share deposit insurance expertise with the world", deposit insurers and policy makers from many parts of Central Asia and around the world undertook presentations and participated in the conference. The presentations covered building confidence in financial system safety nets, governance and interrelationship issues, minimizing the cost of bank failures through sound regulatory arrangements, early warning systems, differential premium systems, Basel II and the implications for deposit insurers, and the need for legal trigger mechanisms for early interventions and failure resolution.

There was a special session on contingency planning moderated by J.P.Sabourin and the closing session addressed lessons learned from introducing deposit insurance systems. The audience of 85 from central Asia plus representatives from Asia, Russia, Poland, Czech Republic, Ukraine, Jordan, Tanzania, the United States, France and Canada gave the conference a truly international scope.

Proceedings from the conference are available at the following location:

http://www.iadi.org/html/App/SiteContent/Proceedings_Almaty_EarlyWarning%20final.pdf



MINIMIZING THE COST OF A FINANCIAL CRISIS



Fondo de Garantías de Instituciones Financieras, Colombia (FOGAFIN) hosted a meeting of the Latin America Regional Committee on 1–3 June 2005 in Cartagena.

On 1 June 2005, officials from The World Bank gave a Workshop on Banking Resolution Process which included topics such as banking supervision and banking resolution theory; the “good bank – bad bank” resolution scheme, fundamentals for an efficient banking resolutions scheme, bank capitalization fund and international experience.

A LARC working session was held later in the afternoon. This was a public session that was attended by seminar guests with the aim of showing them how a regional committee works with its terms of reference and work

plan. Following the experience of the previous LARC meeting in Acapulco, the sessions in Cartagena focused on topics of regional interest that could be dealt with by the committee or addressed in the next annual LARC conference.

On 2–3 June, FOGAFIN hosted a seminar that had as its main theme: “Minimizing the Cost of a Financial Crisis”. During the seminar the following topics were addressed: financial system monitoring, how far does the insurer have to go?; recovery of non-performing assets, best practices; and how differential risk premiums can be used to aid market discipline. These topics were selected from the previous LARC meeting that was held in Acapulco.

Presentations given at the workshop and the seminar are available at the FOGAFIN Website:
<http://www.fogafin.gov.co>

The events were attended by representatives of deposit insurers, bank supervisors and central banks from fifteen countries of Latin America plus Spain as a special invitee, as well as representatives from various organizations such as IADI, The World Bank, the Association of Banking Supervisors of the Americas (ASBA), Monetary Council of Central America (CMCA), and the Center of Monetary Studies of Latin America (CEMLA).



FINANCIAL REVIEW

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

The Association receives annual fees from its participants. There are no fees assessed on organizations with which IADI has entered into partnership arrangements. Invoices were issued in July 2004 covering annual fees and initial capital contributions of Members for the financial year 2004/05. The Members adopted a business plan which included an operating budget at the General Meeting on 27 October 2004. As of 30 June 2005, Member's equity was \$298,825; capital contributions are invested in a liquid form and used mainly as working capital.

REVENUES

Annual fees were received from all Participants in 2004/05. It should be noted that the Executive Council has adopted a policy of *pro-rating* fees for participants that join IADI part way through the financial year.

Total revenues of \$520,096 were higher than expected in the Budget approved on 27 October 2004, largely because the final results include conference and seminar income that cannot be known in advance. However, only the recovery of administrative and travel expenses associated with the conference held in Almaty in May 2005 contributed on a positive basis to the financial situation. It should be noted that the Association undertakes conferences and seminars where possible on a cost recovery basis.

EXPENDITURES

Total expenses of \$613,709 were also higher than what was expected. The factors owing to the higher expenditures and the explanations behind the higher deficit were several and they are detailed below (US\$98,473 against US\$38,840 forecasted).

Capital contributions and any surplus funds are invested in liquid investments following an approach discussed by

the Executive Council in April 2005. The main principles that are followed are that the funds be held in a highly liquid form and they should not be exposed to undue market and credit risks. As well, special attention is given to the timing of currency conversions in order to limit the impact of variations in the US dollar in relation to the Swiss franc.

THE DEFICIT

The Association's accounts are intrinsically vulnerable to exchange rate movements since the fees and capital contributions or other main sources of revenues are in US dollars; close to 95 per cent of the expenses are in Swiss francs and Canadian dollars. The two initial causes are the Associations' location in Switzerland and the setting of fees in US dollars.

This vulnerability is common for any international organization. In IADI's case, the variation of the US dollar since the creation of the Association has turned out to be quite important. For example, the exchange rate for CHF/US dollars in 2002/03 was around 1.5 in mid-2002, with a minimum of 1.29 in May 2003. As such, the maximum theoretical risk for IADI's fees and revenues was at 16.3 per cent at that time. In 2003/04, by contrast, the exchange rate was around 1.35 in mid-2003 and, with a minimum of 1.23 in December 2003, the same risk was of 9.8 per cent. In 2004/05, the exchange rate was around 1.25 in mid-2004 with a minimum of 1.13 in December 2004; accordingly, the same risk was of 10.6 per cent.

The management of investments, and overall the timing of the purchases of other currencies to settle invoices, can reduce the actual costs compared with the theoretical risk. For example, in 2004/05 the actual cost of the decrease and subsequently the increase of the US-dollar was around US\$ 23,200; that is, it was the difference in cost in US dollars for the purchases of CHF at a rate other than the forecasted one. An exchange difference of US\$ 5,000 was initially forecasted in the budget, while the net and actual increase of the deficit, further to the evolution of the US-dollar, turned out to be around \$ 18,200.

The impact of exchange rate changes shows up most noticeably in the salary area since it is the largest expenditure item. However, other factors include: the considerable demands on the Secretariat in connection with the delivery of the Brunnen conference in October 2004; a decision of the Executive Council to support the International Conference in Almaty, an expenditure item that was not included in the budget approved by the Members; the more than usual number of Executive Council meetings plus the cost of a separate meeting of the Governance Committee; a decision by the Executive Council to absorb IADI-related expenses of the Chair of the Executive Council, once he retired from Canada Deposit Insurance Corporation; and a contribution that was made to the Tsunami relief fund.

Management took a number of steps to limit the deficit. First, recovery was obtained of some of the travel expenses of the Chair and the Secretary General from one of the sponsors of the Almaty conference that was held in May 2005. Second, given the keen interest in that conference from one of our Partners, the Association was able to recover certain administrative expenses of the Secretariat. Third, the Secretariat tried to insulate the Association from the decline in the U.S. dollar by making purchases of Swiss francs that turned out to have been made at somewhat favorable rates. Fourth, expenditures were cut in a

number of categories such as training support and staff training.

OTHER MATTERS

For the Secretary General, the Association has an agreement signed by the Treasurer, with *Patterson & LaBrosse Financial Consultants Ltd.*, which has agreed to provide the services of John Raymond LaBrosse as Secretary General. The Deputy Secretary General and a part-time Administrative Officer are on secondment from the Bank for International Settlements.

IADI entered into an agreement with the Bank for International Settlements in 2002, which has agreed to provide the Association with office premises in Basel, Switzerland. The Association is responsible for its own office and meeting expenses.

The Budget includes the cost of official travel of the Secretariat and members of the Executive Council when they travel on behalf of the Association. On some occasions in 2004/05, such travel costs were borne by sponsoring organizations or other organizations under various arrangements.

The Secretariat made improvements to its Web site during 2005 as part of its long-term strategy to use technology to help the Association meet its goals.

Figure 4 tracks the expenditure items relative to the Budget that was approved on 27 October 2004, with revenues and expenditures for 2004/05 and the budgets included in the 2005/07 Business Plan.

FIGURE 4

COMPARISON WITH 2003/04 RESULTS, 2004/05 BUDGET AND RESULTS AND THE 2005/07 BUSINESS PLAN

	Audited results 2003/04	Approved Budget 2004/05	Audited Results 2004/05	Projections 2005/06	Projections 2006/07
Numbers of Members	34	35	39	41	41
Number of Associates	8	8	8	6	6
Number of Observers	4	3	3	4	4
REVENUES	12 months	12 months	12 months	Pro-rated* 9 months	12 months
Members	320,000	350,000	352,500	307,500	410,000
Associates	58,125	60,000	56,235	33,750	45,000
Observers	18,750	15,000	15,000	15,000	20,000
Sub total	396,875	425,000	423,735	356,250	475,000
Seminar income	62,261	0	33,439	0	0
Annual conference income	47,500	50,000	59,900	0	0
Other income	425	520	3,022	2,250	3,200
Total	507,061	475,520	520,096	358,500	478,200
EXPENDITURES	12 months	12 months	12 months	Pro-rated* 9 months	12 months
Salaries	232,389	245,000	305,347	208,000	306,000
Annual Conference	58,784	85,000	94,728	30,000	30,000
Council and General Meetings	12,384	20,000	26,952	18,750	18,500
Support for Training Initiatives	1,082	25,000	15,834	5,000	5,000
Seminar Expenses	61,963	0	25,479	0	0
Travel	57,911	60,000	60,491	40,000	50,000
Office Administration	20,463	18,500	21,801	18,000	18,500
Auditing	3,516	3,500	3,116	3,200	3,500
Liability and Travel Insurance	0	4,000	1,262	2,000	2,500
Web site and IT systems	8,708	38,000	37,448	18,250	16,500
Staff Training	232	5,000	0	0	5,000
Miscellaneous (bank charges, telephone, depreciation)	1,962	5,000	8,003	5,000	7,500
Exchange difference	3,046	5,000	13,248	4,000	5,000
Total	467,081	514,000	613,709	352,200	468,000
Subtotal	39,980	-38,480	-93,613	6,300	10,200
Extraordinary Items Tsunami relief		0	4,860	0	0
Surplus/Deficit	39,980	-38,480	-98,473	6,300	10,200

*where appropriate



15 August 2005,00409242001/8/TGA

Report of the Auditors
to the Members
International Association of Deposit Insurers
Basel

We have audited the accounting records and the financial statements (statement of financial position, statement of activities and notes) of the International Association of Deposit Insurers (the "IADI") for the year ended 30 June 2005 on pages 24 to 27.

These financial statements are the responsibility of IADI's management. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the Swiss legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the profession in Switzerland, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records and the financial statements comply with the law and the Association's Statutes. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

A handwritten signature in black ink, appearing to read 'Ralph R Reinertsen'.

Ralph R Reinertsen

A handwritten signature in black ink, appearing to read 'Garrett C Thompson'.

Garrett C Thompson

Basel, 15 August 2005

Enclosures:

- Financial statements (Statement of Financial Position, Statement of Activities, and Notes)

FIGURE 5

INTERNATIONAL ASSOCIATION OF DEPOSIT INSURERS
STATEMENT OF FINANCIAL POSITION
 AS OF 30 JUNE 2005 AND 30 JUNE 2004
 (IN US DOLLARS)

	30 June 2005	30 June 2004
ASSETS		
Cash and banks	301,694	315,839
Accounts receivable	52,082	67,604
	<u>353,776</u>	<u>383,443</u>
Total fixed assets, net	991	267
Total	<u>354,767</u>	<u>383,710</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	55,942	26,412
	<u>55,942</u>	<u>26,412</u>
Unrestricted Net Assets		
Capital – members contribution	355,000	315,000
Retained unrestricted assets	42,298	2,318
Unrestricted assets for the current year	(98,473)	39,980
	<u>298,825</u>	<u>357,298</u>
Total	<u>345,767</u>	<u>383,710</u>

FIGURE 6

INTERNATIONAL ASSOCIATION OF DEPOSIT INSURERS
STATEMENT OF ACTIVITIES
 FOR THE PERIODS ENDING 30 JUNE 2005 AND 30 JUNE 2004
 (IN US DOLLARS)

	30 June 2005	30 June 2004
CHANGES IN UNRESTRICTED NET ASSETS		
Revenue and gains		
Members fees	352,500	320,000
Associates Fees	56,235	58,125
Observers Fees	15,000	18,750
Annual Conference Income	59,900	47,500
Seminar Income	33,439	62,261
Interest Income	3,022	425
	<u>520,096</u>	<u>507,061</u>
Expenses		
Salary – Secretariat Members	305,347	232,389
Annual Conference Expenses	94,728	58,784
Training	0	232
Training Initiative Support	15,834	1,082
Insurance	1,262	0
Travel	60,491	57,911
Telephone	4,698	1,382
Office Expenses	21,801	20,435
Audit	3,116	3,516
Meeting Expenses	26,952	12,384
Seminar Expenses	25,479	61,963
Web Site	37,448	8,708
Exchange Diferrence	13,248	3,046
Miscellaneous	0	1,962
Bank Charges	3,141	3,178
Depreciation	164	109
	<u>613,709</u>	<u>467,081</u>
Changes in Operating unrestricted net assets	(93,613)	39,980
Extraordinary Items Contribution for Tsunami relief	4,860	0
Changes in unrestricted net assets	(98,473)	39,980

NOTES TO THE FINANCIAL STATEMENTS

(ENDED 30 JUNE 2005)

1. NATURE OF ORGANIZATION

The International Association of Deposit Insurers is a non-profit organization organized under Swiss Law, domiciled in Basel, at the Bank for International Settlements.

Its Objects are to contribute to the stability of financial systems by promoting international cooperation in the field of deposit insurance and to encourage wide international contact among deposit insurers and other interested parties.

The Association receives annual Member, Associate and Observer fees from its participants:

Members: Entities that, under law or agreements, provide deposit insurance, depositor protection or deposit guarantee arrangements as set out in Article 5 of the Statutes.

Associates: Entities that do not fulfill all the criteria of Members, but who are considering the establishment of a deposit insurance system or other entities that are part of a financial safety net and have a direct interest in the effectiveness of a deposit insurance system.

Observers: Other interested parties such as international organizations, financial institutions or professional firms.

Partners: Entities who enter into cooperative arrangements with the Association in the pursuit and furtherance of the Objects of the Association. They may be involved in the activities of the Association in a manner determined by the Executive Council.

FEES:

Members: US\$10,000 annual fee of with an initial fund contribution of US\$ 10,000 payable over two years, have a right to vote at meetings and hold office.

Associates: US\$7,500 annual fee, no vote but may participate in the activities of IADI.

Observers: US\$5,000 annual fee, no vote but may participate in the activities of IADI.

Partners: No fees due

The governing bodies of the Association are the General Meeting of Members and the Executive Council. The Executive Council has established Standing Committees covering Audit, Training and Conferences, Research and Guidance, Membership and Communications, Finance and Planning, and Governance. Six regional committees have been established (Asia, Africa, the Caribbean, Latin America, Eurasia, and the Middle East and North Africa). The Secretary General acts as the Secretary to the Executive Council supported by the Deputy Secretary General.

The Executive Council is composed of individuals who govern the business and affairs of the IADI. Jean Pierre Sabourin, Special Advisor of the Canada Deposit Insurance Corporation, is the Chair of the Executive Council and President of the Association. Charles Cornut, Président du Directoire des Fonds de Garantie de Dépôts (France) is the Treasurer.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounts of the IADI are drawn up on the historical cost basis and income and expense items are recorded on the accrual basis.

Cash and cash equivalents

The Association considers cash equivalents to be investments, which are highly liquid, readily convertible to cash with maturities of not more than six months.

3. SENSITIVITY TO FOREIGN EXCHANGE MOVEMENTS

The revenue of the Association is predominantly received in U.S. Dollars, while expenditures are made in Swiss Francs and other currencies.

Accordingly, movements of foreign exchange rates over the course of a financial year can have a significant impact on the finances of the Association.

4. BENEFITS RECEIVED

The Association is hosted by the Bank for International Settlements, Basel, and benefits from administration, accounting and other advisory services provided by the Bank for International Settlements. The total amount of these benefits has not been determined.

5. INCOME TAXES

The Association is exempt from income tax.

6. FIXED ASSET SCHEDULE

	30 June 2005	30 June 2004
Opening net book value	267	2,209
Additions	888	0
Disposals	0	1,833
Depreciation	164	109
Closing net book value	991	267

Fixed assets are initially recorded at their cost of purchase and are depreciated on a straight-line basis using the estimated useful life of the asset.

PARTICIPANTS (AS OF 30 JUNE 2005)

ANNEX A

LIST OF MEMBERS – DESIGNATED REPRESENTATIVES

ALBANIAN DEPOSIT INSURANCE AGENCY

Silvana Sejko
General Manager

AUTORITÉ DES MARCHÉS FINANCIERS (QUÉBEC)

Normand M. Côté
Directeur de l'encadrement de l'indemnisation

BANK AL-MAGHRIB FONDS COLLECTIF DE GARANTIE DE DÉPÔTS (MOROCCO)

Abderrahim Bouazza
Head of the Banking Supervision Department

BANK DEPOSIT SECURITY FUND (SUDAN)

Ezeldin Mirghani Yasein Abdelkarim
General Manager

BULGARIAN DEPOSIT INSURANCE FUND

Bisser Manolov
Chairman of the Management Board

CANADA DEPOSIT INSURANCE CORPORATION

Jean Pierre Sabourin*
Special Advisor
*Mr. Sabourin became Chief Executive Officer
of the Malaysia Deposit Insurance Corporation,
effective 1 September 2005

CENTRAL DEPOSIT INSURANCE CORPORATION

Chin-Tsair Tsay
Chairman of the Board

DEPOSIT GUARANTEE FUND IN THE BANKING SYSTEM (ROMANIA)

Alexandru Matei
General Director

DEPOSIT INSURANCE AGENCY (RUSSIAN FEDERATION)

Andrej G. Melnikov
Deputy General Director

DEPOSIT INSURANCE AND CREDIT GUARANTEE CORPORATION (INDIA)

(Wholly owned subsidiary of the Reserve Bank of India)
S. S Gangopadhyay
Chief General Manager

DEPOSIT INSURANCE AGENCY OF BOSNIA AND HERZEGOVINA

Josip Nevjestic
Director

DEPOSIT INSURANCE CORPORATION, CENTRAL BANK OF THE BAHAMAS

Ralph W. Forskin
Senior Assistant Manager

DEPOSIT INSURANCE CORPORATION OF JAPAN

Hajime Shinohara
Deputy Governor

FONDO DE GARANTÍA DE DEPÓSITOS Y PROTECCIÓN BANCARIA (VENEZUELA)

Humberto R. Ortega Díaz
President

FONDO DE GARANTÍAS DE INSTITUCIONES FINANCIERAS (COLOMBIA)

Juan Ricardo Ortega
Director

FONDO DE SEGURO DE DEPÓSITOS (PERÚ)

Juan Klingenberger
President

FUNDO GARANTIDOR DE CRÉDITOS (BRAZIL)

Antonio Carlos Bueno de Camargo Silva
Chief Executive Officer

FONDS DE GARANTIE DES DÉPÔTS (FRANCE)

Charles Cornut
Président du Directoire

**INSTITUTO DE GARANTÍA DE DEPÓSITOS
(EL SALVADOR)**

Oscar Armando Pérez Merino
Chairman

**INSTITUTO PARA LA PROTECCIÓN AL AHORRO
BANCARIO (MEXICO)**

Carlos Isoard
Member of the Board of Governors

JAMAICA DEPOSIT INSURANCE CORPORATION

Winston Carr
Chief Executive Officer

JORDAN DEPOSIT INSURANCE CORPORATION

Mohammed Al-Jafari
General Director

KAZAKHSTAN DEPOSIT INSURANCE FUND

Bakhyt Mazhenova
General Director

**DEPOSIT INSURANCE CORPORATION
(TRINIDAD & TOBAGO)**

Junior Frederick
General Manager

DEPOSIT INSURANCE FUND CZECH REPUBLIC

Josef Tauber
Chairman of the Board of Administration

DEPOSIT INSURANCE OF VIETNAM

Do Khac Hai
Chairman

DEPOSIT INSURANCE BOARD OF TANZANIA

Simon C. Matafu
Director

DEPOSIT PROTECTION BOARD (ZIMBABWE)

John M. Chikura
Chief Executive Officer

DEPOSIT PROTECTION FUND BOARD (KENYA)

Kakai Cheloti
Director

FEDERAL DEPOSIT INSURANCE CORPORATION

Arthur J. Murton
Director, Division of Insurance and Research

KOREA DEPOSIT INSURANCE CORPORATION

Dong Il Kim
Executive Director

HONG KONG DEPOSIT PROTECTION BOARD*

Raymond Chan King-wang
Deputy Chief Executive Officer (Operations)
*Member as of 1 July 2005 through transitional arrangements

**NATIONAL DEPOSIT INSURANCE FUND
OF HUNGARY**

András Fekete-Györ
Deputy Managing Director

**NATIONAL INSTITUTE FOR GUARANTEE
OF DEPOSITS (LEBANON)**

Khater Abi Habib
Chairman and General Manager

NIGERIA DEPOSIT INSURANCE CORPORATION

Ganiyu A. Ogunleye
Managing Director/Chief Executive

PHILIPPINE DEPOSIT INSURANCE CORPORATION

Ricardo M. Tan
President and Chief Executive Officer

**SAVINGS DEPOSIT INSURANCE FUND
BANKING REGULATION AND SUPERVISION AGENCY
(TURKEY)**

Ferruh Tunç
Vice President

**SEGURO DE DEPÓSITOS SOCIEDAD ANÓNIMA
(ARGENTINA)**

Irene L. Ulnik
Chairwoman

SWEDISH DEPOSIT GUARANTEE BOARD

Hans Jacobson
Chairman

THE DEPOSIT GUARANTEE FUND (UKRAINE)

Valeriy I. Ognyenko
Managing Director

ASSOCIATES

BANGKO SENTRAL NG PILIPINAS

Nestor A. Espenilla
Deputy Governor

BANGLADESH BANK*

Muhammad A. R. (Rume) Ali
Deputy Governor
*Admitted 15 August 2005

BANK OF ALGERIA

Choaib El-Hassar
Deputy Governor

BANK OF MONGOLIA

Alagiin Batsukh
First Deputy Governor

BANK NEGARA MALAYSIA*

Wai Lai Keen
Deputy Director, Deposit Insurance Task Force
*Malaysia Deposit Insurance Corporation transitioned
to become a Member on 15 August 2005

BANK OF THAILAND

Swangchit Chaiyawat
Assistant Governor, FIDF Management and Debt
Restructuring Group

MONETARY AUTHORITY OF SINGAPORE

Chia Der Jiun
Director, Prudential Policy

THE NATIONAL TREASURY (SOUTH AFRICA)

Nkosana Mashiya
Director of Bank Regulation Department
Chief Director, Financial Regulation Macro Economic
Policy

OBSERVERS

BEARINGPOINT LLC

Tina Mendelson
Senior Consultant

DELOITTE & TOUCHE

Michael W. Mackey
Partner and Global Leader, Financial Institution
Restructuring Services Group

GOODMANS LLP

Gale Rubenstein
Partner

KPMG INTERNATIONAL*

Andrew Lee
Director, KPMG Impaired Loan Advisory Services
*Admitted 11 August 2005

PARTNERS

ASIAN DEVELOPMENT BANK

Henrike Feig
Senior Financial Sector Specialist, Finance and
Infrastructure Division

EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT

Kurt Geiger
Business Group Director

EUROPEAN FORUM OF DEPOSIT INSURERS

Roberto Moretti
Chairman

INTERNATIONAL MONETARY FUND

Stefan Ingves
Director, Monetary and Financial Systems Department

SEACEN RESEARCH AND TRAINING CENTRE

Subarjo Joyosumarto
Executive Director

THE TORONTO INTERNATIONAL LEADERSHIP CENTRE FOR FINANCIAL SECTOR SUPERVISION

David J.S. Winfield
Executive Director

GOVERNANCE POLICY

ANNEX B

A strong Executive Council plays a crucial role in protecting the interests of IADI and maximizes what the Members can expect to receive from the International Association of Deposit Insurers. While IADI's governance practices are not regulated, the policies of IADI are based on best practices drawn from those that are used by well-governed publicly traded companies and do not differ significantly from those of other international associations.

A. INTRODUCTION

The Executive Council of the International Association of Deposit Insurers (IADI) wishes to record in this Governance Policy certain governing principles and the various means by which they will endeavor to ensure that these principles are followed.

This policy reflects the Statutes and the by-laws of the Association, as well as relevant experience of the Members of IADI and their sentiment on the subject. Therefore, as a good practice, this policy will be reviewed from time-to-time.

IADI's Secretariat (Management), led by the Secretary General, in addition to translating the Executive Council's direction into action and managing IADI's day-to-day operations, is responsible for supporting the Executive Council in following these governing principles. The Executive Council also wishes to record in this policy their expectations in that regard.

This policy consists of statements of principle. These principles are accompanied by indications of the Executive Council's own expectations and the expectations of Management, which do not form part of the policy and may not be exhaustive.

B. BACKGROUND

IADI was established on 6 May 2002 and its Statutes prescribe the objects of the Association and, among other issues, the powers of the General Meeting of Members (GM) and the Executive Council, which are the governing bodies, as well as the main responsibilities of the Secretary General (SG). The GM is the supreme authority of the Association.

Pursuant to the provisions of the Statutes, the members of the Executive Council shall act in the best interests of IADI and serve on good behavior.

C. PRINCIPLES

PRINCIPLE 1

Members¹ of the Executive Council have a responsibility to exercise independent judgment and to act in the best interests of IADI.

PRINCIPLE 2

It is the responsibility of each member of the Executive Council to maintain a thorough understanding of IADI's Statutes, by-laws and policies.

Source: Statutes Art. 17 (a) and (l). By-law 8.01.

Expectations of Management

Management will provide members of the Executive Council, from time-to-time, with pertinent information to assist the Executive Council in understanding the nature and scope of IADI's mandate.

¹ From this point forward, provisions related to a member or members of the Executive Council apply to Alternates as provided for under Article 2.03 of the International Association of Deposit Insurers by-law.



PRINCIPLE 3

The Executive Council shall arrange an orientation program and new members are expected to attend.

Source: Statutes Art. 5 and 16.

Expectations of Management

Management will assist the Executive Council with orientation for the new members.

PRINCIPLE 4

The Executive Council shall ensure that the candidates it may propose to fill vacancies reflect the composition and regional interests of the Association.

Source: Statutes Art. 15.

Expectations of Management

Management will provide the Executive Council with support to develop the list of candidates to fill vacancies.

PRINCIPLE 5

The Executive Council shall establish and keep current the mandates and responsibilities of Standing and Regional Committees.

Source: Statutes Art. 17 (g) and (h); 18 (g). By-law Part 3 and 4.03.

Expectations of Management

Management will provide the Executive Council with recommendations on the mandates of the committees.

PRINCIPLE 6

The Executive Council shall establish, document and keep current the roles and responsibilities of the Chair of the Executive Council, Treasurer and Secretary General.

Source: Statutes Art. 16, 17 and 18. By-law 4.03.

Expectations of Management

Management will provide the Executive Council with recommendations on the responsibilities of the SG.

PRINCIPLE 7

The Executive Council shall establish relevant codes of conduct and ethical behavior for members of Executive Council and for the Secretariat, and obtain, on a regular basis, reasonable assurance that IADI has an ongoing, appropriate and effective process for ensuring adherence to those codes.

Source: Statutes Art. 16 and 17 (l). By-law 5.01, 6.01, 6.02.

Expectations of Management

Management will provide the Executive Council with recommendations respecting codes of conduct and ethical behavior.

Management will develop and implement an ongoing, appropriate and effective process for ensuring adherence to IADI's codes of conduct and behavior and provide the Executive Council periodically (or at least annually) with reports that they are aware of the Code of Conduct and Ethical Behavior and confirm compliance with the code.

PRINCIPLE 8

The Executive Council shall develop appropriate succession plans for the positions of Chair of the Executive Council and President, Treasurer, Chairs of Committees and the Secretary General.

Source: Statutes Art. 15, 17 (g), (h) and (j). By-law part 3.

Expectations of Management

Management will provide the Executive Council with recommended plans and candidates for their consideration to fill the positions of Chairs of Committees and Secretary General.

Management may be asked to provide the Executive Council with recommendations on succession planning for the position of the Chair of the Executive Council and the Treasurer, for the consideration of the General Meeting of Members.

PRINCIPLE 9

The Chair of the Executive Council will assess annually the performance of the Secretary General.

Source: Statutes Art. 17 (j) and 18. By-law 4.04.

PRINCIPLE 10

The Executive Council shall:

- a) periodically assess IADI's objects to ensure their continuing relevance and, if thought appropriate, propose changes for consideration at General Meetings of Members;
- b) adopt a strategic planning process;
- c) set annually the Association's objectives through a business plan and budget and regularly evaluate IADI's performance in implementing its approved plans;
- d) review annually the by-laws, policies and procedures of IADI to ensure that they remain current and relevant; and
- e) recommend the approval of the annual report, a budget and business plan including the annual fees of participants and fund contributions of Members.

Source: Statutes Art. 17 (a) and (d).

Expectations of Management

Management will periodically assess the continuing relevance of IADI's objects and powers and report to the Executive Council on the results of these reviews.

Management will review annually the by-laws, policies and procedures of IADI to ensure that they remain current and relevant.

Management will periodically (and at least annually) develop recommendations for prudent and appropriate operating objectives and strategies, an operating budget and submit such recommendations to the Executive Council.

Management will provide the Executive Council regularly with reports that enable it to assess IADI's performance in implementing its current approved objectives, strategies, plans and budgets.

D. CODE OF CONDUCT FOR EXECUTIVE COUNCIL MEMBERS

This Code of Conduct (the "Code") applies to the Executive Council (EXC) members, their alternates and Secretary General of IADI and more generally any accompanying person participating in the EXC meetings.

This document sets out certain principles of representation and honourable dealing designed to enable the IADI to fulfil its role more effectively and fairly. Nothing in this Code is intended to impose any duties or obligations on an EXC member that are inconsistent with the duties and obligations of the EXC members to the Member they represent (home DIS, the Members of IADI). At the same time, the IADI must be free of all suspicion as to its integrity and the acceptance of the highest standards of ethical conduct as honourableness in words and deeds of each party will ensure effectiveness of the IADI as an Institution.



1. The EXC members or their alternates and any accompanying person covered by this Code should observe the highest standards of ethical conduct and behaviour and comply with the Statutes, by-law and policies of the IADI. When exercising their responsibilities as members, they are expected to act in the interests of IADI to the best of their ability and judgement, consistent with their own responsibilities to the Member they represent. They shall strive to avoid actions which would have a negative impact on either their duties as EXC members or bring into question the integrity, credibility and image of the IADI.
2. In order to ensure the proper management of the IADI's affairs, each EXC member must avoid all conflicts of interest and must not derive personal benefit from being an EXC member.
3. If an EXC member foresees, for him/herself, the likelihood of a conflict of interest or the appearance of a conflict of interest, this member should take action, as appropriate, to address the conflict. The EXC member, in such a situation, should discuss the issue with the Chair or the Treasurer, who may, if appropriate, raise the matter with the EXC. The EXC member may request that the matter be dealt with by the EXC.
4. The EXC members or their alternates and any accompanying person who participate in the EXC meetings should maintain the confidentiality of non-public information (c.f. Part 6 of the IADI by-law) about the IADI or its activities or operations to which they have access by virtue of their functions as EXC members without prejudice to their capacity of reporting to or seeking advice from the Member they represent. This obligation shall continue after the EXC members or their alternates and any accompanying person steps down.

ACHIEVEMENTS

ANNEX C

CONFERENCES

- First Annual IADI Conference "Transitioning Issues for Deposit Insurance Practitioners", Bank for International Settlements, Basel, Switzerland, May 2002.
- Second Annual IADI Conference "Effective Depositor Protection: Enhancing Governance Arrangements", Seoul, Korea, October 2003, hosted by Korea Deposit Insurance Corporation.
- Conference on "Deposit Insurance as an Element of Banking Sector Stability", May 2004, Kiev, organized by The Deposit Guarantee Fund (Ukraine).
- Deposit Insurance in Africa: Issues, Challenges and Prospects, organized by the Nigeria Deposit Insurance Corporation; June 2004, Abuja, Nigeria.
- Third Annual IADI Conference "Assembling the Tool Kit for Deposit Insurers", Brunnen, Switzerland, October 2004.
- International Conference "Early Warning System as a Key Issue to Bank Solvency and Financial Stability", Almaty, Kazakhstan, May 2005, hosted by the Kazakhstan Deposit Insurance Fund.

SEMINARS/WORKSHOPS

- Workshop for Executive Council on Strategic Planning, Bank for International Settlements, July 2002, Basel, Switzerland.
- IADI/European Bank for Reconstruction and Development Seminar on Deposit Insurance for Central Asia, Mongolia and Azerbaijan, January 2003, Bank for International Settlements, Basel, Switzerland.
- IADI/ European Bank for Reconstruction and Development Seminar on Deposit Insurance for The Western Balkans, December 2003, Bank for International Settlements, Basel, Switzerland.
- IADI/Deloitte Seminar on Enterprise Risk Management, April 2004, Bank for International Settlements, Basel, Switzerland.
- APEC Policy Dialogue on Deposit Insurance, February 2004, Kuala Lumpur, Malaysia, chaired by the Canada Deposit Insurance Corporation and hosted by Bank Negara Malaysia.
- Asia Regional Committee Meeting and Symposium, Kyoto, Japan, March 2004 organized by the Deposit Insurance Corporation of Japan.
- Regional Latin America Meeting and Conference, Acapulco, Mexico, August 2004.
- Risk Management Seminar, Kenya School of Monetary Studies, November 2004, Nairobi, Kenya.
- FOGAFIN Seminar, "Minimizing the Cost of Financial Crisis", Cartagena, Colombia, June 2005.
- Strategic Planning Session for Executive Council facilitated by Deloitte Consulting Group GmbH, Basel, Switzerland, June 2005.



THE FOLLOWING DOCUMENTS HAVE BEEN PUBLISHED:

- IADI Statutes
- By-laws, policies and Governance Practices;
- Guidance Paper on the Establishment and Design of Deposit Insurance Systems;
- General Guidance for Developing Differential Premium Systems;
- Draft Guidance Discussion Paper on Inter-relationships;
- Draft Guidance Discussion Paper on Bank Resolutions; August 2005;
- Proceedings from conferences held in October 2001, May 2002, October 2003, June 2004, October 2004 and May 2005; and
- Catalogue on Training Courses and Opportunities for Deposit Insurers.



LEGEND

- 1** Cover: Getty images
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courtesy Basel Tourismus, © Peter Gartmann
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by Branimir Gjetvaj
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Grand Hotel, Taiwan
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Executive Council Meeting, Paris
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Page 14: 3rd Annual conference participants
Speaker Christine Cumming, conference participants
- 7** Page 15: Brunnen, "Vierwaldstättersee"
Speaker Otbert de Jong
Page 17: Speakers JP Sabourin, Mario Beauregard, Carlos Isoard
Acapulco Regional conference participants
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Almaty conference participants
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Cartagena seminar participants
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- 12** Page 37: Basel skyline
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The principal mission of the Bank for International Settlements (BIS), as set down in its Statutes, is to promote the cooperation of central banks.

“The ability to adapt when change is required and to always place the needs and requirements of its constituency centre stage is also the main reason why I am convinced that the BIS still has a long and fruitful future before it.”

Malcolm D. Knight
General Manager of the BIS
Basel, November 2004

HEAD OFFICE

INTERNATIONAL ASSOCIATION OF DEPOSIT INSURERS

c/o Bank for International Settlements
Centralbahnplatz 2
CH-4002 Basel, Switzerland
(Tel) +41 (61) 280 99 33
(Fax) +41 (61) 280 95 54
info@iadi.org
www.iadi.org

JOHN RAYMOND LABROSSE

Secretary General
Tel: +1 613 762 6030
Fax: +41 61 280 95 54
E-mail: ray.labrosse@iadi.org

KIM WHITE

Deputy Secretary General
Tel: +41 61 280 99 33
Fax: +41 61 280 95 54
E-mail: kim.white@iadi.org

