



**Conference on Core Principles for
Effective Deposit Insurance Systems**

**Safety Net Participants and
Cross Border Issues**

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Agenda

- Core Principle 6: Relationships With Other Safety-Net Participants.
- Core Principle 7: Cross Border Issues.

Core Principle 6: Relationships With Other Safety-Net Participants

The Financial Safety Net

- System of authorities that ensures the stability of the financial system, sustains public confidence and protects consumers.
 - Deposit insurers.
 - Lenders of last resort.
 - Prudential regulators and supervisors.
- Impact of financial crisis.
 - New participants.
 - Expanded roles of existing participants.

Previous Guidance

- September 2001: Financial Stability Forum's Guidance for Developing Effective Deposit Insurance Systems.
- September 2004: APEC Policy Dialogue on Deposit Insurance.
- January 2006: IADI General Guidance to Promote Effective Interrelationships among Financial Safety Net participants.

Principle 6: Relationships With Other Safety-Net Participants

- “A framework should be in place for the close coordination and information sharing, on a routine basis as well as in relation to particular banks, among the deposit insurer and other financial system safety-net participants.”
- “Such information should be accurate and timely (subject to confidentiality when required).”
- “Information-sharing and coordination arrangements should be formalized.”

Framework for Close Coordination and Information Sharing

- A framework that addresses the role of the deposit insurer and how it fits in with other safety net participants.
- The need exists regardless of the country's institutional arrangements.
- Specific aspects of the framework - information sharing, allocation of powers and responsibilities, and coordination - must be clearly and explicitly addressed.

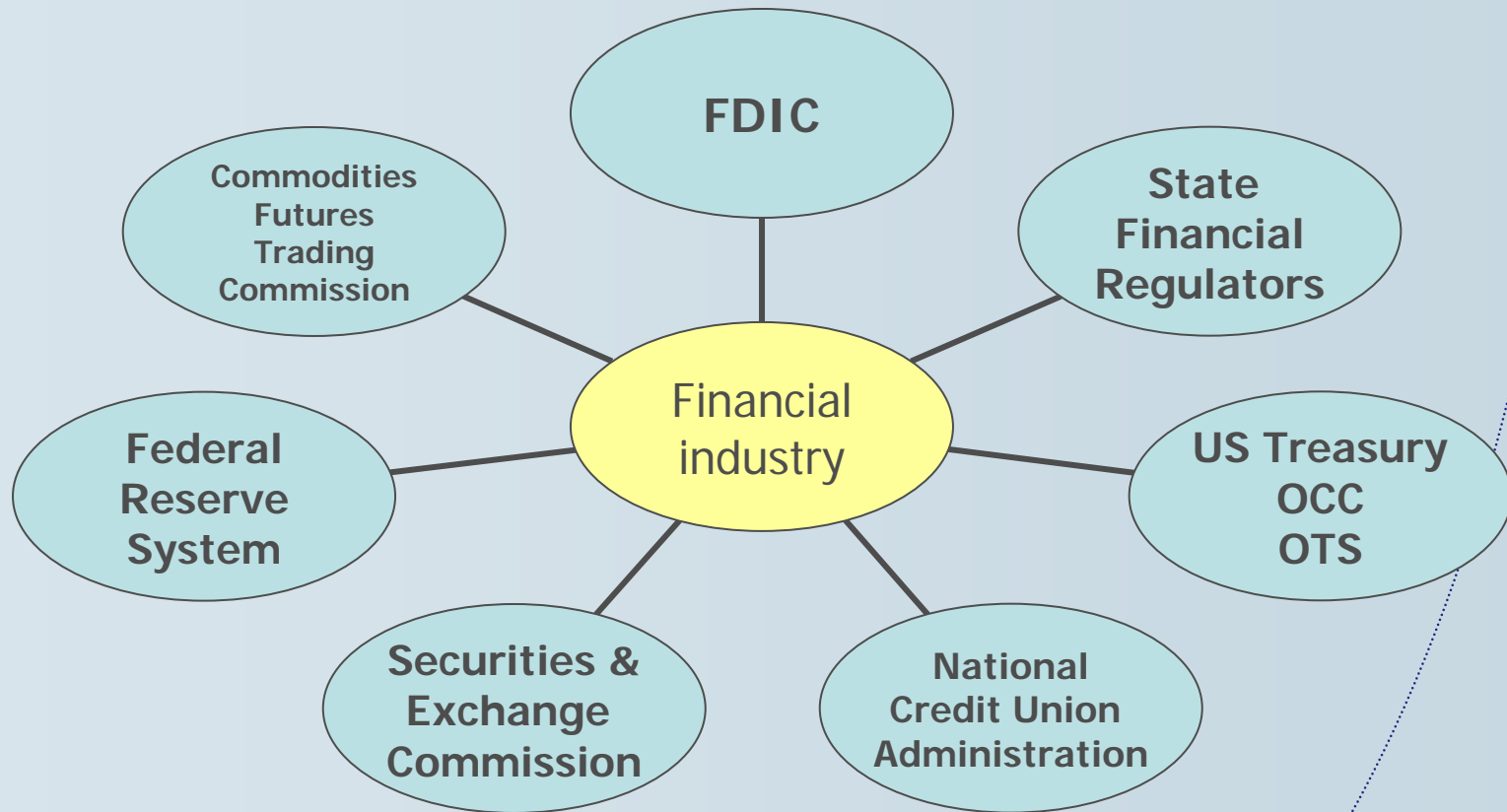
Sharing of Timely, Relevant and Accurate Information

- A framework that promotes sharing of timely, relevant, and accurate information.
- Information needs will vary:
 - All deposit insurers.
 - Risk minimizers.
 - Deposit insurers with resolution authority.

Formalized Arrangements

- Clearly specified, formalized arrangements are preferred.
- Means of formalization can include legislation, memoranda of understanding (MOU), legal agreements, or some combination.
- Formalized arrangements also help protect and maintain confidentiality.

The U.S. Experience



The FDIC's Role in the Financial Safety Net

- Under the Federal Deposit Insurance (FDI) Act, the FDIC has the power to act as:
 - Supervisor of state-chartered, non-member banks.
 - Deposit insurer of all banks and thrifts.
 - Receiver of all banks and thrifts.

Coordination and Information Sharing for FDIC as Deposit Insurer

- Clearly specified authorities.
- Governance and composition of FDIC Board of Directors.
- Formal interagency agreements.
- Access to examination reports for all insured institutions and backup enforcement authority.
- Interagency MOU.
- Federal Financial Institutions Examination Council (FFIEC).

Core Principle 7: Cross Border Issues

Previous Guidance and Ongoing Work

- FSF September 2001 Guidance for Developing Effective Deposit Insurance Systems.
- Various European Union activities focused on financial stability in a cross border banking environment.
- The Basel Committee on Banking Supervision's Cross-border Bank Resolution Group (CBRG).
- IADI Subcommittee on Deposit Insurance Cross Border Issues.

Pre-Crisis Cross Border Issues

- Banking systems characterized by a significant presence of foreign bank branches.
- Harmonization of deposit insurance rules where economies are closely integrated.
- Home vs host applicability of laws and regulations.
- Uncertainty about the resolution of a large internationally active bank.
- Differences among deposit insurance systems and the potential for externalities, consumer confusion, and competitive distortions.

Cross Border Challenges of the Financial Crisis

- New issues:
 - Implications of global spiraling of coverage and full guarantees and eventual unwinding.
 - Depositor awareness of cross border coverage limits.
 - Countries' economic capacity to insure deposits.
- Familiar issues:
 - Cross border communication and cooperation.
 - Supervision and resolution of complex cross border banking groups.
 - Convergence of deposit insurance regulations.

Crisis - Observations and Recommendations

- Observations:

- IMF (2009): “[C]ountries did not fully coordinate national policies in the face of the global crisis during the first few months of the crisis...Global coordination of these actions could have strengthened their effectiveness, both over time and across countries.” *(Note by the Staff of the International Monetary Fund on Stocktaking of the G-20 Responses to the Global Banking Crisis, March 13-14, 2009, page 3.)*
- Organization for Economic Co-operation and Development (OECD) (2008): “Co-ordination with regard to deposit insurance policy measures taken was not always as close as one might have hoped...” *(Financial Crisis: Further Issues Regarding Deposit Insurance and Related Financial Safety Net Aspects, 03-Nov-2008, page 5.)*

- Recommendations:

- Financial Stability Forum’s “Principles for Cross Border Crisis Management” (April 2009) commits authorities to make advanced preparations for financial crises.
- Group of 20 (2009): “Regulators should take all steps necessary to strengthen cross-border crisis management arrangements, including on cooperation and communication with each other and with appropriate authorities, and develop comprehensive contact lists and conduct simulation exercises, as appropriate.” *(G20 Working Group 2: Reinforcing international cooperation and promoting market integrity, Key Messages, 9 March 2009, page 2.)*

Principle 7: Cross Border Issues

- “Provided confidentiality is ensured, all relevant information should be exchanged between deposit insurers in different jurisdictions and possibly between deposit insurers and other foreign safety-net participants when appropriate.”
- “In circumstances where more than one deposit insurer will be responsible for coverage, it is important to determine which deposit insurer or insurers will be responsible for the reimbursement process. The deposit insurance already provided by the home country system should be recognized in the determination of levies and premiums.”

Thank You