



**Draft: 22 July, 2009**

**Proposed Research Plan for:  
IADI Discussion Paper on Cross Border Issues**

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**Request for Comments and Submissions**

Deposit insurers and other interested parties are asked to comment on their experiences as they relate to the issues to be addressed below. Individuals and organizations that would like to submit a paper on the issues raised in this Research Plan are requested to inform Barbara Ryan at [baryan@fdic.gov](mailto:baryan@fdic.gov) by **September 30, 2009**.

**Purpose**

The Subcommittee proposes to conduct research and develop a discussion paper on cross border-related deposit insurance (DI) issues. The immediate focus of the subcommittee's efforts will be on recent DI developments related to the financial crisis and the cross border implications of these developments. In the medium term, the subcommittee plans to continue research with the objective of identifying cross border and resolution issues that arise from differences in features and authorities across DI systems, particularly between home and host countries. Based on this analysis, the subcommittee may attempt to identify areas where convergence of regulatory practices among DIs may be beneficial for global financial stability.

**Background**

The purpose of IADI's Subcommittee on Cross Border Issues is to provide a forum for the discussion and analysis of current and evolving cross border issues related to deposit insurance (DI). The adoption of explicit DI systems has expanded significantly in recent years. As of 2008, there were 103 countries with explicit DI systems. Despite the growth of explicit DI systems, their features and authorities vary widely among countries. A number of surveys have been conducted over the last decade documenting these

differences as well as areas where there is increased evidence of convergence.<sup>1</sup>

Until fairly recently, the implications of cross border DI differences have been largely of academic interest. Recent global financial turmoil, however, has significantly raised awareness of the characteristics of effective DI systems, the cross border implications of differences among DI systems, the manner in which various DI authorities may react to systemic crises, and other DI cross border issues. In the recent financial crisis, differences in coverage, use of co-insurance, and timeliness of payout appear to have had potentially significant cross border consequences. Rapid adoption of significant increases in DI coverage and blanket DI coverage as well as uncoordinated reactions of national DI authorities to the crisis also appear to have had significant cross border effects in some regions. These and other DI cross border issues that have surfaced as a result of the financial crisis merit immediate review and consideration.

The recent financial turmoil has also raised awareness of the importance of agreement on a set of core principles for DI.<sup>2</sup> At a minimum, the development of an agreed-upon set of core principles for effective deposit insurance would seem to provide a practical framework with which to analyze features and authorities of various explicit DI systems and cross border implications of differences or convergences in such characteristics.

The financial crisis has also sparked international interest in the topic of convergence in regulatory practices among DI systems. In a statement released on November 15, 2008, the Group of 20 Finance Ministers and Central Bank Governors (G-20) Summit on Financial Markets and the World Economy requested authorities to collect information on areas where convergence in regulatory practices including DI is making progress, is in need of accelerated progress, or where there may be potential for progress. The FSF requested IADI prepare a draft paper on Convergence in Regulatory Practices in DI in response to the G20 request. The draft IADI paper identifies a number of areas where lack of convergence among DI systems

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<sup>1</sup> These include the IADI/Canada Deposit Insurance Corporation (CDIC) "International Deposit Insurance Survey," 2008; and David S. Hoelscher, Michael Taylor, and Ulrich H. Klueh, "The Design and Implementation of Deposit Insurance Systems," International Monetary Fund, 2006; and Deposit Guarantee Systems: EFDI's First Report, European Forum of Deposit Insurers (EFDI); October 2006.

<sup>2</sup> In March 2009, the Basel Committee on Banking Supervision (BCBS) and the International Association of Deposit Insurers (IADI) jointly issued a set of Core Principles for Effective Deposit Insurance Systems for public comment. Previously, a Financial Stability Forum (FSF) report on Enhancing Markets and Institutional published in April 2008 recommended that authorities agree on an international set of principles for effective DI. The final Core Principles for Effective Deposit Insurance Systems were jointly released by the BCBS and IADI on June 18, 2009.

raises potential cross border issues and could provide a useful starting point for the new research focus of this subcommittee.<sup>3</sup>

Overall, the financial crisis and related DI developments, the development of an agreed set of core principles for effective DI, and the international interest in convergence in regulatory practices among in DI suggest that a research effort focusing on DI cross border issues is timely and would be of particular interest to the international DI community.

### **Focus of Proposed Research**

The research and analysis effort would be conducted in three phases:

#### **Phase I – Conduct literature review.**

- Collect, review, and summarize existing literature on DI systems, differences, and related cross border issues.
- Revise research plan as necessary following literature review.

#### **Phase II – Assess cross border implications of recent DI events related to the financial crisis.**

- Chronicle responses of DI authorities to the current financial crisis.
- Develop at least one case study that highlights cross border issues raised by DI events in a particular country or set of countries.
- Identify the impact of actions taken and/or uncoordinated implementation of responses of DI authorities on other DI systems where applicable.
- Identify key lessons learned from recent DI events related to the financial crisis (e.g., the effects of a significant gap between the coverage level in the deposits' location and deposit transfers, etc.).

#### **Phase III – Assess cross border implications of regulatory practices of existing DI systems.**

- Leveraging existing surveys and research, document differences and similarities among core features and authorities of existing DI systems, such as:
  - Level and scope of coverage limits;

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<sup>3</sup> "Convergence in Regulatory Practices in Deposit Insurance; an Interim Report by the International Association of Deposit Insurers," February 2009.

- Funding;
  - Mandates (payout versus risk-minimizer);
  - Role in bank failures;
  - Payout timeliness;
  - Depositor claim status and priority for the depositor, for the DI system;
  - Treatment of foreign deposits;
  - Access to information
  - Governance structures;
  - Receivership role of DI systems;
  - Differences in set-off and winding-up procedures;
  - Information sharing and coordination between the DI and other national and international authorities.
- Identify and summarize DI features and authorities with potentially significant cross border implications.
  - Identify areas where convergence of regulatory practices among DIs may be beneficial for global financial stability.
  - Discuss policy implications of Phase III findings.

**Phase IV – Assess resolution implications of responsibilities of home and host DI systems and supervisors and other cross border issues affecting resolution activities.**

- Conduct a comparison of responsibilities of home and host DI systems and supervisors to understand their implications for DI responses to particular resolution issues.
  - For example, the DIs from the home countries in the European Union (EU) must be responsible for branches, but it is self-evident from the Icelandic example that this can be problematic in practice and that it creates different effects in EU and non-EU countries.
- Explore the implications of various bank structures (i.e., branch versus subsidiary) on DI resolution activities.

## **Research Methodology**

It is envisioned that the work of this subcommittee will build on and extend the findings of the interim and draft IADI Report on Convergence in Regulatory Practices in DI dated February 10, 2009.

Members of the sub-committee will conduct the research and analysis and will leverage previously conducted surveys and research to the fullest extent possible.

The study effort may include the development of one or more case studies focusing on cross border issues raised by DI events in a particular country or set of countries.

Development of the initial draft discussion paper will rely largely on the work of the sub-committee. Development of subsequent drafts will incorporate input, comments, and suggestions received from other IADI members and outside interested parties collected during the review and consultative process.

## **Research Schedule**

<b>Timeline</b>	<b>Actions/Deliverables</b>
First and second quarters, 2009	<ul style="list-style-type: none"><li>▪ Distribute proposed research plan to subcommittee and RGC and incorporate feedback.</li><li>▪ Obtain RGC approval of subcommittee research plan.</li><li>▪ Determine research and writing assignments.</li></ul>
Second and third Quarters, 2009	<ul style="list-style-type: none"><li>▪ Develop Phase I/II draft report outline, review with sub-committee members, and obtain sub-committee approval.</li><li>▪ Develop Phase I/II draft report.</li><li>▪ Circulate Phase I/II draft report to subcommittee members for review and comment.</li><li>▪ Sub-committee Chair to report on progress at RCG standing sub-committee meetings in Basel, Switzerland in July and September, 2009</li></ul>
Third and fourth Quarters, 2009	<ul style="list-style-type: none"><li>▪ Receive and incorporate comments on Phase I/II draft report from subcommittee members.</li><li>▪ Produce final version of Phase I and II draft report.</li></ul>
First Quarter, 2010	<ul style="list-style-type: none"><li>▪ Chair to present Phase I/II draft report highlights at IADI Cross Border Conference in February, 2010 in Basel Switzerland and seek external feedback.</li></ul>

<b>Timeline</b>	<b>Actions/Deliverables</b>
	<ul style="list-style-type: none"> <li>▪ Update Phase I/II report drafts as necessary.</li> <li>▪ Produce final version of Phase I/II report and determine next steps with regard to Phases III and IV.</li> </ul>

### **Members of the Subcommittee**

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