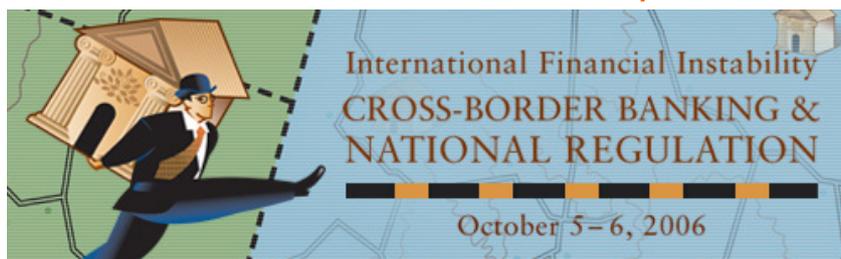


Highlights in this Issue

Program and Registration Information for the Conference on International Financial Stability: Cross-Border Banking and National Regulation

THE FEDERAL RESERVE BANK OF CHICAGO AND THE INTERNATIONAL ASSOCIATION OF DEPOSIT INSURERS ARE PLEASED TO INVITE YOU TO A CONFERENCE ON "INTERNATIONAL FINANCIAL STABILITY: CROSS-BORDER BANKING AND NATIONAL REGULATION". THE CONFERENCE WILL BE HELD AT THE FEDERAL RESERVE BANK OF CHICAGO BEGINNING THE MORNING OF THURSDAY, 5 OCTOBER AND ENDING WITH DINNER ON FRIDAY, 6 OCTOBER 2006.



This is the ninth in an annual series of international banking conferences focusing on important current issues in global economics and finance sponsored by the Federal Reserve Bank of Chicago. These conferences feature internationally recognized speakers from different countries and are of interest to an international audience of financial industry practitioners, regulators, policymakers, and academics.

This year's conference will address the potential for international financial instability from the ongoing acceleration in cross-border banking in recent years but only national prudential regulation. This mismatch is particularly significant in the areas of deposit insurance, lender of last resort operations, and official insolvency recognition and resolution. Thus the conference will explore whether we need more cross-border cooperation, cross-

border organizations, or cross-border harmonization?

As you review the program, you will note that the conference speakers are both experts in the area and represent a wide array of affiliations from an equally wide array of countries. The two-day conference will feature a keynote presentation by Stefan Ingves, Chairman of the Executive Board of the Bank of Sweden/Riksbank, and Raghuram Rajan, Director of Research, **International Monetary Fund**. In addition, we have also invited the incoming chair of the FDIC, upon her confirmation, to present a keynote address.

Conference attendance will be limited to allow for active participation by all attendees. As a result, conference reservations are restricted and will be accepted on a first-received basis. Information about conference registration



and hotel reservations can be found on the Federal Reserve Bank of Chicago's website (www.chicagofed.org). Please note that the deadline for conference registration at the reduced rate is 15 September 2006. Rooms at special conference rates are

blocked at three nearby hotels, but must be reserved by contacting them directly.

We expect that this will be another exciting global conference and look forward to seeing you at this event in Chicago.

Michael H. Moskow
President and Chief Executive Officer
Federal Reserve Bank of Chicago

J.P. Sabourin
Chair of the Executive Council
International Association of Deposit
Insurers

The Agenda for the Conference can be found at the following location:

http://www.chicagofed.org/news_and_conferences/conferences_and_events/2006_international_agenda.cfm

Take the time now to profit from the early registration discount. Information on registration can be found at the following location:

http://www.chicagofed.org/news_and_conferences/conferences_and_events/Registration_System_index.cfm?confindex=27

What's New at IADI?

Recent changes in the financing policy of the Deposit Guarantee Fund in the Banking System – Romania

With a view to making an updated assessment, both of the level of banks' contributions to the Fund and of the target ratio between the Fund's resources and the total amount of guaranteed deposits, about a year ago the Fund requested the assistance of the "Convergence" Program, sponsored by the World Bank, with the support of a grant from Italy's Ministry of Economy and Finance.

The study was undertaken by a team of experts involved in the "Convergence" Program in co-operation with the Italian Interbank Deposit Protection Fund (FITD). Their joint conclusions and recommendations were formally presented in January 2006 to the concerned

Romanian institutions, namely the Fund, the National Bank of Romania and the Romanian Banking Association.

Following the agreement of the concerned parties on implementing the recommendations made as to the Fund's financing policy, on 22 March 2006, the Romanian Government approved an emergency ordinance on amending and supplementing the Fund's legislation. This amendment provided for downsizing the annual contribution by half in 2006 and by two thirds in 2007, as compared to former legal provisions, while supplementing the Fund's financing by means of stand-by lines of credit to be granted yearly by all



credit institutions participating in the deposit guarantee scheme.

The Fund's new policy is characterized by the implementation of a mixed funding system having an ex ante component, that is equity financing in order to cover risky recoveries and final loss given default, and an ex post one, that is debt financing to be used for that part of the pay-out exposure expected to be recovered (both liquid assets subject to quick recovery and safe portion of risk assets).

The exposure coverage ratio (calculated as the ratio between Fund's resources and guaranteed deposits) represents now the Fund's policy target and is to be set yearly, with the endorsement of the National Bank of Romania, based on thorough risk and sensitivity analyses so as to maintain a well-capitalized deposit guarantee scheme.

For 2006, the exposure coverage ratio was targeted to 2.3%. Consequently, the annual contribution rate was decreased from 0.4% to 0.2%, while the total amount of stand-by lines of credit was set to EUR 150 million. For the next year, the annual contribution rate will be diminished to 0.1%, while starting with 2008, both the contribution rate, which cannot exceed 0.5%, and the total amount of the stand-by lines of credit will be established by the Fund with the endorsement of the National Bank of Romania.

By mid-April 2006, every credit institution of those 40 current members to the deposit guarantee scheme granted the

Fund, in accordance with the new legal provisions, a stand-by line of credit proportionally with the weight of the guaranteed deposits placed with it in total deposits guaranteed by the Fund as at December 31, 2005.

According to the main terms and conditions of the stand-by lines of credit agreements, the Fund could draw on the lines of credit only in case a credit institution is declared bankrupt and the Fund, with the endorsement of the National Bank of Romania, deems necessary to supplement its own financial resources assigned for paying compensations to the depositors of the bankrupt credit institution. In this event, the interest rate will be 3-month BUBOR (Bucharest Interbank Offered Rate) + 1% p.a. and the reimbursement will be made in a 5-year period from the expiry of the grace period, in 5 annual installments. The grace period is comprised between the date of the first drawing and the date of the first collection of the annual contributions of credit institutions subsequent to the first drawing.

The amounts not drawn are subject to a fee of 0.5% p.a. payable within 30 days after the credit lines expiry date.

While as at end-March, the Fund's own financial resources, amounting to about 177 million euros, could have covered 1.33% of the guaranteed deposits, two weeks later, following conclusion of the stand-by lines of credit agreements, the Fund's exposure coverage ratio raised to 2.49%, higher than the 2006 target.



Philippine Deposit Insurance Corporation (PDIC) First Vice President, Elizabeth E. Oller (left), shares with representatives from the Korea Deposit Insurance Corporation (KDIC), Senior Economist, Dr. Min-Hwan Lee (center), and Team Leader, Mr. Yang Ig Cho (second from right), PDIC's experiences on claims and settlement operations and concerns.

PDIC Briefs KDIC Representatives on Deposit Insurance in the Philippines

The Philippine Deposit Insurance Corporation (PDIC) recently briefed two officers from the Korea Deposit Insurance Corporation (KDIC) on deposit insurance concerns in the Philippines. The briefing focused on receivership and liquidation procedures, as well as claims settlement operations and related concerns. It was held upon the request of KDIC, as part of its fact-finding and research activities.

Under the New Central Bank Act (RA 7653) and the PDIC Charter as amended by RA 9302, the PDIC is designated as receiver of banking institutions ordered closed by the Monetary Board of the Bangko Sentral ng Pilipinas (Philippine Central Bank). As a receiver, the PDIC immediately gathers and takes charge of all the assets and liabilities of a closed bank. It shall then administer the assets and liabilities for the benefit of its creditor

and exercise the general power of the receiver under the Revised Rules of Court. PDIC shall also determine as soon as possible, but not later than 90 days from takeover whether the institution may be rehabilitated.

The KDIC representatives were Mr. Yang Ig Cho, Team Leader and Dr. Min-Hwan Lee, Senior Economist both from its Prompt Resolution Department. PDIC representatives, on the other hand, were First Vice President Josefina J. Velilla, First Vice President Elizabeth E. Oller, and Atty. Elaine Deticio.

Held in the main office of PDIC in Pasong Tamo, Makati City, Philippines, the briefing was part of PDIC's continuing commitment to share information with like-minded institutions in the region and worldwide.



Philippine Deposit Insurance Corporation (PDIC) First Vice President, Josefina J. Velilla (center), explains to Mr. Balthazar K. Laurent (left), Principal Accountant of the Deposit Insurance Board of Tanzania, PDIC's authority to grant financial assistance especially to distressed banks.



Philippine Deposit Insurance Corporation (PDIC) Assistant Vice President, Teresita D. Gonzales (right), shares with Mr. Balthazar K. Laurent (left), Principal Accountant of the Deposit Insurance Board (DIB) of Tanzania, PDIC's experiences on receivership and liquidation of closed banks.

PDIC Conducts Study Visit for DIB of Tanzania

The Philippine Deposit Insurance Corporation (PDIC) recently hosted a one-week attachment-study visit for the Principal Accountant of the Deposit Insurance Board (DIB) of Tanzania, Mr. Balthazar K. Laurent.

The attachment/study visit, held in Manila, Philippines, consisted mostly of in-house briefings conducted by PDIC officers. It also included a field observation to a closed bank as well as the Money Museum of the Bangko Sentral ng Pilipinas (BSP).

According to Mr. Laurent, his attachment to PDIC was a worthwhile and enjoyable learning experience.

As requested by the DIB, the in-house briefings focused primarily on takeover operations, receivership and liquidation. This is in line with DIB's current liquidation functions and its plan to expand operations in the near future.

Other topics discussed during the briefings included: Determination of Insurance Coverage; Claims Settlement Operations; Role of PDIC in Bank Closure and Relationship to BSP; Insurance Assessment; Deposit Record Keeping; Investigation of Bank Fraud; Failure Resolution and Financial Assistance; Bank Examination; PDIC Organizational



Structure; Overview of PDIC Organizational Structure; Salient Features of Republic Act 9302; Treasury Operations, Building Up the Deposit Insurance Fund, and Investment Policy; and Depositor Assistance. A total of 13 resource persons, all officers of PDIC, tackled each of the topics.

Last year, two officers from the DIB Tanzania also came for a one-week attachment to PDIC. Being a relatively new

deposit insurer, established in 1993, DIB wants to learn from PDIC's vast experience as a deposit insurer. "We have a high regard for the Philippines and the PDIC, in particular," explained Mr. Laurent.

Established in 1963, PDIC is one of the oldest deposit insurers in Asia. One of its thrusts is to strengthen relations with like-minded institutions around the world and one way to accomplish it is by playing host during study visits and similar activities.

This newsletter was issued on 24 June 2006. To submit articles or items for consideration for a future issue, please send them to kim.white@iadi.org.

Editor: Kim White
Deputy Secretary General
International Association of Deposit Insurers
Tel: +41 (61) 280 99 33 (Basel, Switzerland)
E-mail kim.white@iadi.org www.iadi.org

Layout & Design: Mark Lindsay
E-mail: marklindsay@iadi.org