

7 November 2009

Exit from extraordinary financial sector support measures

Note for G20 Ministers and Governors meeting 6-7 November 2009

In June 2009, FSB members agreed to exchange notes on their planned exits from the exceptional financial sector support measures introduced since 2007, so as to avoid surprises and facilitate coordination where needed. This note draws on these contributions and in the main focuses on policies to exit from wholesale debt guarantees, deposit guarantees¹, capital injections to financial institutions, direct market-wide asset purchases (in some cases as part of quantitative easing by central banks), asset guarantee programs, special lending facilities, and/or extraordinary central bank liquidity facilities.

The note does not cover emergency fiscal or monetary policies. Nonetheless, it is important to recognize that there are clear links between exceptional policies to support the financial system and policies to support the macroeconomy. In particular, the effectiveness of exceptional financial support measures depends on the credibility of the macroeconomic policy stance being maintained. And the transmission of monetary policy depends on the functioning of the financial system. However, the timing of exit from the financial system support policies and the exceptional macroeconomic measures need not be the same, as different criteria govern the respective policy judgements.

FSB members agree that the removal of emergency policies requires a considerable amount of judgement and flexibility with respect to timing and sequencing. Withdrawal of support measures may also have spillover effects on other countries. Although decisions on the timing of withdrawal of measures will depend on judgements on the strength of national financial systems, there are consequently gains from advance information exchange and from stronger forms of co-ordination where such spillover effects are potentially significant.

As many of the institutions that initially took advantage of the various emergency policies have started to regain access to private debt and equity markets and to exit from government programs, and only the weakest institutions continue to rely on these policies, the **case for system-wide measures is diminishing**. Authorities are likely to focus increasingly on firm-specific interventions. There is also likely to be an increased expectation in financial markets for firms themselves to develop their own exit strategies and to reduce their use of emergency government support.

¹ An earlier and more detailed note on exit from deposit insurance extensions, "Unwinding Temporary Deposit Insurance Arrangements", was prepared for the FSB by the International Association of Deposit Insurers (IADI) and the International Monetary Fund (IMF) and is attached to this note.

1. Recent developments

The bulk of the emergency measures were introduced in the second half of 2008 in the wake of the collapse of Lehman Brothers. In some cases, measures introduced earlier to address bank liquidity shortages were reinforced. Decisions on exit will depend on experience with regard to the effectiveness of the policies and the level of usage, and their usefulness in an improved financial and economic climate. Given the wide range of measures that have been employed and the different challenges that authorities face, it is to be expected that there will be differences in criteria and plans for exit from these measures.

A number of facilities or guarantees made available have **not been used**. Examples include: Italy's program to offer debt guarantees for domestically incorporated banks; Hong Kong's contingent bank capital facility and expanded discount window facilities; Canada's policy to buy ABS and its offer of wholesale debt guarantees for deposit-taking institutions and life insurance companies; the Central Bank of Brazil's extension of eligible collateral to include foreign exchange loans; and the US Treasury and the Federal Reserve's newly established credit lines for the GSEs. As market confidence improves, exit from policies that have never been used is unlikely to be disruptive.

A number of policies have **expired** without notable market impact or the need for successor programs. Examples include the US Money Market Mutual Fund Guarantee Program, which was terminated in September 2009, and Mexico's program of guarantees on initial losses on corporate debt refinancing, which closed to new access in July.

At the opposite end of the "exit" spectrum are support measures that were introduced during the crisis that have been made **permanent**. This is the case, for instance, of the establishment of a new standing liquidity facility in Mexico, the expansion of eligible collateral for central bank operations in Canada, and the increase of minimum deposit insurance in the EU. Decisions to make such measures permanent reflect a judgment that they address pre-existing structural inefficiencies and are unlikely to sow the seeds of new vulnerabilities in the future.

Among those policies that are still considered **temporary but remain in place**, usage has declined since the peak of the crisis, reflecting improved conditions as well as deliberate policy design. In some cases, a clear termination date was set and announced, which should incentivise market participants to plan on the basis that they will be withdrawn on schedule. In some others, incentives were built in to lower the attractiveness of the support schemes over time, in line with an anticipated improvement in market conditions.

- For instance, among measures to support national bank funding markets, Canada's Term Loan Facility was last used in February. In the UK, outstanding long term repos (3 months and higher) peaked in early January at £190bn and have now fallen to £34bn. In the US, amounts offered under the longer-term Term Auction Facility (TAF) and the Term Securities Lending Facility (TSLF) stood at \$50bn in October and will both be reduced to \$25bn in November.
- In general, exceptional central bank liquidity support programs have had clear and explicit deadlines, and many of these are expected to terminate for new borrowings in the relatively near future, although the run off of existing borrowing will take several years in some cases.

- The temporary reciprocal currency swap lines among central banks to address cross-border foreign currency liquidity shortages generally expire early next year (arrangements involving dollar swaps with the US Federal Reserve all terminate on February 1, 2010). Reflecting the improvement in cross-border funding conditions, the overall use of dollar swap arrangements has declined from a peak of over \$550bn in late 2008 to about \$50bn now.
- Temporary enhancements to deposit insurance arrangements, adopted by 26 of the 47 jurisdictions that changed their deposit insurance arrangement in the crisis², were accompanied by announced termination dates in almost all cases. The large majority of these exceptional enhancements will terminate in 2010 or 2011.
- Most debt guarantee schemes incorporated pricing schedules that have made them more expensive over time. In other cases, authorities have raised the charges for their use. New issues under such guarantee facilities have declined markedly in recent months, and remain largely confined to banks under restructuring. In the US, the amount of FDIC-guaranteed debt issued by banks and bank affiliates has fallen to \$12bn in September from its monthly peak at about \$168bn in December 2008. In the euro area³, issuance of government-guaranteed bank debt declined from a monthly average of about €35bn in the first quarter to less than €5bn per month between August and October. In Australia, the share of new issues of long-term bank debt that is government-guaranteed has shrunk from two thirds in mid-2009 to 30% in October. In some cases, there are upcoming deadlines for new drawdowns under such facilities. For instance, the deadline for drawing down under the UK Credit Guarantee Scheme for banks is December 31, 2009, and that for the FDIC's Debt Guarantee Program is October 31, 2009.
- For some guarantee schemes, the length of the access window has been dependent on market conditions. The FDIC's guarantee on non interest-bearing transaction accounts was extended for market stability purposes from end-2009 to June 30, 2010, but with increased participation fees. In Australia, no explicit final application date was set for guarantees under the scheme for large deposits and wholesale funding up to 5 years maturity. Instead, once market conditions normalize, authorities will determine an exit date and will be required to give firms a minimum advance notice (20 business days) to adjust.
- Programs for capital injections to troubled institutions or for the removal of exposures to toxic assets have generally been of a one-off nature. The amount of official capital provided under these programs has been gradually falling over time, as banks have raised capital from other sources. Of the \$205bn initially disbursed under the US Capital Purchase Program, \$70bn has been repaid and another \$50bn is expected to be repaid over the next 12-18 months.

² The remaining 21 introduced permanent changes.

³ Using government guaranteed euro denominated bonds as a proxy.

2. General considerations and principles guiding exit strategies

Members highlight some **general considerations** and **principles** that help guide the formulation of exit strategies.

They note certain desirable features, including that such exit strategies be:

- **Pre-announced.** Market participants should have time to adjust to the new circumstances that will accompany the termination of the policy. Clear **communication** of an exit plan and related timelines reduces market uncertainty and avoids the costs of catching firms and markets by surprise.
- **Flexible.** It should be possible to adjust timetables in response to changes in market and economic circumstances.
- **Transparent.** The objectives of the strategy, the relevant timetables, and the criteria to be used for any adjustment should be well-understood by all involved.
- **Credible.** The plan should be based on realistic assumptions about the likely consequences of exit and the circumstances under which authorities may decide to change their plans.

It is recognized that a balance may need to be struck among these. For example, to preserve flexibility, pre-announcements should be realistic about the contingent nature of the decision – but the guideposts that are to be used, and the reasons that may ultimately lead to a postponement (or possibly even a reversal) should be made as clear as possible from the start.

At a very general level, exit strategies should obviously have as their objective that they **enhance stability**. This means that, in judging the balance of risks, authorities could decide to err on the side of leaving facilities in place even if they are not used, to reassure the market that they are readily available if conditions again take a turn for the worse. But here too there is a balance to be drawn between a temporary backstop and avoiding support for possibly unsustainable business models, as well as running the risk of retaining exceptional policies for too long.

Members note that, as far as possible, pricing and other conditions of support measures should support a **market-based exit**, in other words one where the incentives of market participants lead them to draw less on support measures as markets normalize. This applies generally to the pricing of debt guarantees, to central bank lending facilities and to the haircuts applied to assets exchanged in a balance-sheet cleanup plan. Several members note that instead of (or in advance of) terminating a program, they intend to increase the cost of participation in the program in order to encourage participants to reduce their usage of it gradually, and in due course stop altogether.

Members further note that the formulation and implementation of exit plans should **take into account potential cross-border impacts**, whether or not formal co-ordination is in place. Coordination is particularly desirable where exits affect markets where there are international arbitrage opportunities, as well as those where assistance to institutions domestically is relieving pressure in neighbouring jurisdictions. These factors may apply for some policies, for instance, relating to debt guarantees or to special liquidity facilities, especially where these are still in active use. There is likely to be less need for cross-border coordination of the detailed exit from policies that are no longer being actively used; it could be useful to coordinate some minimum period for facilities acting as a safety net to remain in place, but

there are equally arguments to avoid the uncertainty that could be generated by a single “big bang” date for removing support policies.

Members note that the **timing of exit** from support measures has to balance several considerations:

- Timing of exit should carefully reflect not only present financial and macroeconomic circumstances at the national and global levels, but also the potential future evolution of these conditions.
- Authorities may want to delay exit in order to preserve their freedom of action in case conditions again worsen. A terminated program that subsequently needs to be reinstated could undermine the broader credibility of the official sector’s policy response.
- Early exit is desirable from measures that have a large distortionary impact and/or heavy costs. Fiscal considerations call for exit, where possible, from lending facilities or guarantees priced below market rates.
- While timely repayment of public capital injections is desirable to reduce distortions and fiscal risks, it should only take place if repayment is sustainable from a prudential perspective, against the benchmark of the revised capital and liquidity regulatory requirements to be implemented after the crisis, and does not excessively compromise banks’ credit extension to the real economy. To this end, up-to-date stress test exercises covering different macroeconomic scenarios would deserve due consideration. Several criteria were mentioned, including:
 - The capital ratio of a supported bank should remain comfortably above the regulatory minimum before and after the repayment;
 - Private capital used to replace public capital should be at least of the same quality as that of the capital that is repaid;
 - Financial institutions that exit public support should have demonstrated market access to capital and funding;
 - Financial institutions should have made substantial progress in the repair of their balance sheet, although exit should not wait until this process is fully complete;
 - Financial institutions should not repay public capital by reducing capital needs through excessive deleveraging, either now or in the future.

Where authorities have not pre-set termination dates the timing of exit will require careful judgement and a gradual exit process could help to reduce excess market volatility. Firms are likely to be keen to exit government policies as soon as possible, to reduce stigma and reduce the cost and burden of government interference, but authorities should ensure that only robust firms are allowed to exit. Premature exit by a weak firm could necessitate the reintroduction of support measures that could have additional fiscal costs as well as weakening the credibility of the authorities.

Announcements about the timing of exit will also need to take account of their **impact on market confidence**. A prompt exit could signify confidence in the underlying stability of the system (or at least of the market or sector to which the measure was targeted), while the rationale for an extension of a previously announced deadline needs to be clearly explained and could be taken as a signal that authorities believe problems are deeper than had been previously thought. Similarly, a rushed exit – especially where not well signalled and explained in advance – could be damaging. Moreover, before exiting policies, authorities should be confident that private markets can fill the gap left behind after the government facility has been removed. Authorities could usefully exchange information on the indicators they would use to make such a judgment and whether there is a need for a staged exit in some cases.

Finally, for policies that have become **permanent**, where they result in enhanced consistency across countries – for instance in the maximum coverage level of deposit insurance guarantees – they could reduce the scope for destabilizing cross-border capital flows.

3. Areas for potential co-ordination

In most cases, members noted that decisions on the removal of emergency measures are taken primarily on an assessment of the health of the domestic financial system and the ability of intermediaries to fund themselves and to raise new capital where necessary on private markets. As highlighted above, a number of special measures have already been withdrawn and there have been clear policy announcements regarding the withdrawal of others.

Members recognized, however, that the emergency measures have distortionary effects on the allocation of capital across borders as well as within them. Such distortions have led the European Union, for example, to place clear guidelines and exercise strong oversight on the measures taken under the State Aid rules, in order to maintain as level a playing field as possible between banks located in Member States which receive public support and those that do not. Such guidelines include limits on the duration of the schemes to ensure that they are temporary, as well as constraints on the terms of support.

The impact of the measures on cross-border flows depends on a range of characteristics such as the willingness and ability of agents to arbitrage between countries. There are examples, such as the introduction of funding guarantees and changes in retail deposit insurance arrangements, where such arbitrage was significant when the measures were initially introduced on a piecemeal basis. Although cross-border arbitrage might be less under more normal market conditions, this experience suggests that there are clear potential benefits from co-ordination between countries on exit decisions that may have a significant spillover effect on others, although coordination on the timing of exit strategies from firm-specific measures (e.g. capital injections) would be more challenging. Countries, and especially emerging markets, that have high cross-border banking inflows are particularly likely to benefit from such co-ordination, including joint monitoring of the impact of exit policies on capital flows. Advance notice of the exit strategies, their objectives and timelines would facilitate any adjustment in the jurisdictions that expect some form of indirect impact.

The weakest form of such co-ordination is the prior exchange of information on decisions and plans that are to be implemented shortly. Such prior notification is helpful to other authorities when formulating their own policy choices. It may also enable national authorities to publish simultaneous announcements of policy changes and to implement them at the same time. Such demonstrations of consistency across authorities typically have a positive impact on financial markets. Simultaneous implementation may be less important than consistent, preferably simultaneous, announcement.

Some members also noted cases where stronger co-ordination would clearly be beneficial. For example, if there are strong retail deposit flows between countries, then one country acting alone may be reluctant to remove the exceptional support arrangements because of the risk that there would be a strong deposit outflow. Other countries face the same incentives. Absent strong co-ordination to resolve this potential collective action problem, the individual national incentives would lead to the distortionary measures remaining in place. In recognition of this risk, Hong Kong, Singapore and Malaysia have formed a regional tripartite working group to co-ordinate the scheduled exit from the current exceptional guarantees that expire at the end of 2010.

Strong co-ordination would also be helpful in other cases where there are concerns that removal of the special measures could be undermined by arbitrage or by distortions to competition. For example, if there is agreement by a number of countries that they wish to incentivize a market based withdrawal from wholesale funding guarantees by steadily raising the price of access, there are clear advantages, in terms of minimizing competitive distortions, to the countries working together to introduce a consistent framework. And countries needing to withdraw their measures at a later date because their national financial system is weaker and needs support for longer, would benefit from sharing by stronger countries of the experience gained and the lessons learned.

As national financial systems differ in strength and robustness, not least between mature and emerging economies, the optimum timing of the withdrawal of exceptional measures will naturally vary. Such variations will place some constraints on the strength of co-ordination that can be achieved in terms of the decisions implementing the physical exit from the measures. Given distortions, spillovers and arbitrage risks, there are, however, clear gains from exchanging information, from prior notification, from discussion of the broad principles underpinning exit decisions in order to share experience and implement a consistent framework where feasible, and from strong policy co-ordination in the cases where such risks are highest.

September 16, 2009

Honorable Mario Draghi
Chairman
Financial Stability Board
Bank for International Settlements
Basel, Switzerland

Dear Chairman Draghi:

We are pleased to transmit to you an updated report to the Financial Stability Board (FSB) on “Unwinding Temporary Deposit Insurance Arrangements” reflecting comments received on the initial report. This report was prepared in response to an action point arising from the FSB meeting on June 26-27, 2009 that calls for the International Association of Deposit Insurers (IADI) and the International Monetary Fund (IMF) to prepare a report on unwinding temporary deposit insurance arrangements as part of its ongoing analysis of financial system conditions in light of the financial crisis and recent global financial developments.

To respond to this action point, IADI and the IMF conducted research to identify jurisdictions that have increased deposit insurance coverage or adopted full depositor guarantees over the past year and, with the assistance of the European Forum of Deposit Insurers (EFDI), conducted a joint survey to verify this information and to collect further details on each jurisdiction’s plans to unwind these temporary measures, to the extent that such plans exist. The attached report discusses how IADI and the IMF approached this request, and findings and conclusions.

We hope that this report and its findings are useful to the FSB. We would be pleased to provide further information or analysis on this topic if desired.

Sincerely,



Christopher Towe
Acting Director
Monetary and Capital Markets Department
International Monetary Fund



Martin J. Gruenberg
President
International Association of Deposit
Insurers

cc: José Viñals (on return)
Jonathan Fiechter
David S. Hoelscher

Report to the Financial Stability Board

September 2009

**Note by the Staffs of the International Association of Deposit Insurers and
the International Monetary Fund**

on

Unwinding Temporary Deposit Insurance Arrangements

Unwinding Deposit Insurance Arrangements

I. Background

Depositor protection is a critical element of stabilizing a banking system. In response to the current global crisis, 46 jurisdictions adopted policies enhancing depositor protection. Their policy packages, however, differed in both scope and intensity of protection. Some jurisdictions opted to rely on the existing framework of deposit insurance, but increased coverage levels to strengthen private sector confidence. Other jurisdictions provided full depositor guarantees.¹

The Financial Stability Board (FSB) requested that the International Association of Deposit Insurers (IADI) and the International Monetary Fund (IMF) report on strategies to unwind temporary depositor protection. To address this request, IADI and the IMF, with the assistance of the European Forum of Deposit Insurers (EFDI), surveyed jurisdictions that increased deposit insurance protection or adopted full depositor guarantees over the past year. The survey, supplemented by selected national reports, sought to verify details of depositor protection changes and identify any plans for reversing these temporary measures.² Jurisdictions were asked to provide information on the following three topics:

- **Measures taken:** Confirmation of date and amount of the change in deposit insurance coverage or adoption of full depositor guarantees;
- **Plans for unwinding:** Whether the organization has begun planning for removal of the temporary deposit insurance coverage measures, a description of any such plans, and information on whether a timetable has been established for planning for transition; and
- **Coordination with other jurisdictions:** Whether the organization has initiated transition planning with other organizations in their region that may be affected by their transition plan, a description of any such plans, and consideration of under what conditions the organization would consider collaborating with regional counterparts for developing such a transition plan.

II. Recent Measures Taken

In the current crisis, 46 jurisdictions adopted some form of enhanced depositor protection. The majority of jurisdictions opted to increase coverage levels of the limited deposit insurance system while a smaller portion introduced full depositor guarantees (Table 1 and the Statistical Table).

¹For purposes of the survey, full depositor guarantees consist of guarantees covering all deposits or a significant majority of all deposits in the banking system.

²Three jurisdictions with temporary depositor protection did not respond to the survey, Iceland, Mongolia, and Spain. They have been included in the following discussion and in Table 1, but no information was made available regarding their plans to transition out of the temporary measures.

- **Full depositor guarantees were provided in 18 jurisdictions (39 percent).** These jurisdictions differed, however, in the form of the protection and the range of deposits included in enhanced coverage. Five jurisdictions relied on public commitments by their authorities to protect all depositors in banks rather than introducing legal protection. Other jurisdictions introduced a range of programs, providing full coverage only to bank operations in that jurisdiction, protecting banks with a significant presence or only protecting household depositors rather than corporate deposits (see Table 1).

Table 1. Actions Taken to Increase Deposit Insurance

Full Depositor Guarantees	Deposit Insurance Coverage Increase	
	Permanent	Temporary
Austria	Albania	Australia
Denmark	Belgium	Brazil
Germany 1/	Bulgaria	Netherlands
Greece 1/	Croatia	New Zealand 8/
Hong Kong, SAR	Cyprus	Switzerland
Hungary 1/	Czech Republic	Ukraine
Iceland 1/	Estonia	United States 4/
Ireland 7/	Finland	
Jordan	Indonesia	
Kuwait 3/	Latvia	
Malaysia	Lithuania	
Mongolia 3/	Luxembourg	
Portugal 1/	Kazakhstan 2/	
Singapore	Malta	
Slovakia 6/	Philippines	
Slovenia 3/	Poland	
Thailand	Romania	
UAE 5/	Russia	
	Spain	
	Sweden	
	United Kingdom	
18	21	7

Note: Full depositor guarantee consists of guarantees covering all deposits or the majority of all deposits in the banking system.

1/ Political commitments by government.

2/ Increased from 700,000 tenge to 5 million; will revert to 1 million 1/1/12 per law.

3/ Unlimited for banks operating in their jurisdiction.

4/ Unlimited for non-interest-bearing transaction accounts.

5/ Unlimited for local and foreign banks with significant presence in their jurisdiction.

6/ Unlimited for all physical persons and some categories of legal persons.

7/ Unlimited for seven specific banks representing 80 percent of the banking system.

8/ Full coverage up to NZ\$1 million per deposit (retail deposits and non-bank deposit takers).

- **Increases in deposit insurance levels were adopted in 28 jurisdictions (61 percent of all jurisdictions increased depositor protection).** The size of the increases varied significantly across jurisdictions, ranging from 75 percent to 400 percent. Such differences reflected a variety of factors, including (i) differences in initial coverage level of the deposit insurance conditions; (ii) differences in the size distribution of deposits in the banking system; and (iii) the extent of depositor concerns.
 - Twenty-one jurisdictions increased permanently their deposit insurance coverage. These jurisdictions represented over 75 percent of all jurisdictions that increased deposit insurance coverage levels, possibly reflecting a view that previous levels were inadequate to ensure financial stability.
 - Seven jurisdictions increased deposit insurance levels on a temporary basis. Two introduced new programs while others temporarily increased levels by between 150 percent and 230 percent. Some increased coverage levels by a significant amount with the intention of lowering them subsequently to levels that will still be higher than initial levels.

III. Plans for Unwinding Depositor Protection

Plans for unwinding temporary depositor protection consist almost exclusively of announced termination dates. Such announcements have been included in the laws or regulations establishing the full depositor guarantees or increased deposit insurance coverage.

Of the 25 jurisdictions that adopted either temporary full depositor guarantees or temporary increases in deposit insurance coverage levels, all but seven have announced expiration dates. Current plans for easing temporary or special protection fall within the next four years, with the majority split between 2010 and 2011 (Table 2). Jurisdictions that have not yet determined expiration dates are generally those jurisdictions where political commitment to protect depositors has been made. Such commitments, as informal statements, often have not specified when that political commitment would expire.

Table 2. Expiration of Temporary Depositor Protections³

2009		2010		2011		2012		2013	
Jan				Ukraine 1/	1/1			US	12/31
Aug				Thailand	8/10				
				Australia	8/12				
Sep		Denmark 2/	9/30						
Oct		New Zealand 1/	10/12	UAE	10/12				
Nov						Mongolia	11/25		
Dec	Austria 2/	12/31	Hong Kong, SAR	12/31	Greece	12/31			
	Ireland 2/	12/31	Malaysia	12/31	Portugal 2/	12/31			
	Jordan	12/31	Singapore	12/31					
			Slovenia 2/	12/31					
			Switzerland 1/	12/31					
Jurisdictions that have not announced expiration dates for temporary increases:									
Brazil 1/									
Germany									
Hungary									
Iceland									
Kuwait									
Netherlands 1/ 2/									
Slovakia 2/									

1/ Jurisdictions with temporary deposit insurance coverage increases.

2/ In consultation with the EU Directive.

IV. Coordination

A few jurisdictions that temporarily increased deposit insurance coverage or adopted full depositor guarantees have begun coordinating strategies to unwind depositor protection with other organizations in their region. The importance of coordination, particularly for policies aimed at disengaging from extraordinary depositor protection policies, has been recognized by both national and international agencies. Many jurisdictions have indicated intent or interest to do so. Areas where active coordination is underway include the following arrangements:

- **Malaysia; Singapore; and Hong Kong, Special Administrative Region have announced a tripartite working group** to map out a coordinated strategy for the planned unwinding of the depositor guarantees by the end of 2010.⁴

³ Expiration of temporary depositor protections includes expiration of full depositor guarantees and expiration of increases in deposit insurance coverage.

⁴ See “Tripartite working group on exit strategy for the full deposit guarantee,” Bank Negara Malaysia press release, July 22, 2009, available at <http://www.bnm.gov>.

- **European nations indicated they plan to comply with EU Directive 2009/14/EC on deposit insurance coverage.** The new rules under EU Directive 2009/14/EC will take full effect by the end of 2009, subject to an assessment of impact.⁵ The EC will take responsibility for coordination, but specifics of such plans remain unannounced.
- **Other jurisdictions indicated an interest in or stated openness to regional collaboration:** Australia, Croatia, Denmark, Indonesia, Jordan, Kazakhstan, Kuwait, New Zealand, Russia, Thailand, United Arab Emirates, and the United States.

IV. Conclusions

Authorities in 46 jurisdictions took actions over the past year to raise deposit insurance coverage or adopt full depositor guarantees to help stabilize and retain the confidence of depositors. These included temporary or indefinite measures in 25 jurisdictions that will be scaled back at some point within the foreseeable future

Most jurisdictions have announced specific dates of termination for the increased deposit insurance protection. Eighteen of the 25 jurisdictions that adopted temporary measures have announced specific dates of termination.⁶ Many of the plans, however, do not include more detailed steps to help ease the transition back into sustainable long-term arrangements for deposit insurance coverage, such as the possibility of phased withdrawals, discussions with stakeholders, and other such measures.

Unwinding plans have not been made in seven jurisdictions. Many of the jurisdictions that have made political rather than legal commitments to protecting depositors have not clarified the termination of that commitment. A number of jurisdictions of the EU are also waiting for the impact assessment of the EU Directive before establishing the expiration date of their protection and their plans to transition to levels consistent with that Directive.

Most jurisdictions have thus far indicated that they are only in the very early stages of planning the unwinding of temporary protection plans. It will remain challenging in the current economic and financial environment for many jurisdictions to make such plans with any degree of precision. Identifying when the temporary measures will no longer be required and when they can be safely removed can be complicated. Extensions of temporary measures have already been required in several instances. Where enhanced protection is provided through a political statement rather than in regulation or law, unwinding such commitment may be difficult and will require careful planning.

⁵ Directive 2009/14/EC of the European Parliament and of the Council was adopted on March 11, 2009 and proposes revisions to Directive 94/19/EC, the existing EU rules on deposit guarantee schemes. The new rules are designed to improve depositor protection, particularly as regards the coverage level and the payout delay. It calls for increased coverage for aggregate deposits of each depositor to 100,000 Euros unless a Commission impact statement submitted to the European Parliament and the Council by the end of 2009 concludes that such an increase and harmonization are inappropriate.

⁶ Jurisdictions not announcing the removal of temporary protection plans include Brazil, Germany, Hungary, Iceland, Kuwait, Netherlands, and Slovakia.

Opportunities exist for jurisdictions to engage in regional coordination on the development of unwinding strategies. The tripartite working group of Malaysia; Singapore; and Hong Kong, Special Administrative Region, which was recently announced, provides an example of jurisdictions with related interests coming together. EU members and others are also expected to comply with the provisions of EU Directive 2009/14/EC on revised deposit insurance coverage, although coordinating those transitions beyond effective dates is not a part of the Directive itself. Several other jurisdictions have also expressed an interest in or openness to collaboration with regional counterparts but, in nearly all cases, have not yet acted upon those expressions.

Consideration could be given to using regional forums to promote discussion among jurisdictions where coordination may prove most beneficial. Coordination of unwinding strategies with other jurisdictions in a given region seems highly beneficial in light of potential cross-border effects and related externalities. This appears particularly true in jurisdictions dependent on foreign capital markets. During the peak of the financial crisis, differences in coverage between jurisdictions and failure to coordinate deposit insurance measures in some instances created significant externalities. The Organization for Economic Co-operation and Development summed this up in noting that “[c]o-ordination with regard to deposit insurance policy measures taken was not always as close as one might have hoped.”⁷ An opportunity appears to exist to avoid these difficulties as the temporary measures of increased coverage and full depositor guarantees expire.

⁷ Organization for Economic Co-operation and Development, “Financial Crisis: Further Issues Regarding Deposit Insurance and Related Financial Safety Net Aspects,” 13-14 November 2008.

**Appendix: SUMMARY OF DEPOSIT INSURANCE MEASURES TAKEN AND PLANS FOR UNWINDING
TEMPORARY DEPOSIT INSURANCE COVERAGE OR DEPOSITOR GUARANTEES (AUGUST 2009)**

1

Jurisdiction	Increases in Deposit Insurance Coverage				Full ¹ Depositor Guarantee	Plans to Unwind and/or Dates of Termination	Regional Transition Planning
	Date ²	From	To	Permanent Increase			
Albania	3/30/09	LEK 700,000	LEK 2.5 million	Permanent		Not applicable	Not applicable
Australia	10/12/08		A\$ 1 million			Considering a mechanism to unwind in advance of the 8/12/11 expiration.	No formal transition plans, but will coordinate with New Zealand and tripartite group (Hong Kong, Malaysia and Singapore).
Austria	8/1/08	€ 20,000	€ 50,000 ³		Guarantee ⁴	Guarantee coverage will end 12/31/09. Coverage of €100,000 in effect from 1/1/10.	Will comply with EU Directive 2009/14/EC.
Belgium	11/14/08	€ 20,000	€ 100,000	Permanent		Not applicable	Regional cooperation through EU process.
Brazil	3/09	R\$ 60,000	R\$ 20 million ⁵			None, but monitoring liquidity to determine when (limited) guarantee can be lifted.	None
Bulgaria	11/18/08	LEV 40,000	LEV 100,000	Permanent		Not applicable	Not applicable

¹ For purposes of the survey, full depositor guarantees consist of guarantees covering all deposits or the majority of all deposits in the banking system.

² Reflects the date the increase in deposit insurance coverage was either announced or implemented.

³ SMEs

⁴ Individuals only

⁵ Applicable only to time deposits with maturities between 6 months and 5 years. Targeted as relief to small and medium sized banks that rely on wholesale deposits for funding.

**Appendix: SUMMARY OF DEPOSIT INSURANCE MEASURES TAKEN AND PLANS FOR UNWINDING
TEMPORARY DEPOSIT INSURANCE COVERAGE OR DEPOSITOR GUARANTEES (AUGUST 2009)**

Jurisdiction	Increases in Deposit Insurance Coverage				Full Depositor Guarantee	Plans to Unwind and/or Dates of Termination	Regional Transition Planning
	Date	From	To	Permanent Increase			
Croatia	10/15/08	KN 100,000	KN 400,000	Permanent		None	Collaboration where there is significant impact from possible counterparties.
Cyprus	7/9/09	€ 20,000	€ 100,000	Permanent		Not applicable	Not applicable
Czech Republic	12/15/08	€ 25,000	€ 50,000	Permanent		Not applicable	Will comply with EU Directive 2009/14/EC.
Denmark	8/08				Guarantee	Guarantee from 10/5/08 to 9/30/10, reverting to €100,000 limit effective 10/1/10, per deposit insurer.	None but willing to participate.
Estonia	10/9/08	€ 20,000	€ 50,000	Permanent		Not applicable	Will coordinate any changes with EU.
Finland	8/8/08	€ 25,000	€ 50,000	Permanent		Not applicable	Will comply with EU Directive 2009/14/EC.
Germany	6/30/09	€ 20,000	€ 50,000	Permanent	Guarantee ⁶ (10/5/08)	Political guarantee is subject to review by the next elected government.	Will comply with EU Directive 2009/14/EC.
Greece	11/7/08	€ 20,000	€ 100,000		Guarantee	Increase valid until 12/31/11, but indefinite political guarantee.	To comply with EU Directive.

⁶ Political guarantee for all private savings deposits in Germany with banks which are member of a German deposit protection system, subject to review by the next elected government.

**Appendix: SUMMARY OF DEPOSIT INSURANCE MEASURES TAKEN AND PLANS FOR UNWINDING
TEMPORARY DEPOSIT INSURANCE COVERAGE OR DEPOSITOR GUARANTEES (AUGUST 2009)**

Jurisdiction	Increases in Deposit Insurance Coverage				Full Depositor Guarantee	Plans to Unwind and/or Dates of Termination	Regional Transition Planning
	Date	From	To	Permanent Increase			
Hong Kong, SAR	10/14/08				Guarantee	Insurer to introduce HKD500,000 coverage before guarantee ends 12/31/10.	Member of tripartite group (with Singapore and Malaysia) to coordinate strategic transition.
Hungary	5/09	Ft 6 million	€ 50,000		Guarantee (10/08)	Indefinite political guarantee.	EU Directive compliance.
Iceland	10/6/08	€ 20,887			Guarantee	Not available	Not available
Indonesia	10/13/08	Rp 100 million	Rp 2 billion	Permanent		Insurer evaluating financial and economic conditions to consider moderating new limit.	Multilateral intent/plans expressed for working with Malaysia, Singapore and Thailand.
Ireland	9/20/08	€ 20,000	€ 100,000		Guarantee ⁷	Yes, bank restructuring and new guarantee scheme before the end of 2009.	All transition plans subject to EU approval.
Jordan	10/23/08				Guarantee	Guarantee expires 12/31/09, with transition plans pending.	Planning regional conference to discuss transitioning and other deposit insurance issues.

⁷ Guarantee coverage for 7 covered institutions: Allied Irish Bank, Bank of Ireland, Anglo Irish Bank, Irish Life and Permanent, Irish Nationwide Building Society, the Educational Building Society, and Postbank Ireland.

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TEMPORARY DEPOSIT INSURANCE COVERAGE OR DEPOSITOR GUARANTEES (AUGUST 2009)**

Jurisdiction	Increases in Deposit Insurance Coverage				Full Depositor Guarantee	Plans to Unwind and/or Dates of Termination	Regional Transition Planning
	Date	From	To	Permanent Increase			
Kazakhstan	10/23/08	Tenge 700	Tenge 5 million	Permanent		Reverts to Tenge 1 million on 1/1/12 per law. Insurer plans to recommend permanent Tenge 5 million limit.	Plans to cooperate with Russian DIA.
Kuwait	11/3/08				Guarantee	Indefinite guarantee	Regional cooperation is well established, but no plans to unwind increased deposit protection.
Latvia	8/18/08	€ 20,000	€ 50,000	Permanent		Not applicable	Not applicable
Lithuania	8/08	€ 22,000	€ 100,000	Permanent		Not applicable	Will comply with EU Directive 2009/14/EC.
Luxembourg	1/1/09		€ 100,000	Permanent		Not applicable	Will comply with EU Directive 2009/14/EC.
Malaysia	10/16/08				Guarantee	Expires 12/31/10. Strategic plans to unwind to be determined in 2010.	Planning Asian roundtable on transitioning in 2/10. Member of tripartite group (with Hong Kong and Singapore) to coordinate strategic transition.
Malta	8/8/08	€ 20,000	€ 100,000	Permanent		Not applicable	Not applicable
Mongolia	11/25/08				Guarantee	Not available	Not available
Netherlands	8/7/08		€ 100,000			None	Will comply with EU Directive 2009/14/EC.

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TEMPORARY DEPOSIT INSURANCE COVERAGE OR DEPOSITOR GUARANTEES (AUGUST 2009)**

Jurisdiction	Increases in Deposit Insurance Coverage				Full Depositor Guarantee	Plans to Unwind and/or Dates of Termination	Regional Transition Planning
	Date	From	To	Permanent Increase			
New Zealand	10/12/08		NZ\$ 1 million			Coverage reduced to NZD 500,000 from 10/12/10 to 12/31/11.	None but would consider collaborating to avoid risk of deposit flight.
Philippines	6/1/09	Peso 250,000	Peso 500,000	Permanent		Not applicable	Not applicable
Poland	11/28/08	€ 22,500	€ 50,000	Permanent		Not applicable	Not applicable
Portugal	11/08	€ 25,000	€ 100,000		Guarantee	Increased coverage through 12/31/11, depending on EU impact assessment.	Will comply with EU Directive 2009/14/EC.
Romania	10/15/08		€ 50,000	Permanent		Not applicable	Not applicable
Russia	10/1/08	RUB 400,000	RUB 700,000	Permanent		Not applicable	Central bank is considering regional transition arrangements in cross-border banking and resolution procedures.
Singapore	10/16/08				Guarantee	Guarantee ends 12/31/10.	Member of tripartite group (with Hong Kong and Malaysia) to coordinate strategic transition.
Slovakia	11/1/08	€ 20,000			Guarantee	Plans to unwind are awaiting final EU Commission changes.	Will comply with EU Directive 2009/14/EC.

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TEMPORARY DEPOSIT INSURANCE COVERAGE OR DEPOSITOR GUARANTEES (AUGUST 2009)**

Jurisdiction	Increases in Deposit Insurance Coverage				Full Depositor Guarantee	Plans to Unwind and/or Dates of Termination	Regional Transition Planning
	Date	From	To	Permanent Increase			
Slovenia	10/8/08				Guarantee ⁸	Guarantee reverts to €22,000 limit on 1/1/11, pending increase to €50,000 proposed 7/09.	Will coordinate any changes with EU.
Spain	10/10/08	€ 20,000	€ 100,000	Permanent		Not available	Not available
Sweden	10/6/08	€ 25,000	€ 50,000	Permanent		Not applicable	Will coordinate any changes with the EU.
Switzerland	12/20/08	SFr 30,000	SFr 100,000			Increased coverage ends 12/31/10.	None
Thailand	10/28/08				Guarantee	Existing guarantee extended 2 years to 8/10/11, then THB 50 million limit to 8/10/12, then THB 1 million limit afterward.	None planned but open to collaboration.
Ukraine	11/5/08	UAH 50,000	UAH 150,000			Temporary increase expires 1/1/11.	None
United Arab Emirates	Not stated (approx. 10/08)				Guarantee	Three year guarantee	None, but would welcome regional cooperation on equal treatment basis.

⁸ Only for deposits not excluded from deposit insurance scheme (natural persons and SMEs)

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TEMPORARY DEPOSIT INSURANCE COVERAGE OR DEPOSITOR GUARANTEES (AUGUST 2009)**

Jurisdiction	Increases in Deposit Insurance Coverage				Full Depositor Guarantee	Plans to Unwind and/or Dates of Termination	Regional Transition Planning
	Date	From	To	Permanent Increase			
United Kingdom	8/7/08	£ 35,000	£ 50,000 ⁹	Permanent		Not applicable	None
United States	10/3/08	\$ 100,000	\$ 250,000 ¹⁰			Limit reverts to \$100,000 effective 1/1/14.	Multilateral via US Government.

⁹ In practice, Guarantee coverage has been provided to all depositors in virtually all bank failures.

¹⁰ Also established the Transaction Account Guarantee Program, a voluntary fee-based program effective October 14, 2008, whereby the FDIC provides a temporary unlimited guarantee for deposits in qualifying noninterest-bearing transaction accounts at participating institutions, expiring June 30, 2010.