

Major Amendments to the Deposit Insurance Act

January 2007

Items	Previous Deposit Insurance Act	Amended Deposit Insurance Act
1. Competent Authority	Ministry of Finance	Financial Supervisory Commission (§ 2)
2. Shareholders	Competent Authority (Ministry of Finance), Central Bank, Insured Financial Institutions	Ministry of Finance, Central Bank, Insured Financial Institutions (§3)
3. Rule of Provision of Deposit Insurance Special Reserves	Appropriation of deposit insurance fund should not be less than 60% of the annual premium revenues. (enforcement regulations of DIAct)	The amount of total revenues minus total cost and expenses of a year should be fully appropriated for the deposit insurance special reserves (§5)
4. Account of Deposit Insurance Special Reserves	Single deposit insurance account	Separate deposit insurance special reserves into two accounts: one for general banking sector and one for agricultural financial sector (§6)
5. Membership	Mandatory System	Mandatory application for newly established financial institutions, but CDIC has the right of approval or disapproval of membership (§10)
6. Termination of Membership and Covered Period after Termination	<p>1. If an insured institution violates the laws or regulations or the insurance agreement or engages in unsound business transactions, and fails to rectify such violations within the time-limit prescribed by the CDIC, the CDIC shall terminate its status as an insured institution.</p> <p>2. The total deposit balance of the depositors in such</p>	<p>1. The CDIC shall terminate the membership of an insured institution for the following reasons:</p> <ul style="list-style-type: none"> • It violates the laws or regulations or the insurance agreement or engages in unsound business transactions, and fails to rectify such violations within the time-limit prescribed by the CDIC; • It is ordered and required by the competent authorities to be recapitalized or improve its financial or business condition, and fails to meet such requirements within the time-limit prescribed by the competent authorities; or the

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	<p>institution on the date of such termination, less all subsequent withdrawals from any deposit account of such depositors, shall continue to be insured up to the maximum insurance coverage for a period of one year. In such case, the insured institution whose insured status has been terminated shall continue to pay to the CDIC a fee in an amount equal to that of the assessment.</p>	<p>time-limit is not due but the competent authorities deem the said insured institution's condition non-improvable.</p> <ul style="list-style-type: none"> • There is serious fraud or other illegal cases occurred to the said insured institution that might increase the loss to the deposit insurance special reserves. (§26) <p>2. The total deposit balance of the depositor in such institution on the date of such termination, less all subsequent withdrawals from any deposit account of such depositors, shall continue to be insured up to the maximum insurance coverage for a period of half a year. (§27-II)</p>
7. Assessment Base	Covered Deposits (insured deposits under maximum coverage)	Insured Deposits (§14)
8. Deposit Insurance Fund Target Ratio	None	<ol style="list-style-type: none"> 1. 2% of covered deposits (§16-I) 2. Setup of risk-based premium based on risk of insured institutions (§16-II)
9. Special Assessment	None	If the deposit insurance special reserves are insufficient due to CDIC's handling of a systemic crisis, special premiums can be assessed by CDIC (§28-III)
10. Treatment of Loss of Deposit Insurance Special Reserves	When CDIC handles problem institutions, the difference shall be written off from the deposit insurance special reserves of the CDIC and the remaining balance shall be recognized as a loss, should the amount recovered be less than the cost of assumption or liquidation.	When CDIC handles a problem institution and if its recovery amount is less than its expenditures and cost, the difference shall be written off from the deposit insurance special reserves of CDIC. If the said reserves are insufficient to be written off, the remaining balance shall be recorded into the deferral account. (§20, §36)

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11. Power of Special Inspection and Investigation	If the CDIC deems it necessary, and after obtaining the prior approval of the competent authority in consultation with the Central Bank of China, the CDIC may examine the business records and accounts of an insured institution, or instruct the insured institution to prepare and submit, within a stipulated period of time, a balance sheet, property inventory, or other statements.	<ol style="list-style-type: none"> 1. CDIC has the right to inspect the insured institutions for the following reasons: (1) confirming the accuracy of deposit insurance premium; (2) verifying the conditions of terminating deposit insurance membership; (3) inspecting the assets and liabilities of a problem insured institution prior to reimbursement; and (4) investigating civil liabilities and taking legal actions of employees of failed insured institutions. 2. If an insured institution has inappropriate fund transfers or asset transactions with its affiliated financial holding company or the non-credit department of the farmers' or fishermen's association, CDIC with the approval of the competent authorities can conduct inspections of these affiliated institutions. (§24)
12. Access of Information of Member Institutions	If the CDIC deems it necessary, and after obtaining the prior approval of the competent authority in consultation with the Central Bank of China, the CDIC may examine the business records and accounts of the insured institution, or instruct the insured institution to prepare and submit, within a stipulated period of time, a balance sheet, property inventory, or other statements.	When CDIC needs to collect or analyze the financial or business information of its insured institutions in order to control the insurance risk, such information should be obtained via the formal information-sharing mechanism among the financial safety net participants (FSC, Central Bank, competent authority of the Agricultural Finance, and CDIC). If such information is insufficient, CDIC can directly request the insured institutions to provide additional accurate information. (§22)
13. Borrowings and Government Guarantee	<ol style="list-style-type: none"> 1. The CDIC may ask the competent authority to negotiate with the Central Bank of China to receive its approval and obtain special financial accommodation. 2. That part of the aforesaid financial 	<ol style="list-style-type: none"> 1. The CDIC may ask the competent authority to negotiate with the Central Bank of China to receive its approval and obtain special financial accommodation within the amount of the collaterals provided by the CDIC. 2. That part of the aforesaid financial accommodation, which exceeds the collateral provided by the CDIC, shall be guaranteed by the National Treasury.

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	<p>accommodation, which exceeds the collateral provided by the CDIC, shall be guaranteed by the National Treasury. If the guarantee goes beyond the net worth of the CDIC, the competent authority shall together with the Central Bank of China submit such guarantee to the Executive Yuan for its approval.</p> <p>3. If the CDIC deems it necessary in case of emergency, and before applying to the Central Bank of China for special financial accommodation pursuant to the preceding paragraph, the CDIC may borrow the funds from the other financial institutions.</p>	<p>guaranteed by the National Treasury. The competent authority shall together with the Central Bank of China submit such guarantee to the Executive Yuan for its approval.</p> <p>3. If the CDIC deems it necessary in case of emergency, and before applying to the Central Bank of China for special financial accommodation, the CDIC may borrow the funds from the other financial institutions. (§31)</p>
14. Handling of Systemic Crises	None	When there will be a systemic crisis, CDIC may exempt from the restriction of least cost resolution after obtaining consent of competent authority in consultation with the Ministry of Finance and the Central Bank, and with the final approval of the Executive Yuan (the Cabinet). (§28-II)
15. Condition to Provide Financial Assistance to Critically Under-capitalized Financial Institutions	In the event that an insured institution will be placed under assistance, or under a supervisor or conservator subject to this Act and the Banking Law, the CDIC may provide financial assistance to such institution. However, the cost of providing the	<p>1. The CDIC may provide an insured institutions with loan, deposits or other financial assistance when all the following conditions are met:</p> <ul style="list-style-type: none"> • When an insured institution is critically under-capitalized, and the competent authorities deem it non-viable and should be closed; • The aforesaid institution is put under conservatorship or its

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	financial assistance shall be less than the loss arising from the cash pay-offs.	<p>management is taken over by the competent authorities;</p> <ul style="list-style-type: none"> • The resolution of the aforesaid institution will cause a systemic crisis. <p>2. When CDIC provides the aforesaid loans, deposits or financial assistance to the problem insured institution, it should request for the full amount of collaterals from the financial holding company of the problem institution, or any other insured institution that such financial holding company has dominant shares, or any farmers' or fishermen's association possessing the problem institution. (§29-II,29-III)</p>
16. Bridge Bank	None	<p>When there is a systemic crisis and CDIC is unable to resolve the problem insured institutions by a P&A transaction, CDIC may set up a bridge bank to assume all or part of the businesses, assets and liabilities of the said insured institutions.</p> <p>A bridge bank is deemed as an insured institution without capital, but CDIC could provide it with working capital if necessary. Duration of a bridge bank is limited to two years, which can be extended for one more year after the approval of the Financial Supervisory Commission (§30, §32~§37)</p>
17. Penalties	CDIC may report to the FSC to assess penalties	CDIC may report to the FSC to assess penalties and request for raises the amount of penalties (§46~§47)
18. Transition Mechanism after Expiration of Financial Restructuring Fund	None	CDIC shall, as entrusted by the Executive Yuan's Financial Restructuring Fund, continue to deal with the disposition of the problem insured institutions that were listed to be handled by the Fund prior to the Fund's expiration date on July 10, 2005, as well as other unfinished matters related to the Fund. (§49)