

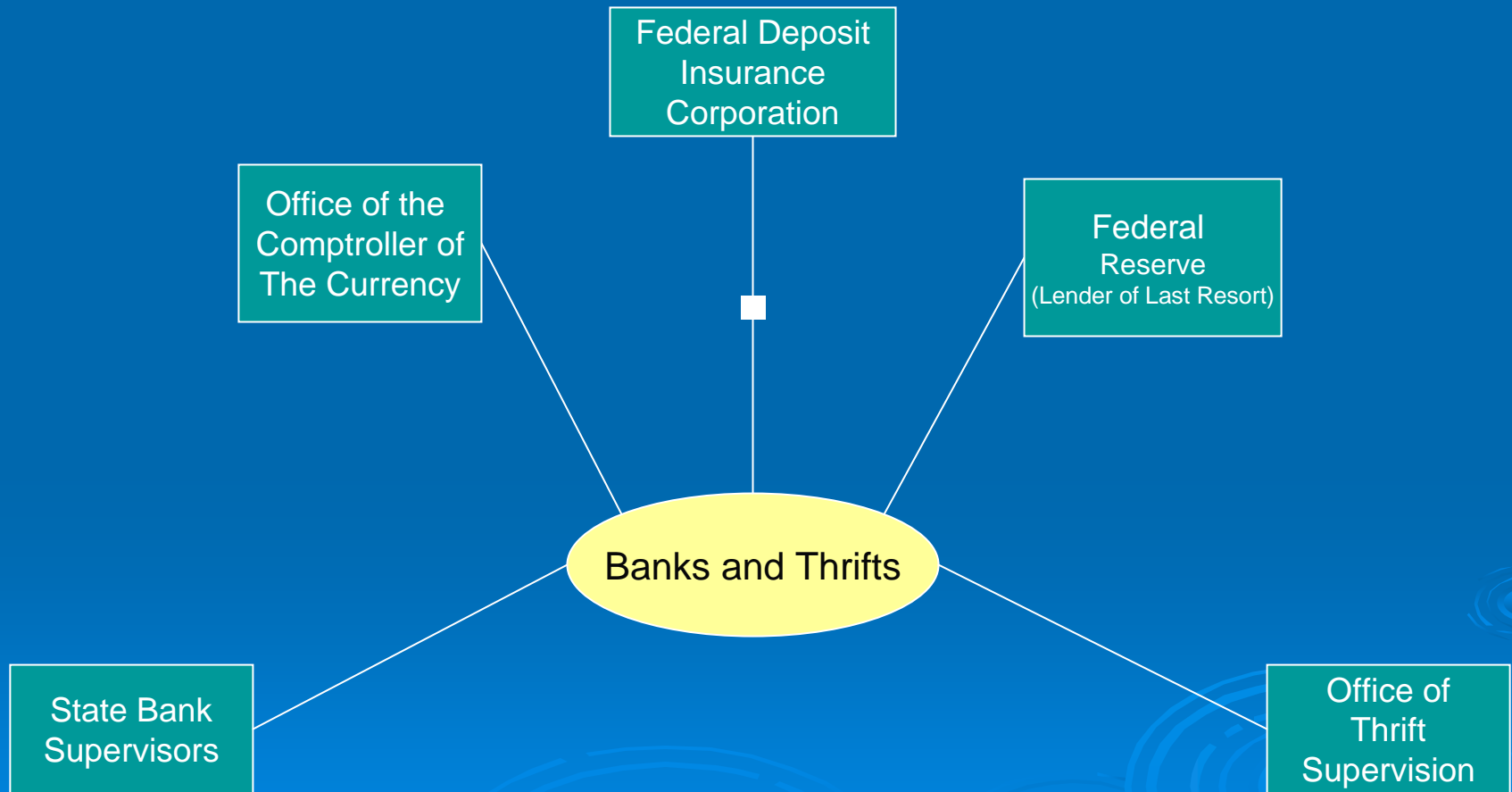
# Communication And Cooperation Among Financial Safety Net Participants

## *A Requisite for Ensuring Financial Stability*

Prepared for APEC Policy Dialogue on Deposit Insurance  
Kuala Lumpur, Malaysia  
February 17, 2004

John J. Di Clemente  
Chief, International Section  
Division of Supervision & Consumer Protection  
Federal Deposit Insurance Corporation

# Financial Safety Net Participants



# FDIC's Participation In The Safety Net

Under the FDI Act, the FDIC has the power to act as:

- Supervisor
- Deposit Insurer
- Receiver

# FDIC Board of Directors

The FDIC Board of Directors includes representatives of the OCC and OTS.

The composition of the Board of Directors provides inherent coordination and communication.

Executive management participates in making important interagency policy.



# Supervision: Onsite Examinations

The FDIC coordinates and shares information with federal and state banking authorities during all onsite examinations:



- Newly chartered institutions
- Established institutions
- Troubled institutions



# Supervision: Onsite Examinations

Extensive communication is required in:

- Considering supervisory actions and remedies
- Successfully rehabilitating troubled institutions

# Supervision: Uniform Standards

The Federal Financial Institutions Examination Council (FFIEC) comprises federal bank and credit union regulators. It promotes uniform principles, standards, and reporting:

- The Financial Institution Rating System (CAMELS)
- Definitions for classifying assets
- Financial reports (Call Reports)

# Supervision: Offsite Monitoring

Between exams, the FDIC monitors bank performance and may share information with other regulatory agencies. Its monitoring systems include:

- Banker Outreach Program
- Growth Monitoring System
- SCOR
- Examiner View - OCC
- BOND – FRB and OCC



# Large Bank Supervision

Large banks (banks having more than \$25 billion in assets) pose significantly greater risk to the deposit insurance funds and warrant continuous scrutiny.



Monitoring systems for large banks include:

- Large Insured Depository Institution Program
- Dedicated Examiner Program
- Shared National Credit Program

# International Risk Supervision: (ICERC)

The Interagency Country Exposure Review Committee (ICERC) assesses transfer risk and establishes international loan reserve requirements.

ICERC also establishes guidance on country risk management.



# Deposit Insurer

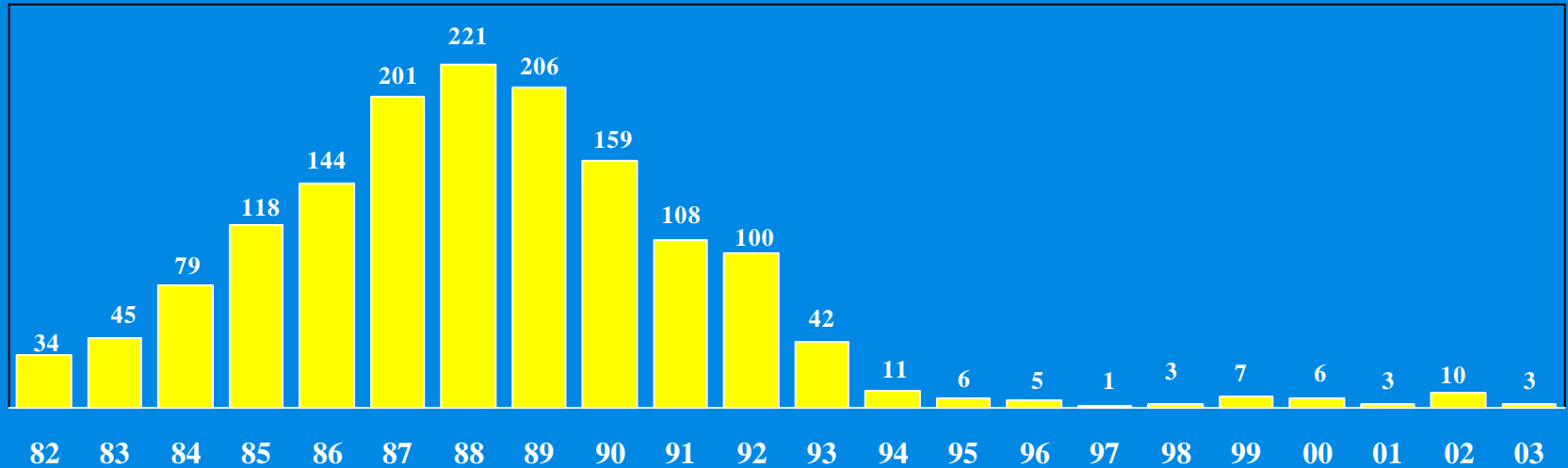
To fulfill its mission as insurer, the FDIC assesses the financial condition of the banking industry and of individual institutions to quantify the risk to the insurance funds.

The FDIC requires both quality and timely information on the condition of:

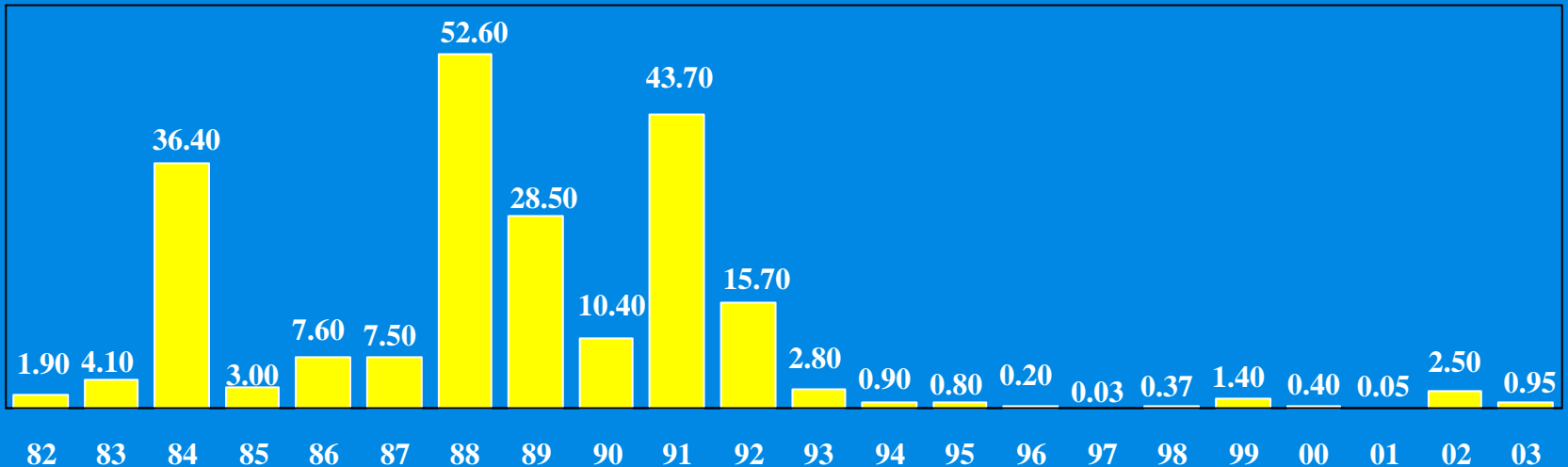
- Individual banks
- Banking sector
- Regional, macro, and international economy
- Important commercial sectors

# Bank Failures Since 1982

## Number of Failed Banks



## Failed Bank Assets (\$Billions)



# Post-Crisis Changes to the Safety Net

The Federal Deposit Insurance Corporation Improvement Act (FDICIA) established requirements to:

- Rebuild the insurance fund
- Impose risk-based premiums
- Establish prompt corrective action (PCA) framework ■
- Resolve failed bank situations at least-cost\*

\* Systemic Risk Exception: Resolutions that do not follow the least-cost rule are allowed if it is determined that following the rule would have serious adverse effects on the economy or financial stability.

# Failing Bank Interagency Cooperation

In a potential failing bank situation, the FDIC receives notice either from the chartering authorities or from the primary federal regulator.

For failing banks, the FDIC is appointed as receiver by the chartering authority.

# Lender of Last Resort

The Federal Reserve serves as the lender of last resort to depository institutions through the discount window.



Depository institutions which are undercapitalized have limited access to the discount window.

# Other Financial Safety Net Services

Other Key services provided by the Federal Reserve include:

- Daylight Overdrafts
- Payment System Settlements



# Summary

The nature of the U.S. regulatory framework of multiple bank supervisory agencies requires that we maintain open lines of communication and that we share information at all levels within the safety net in order for all participants to fulfill their respective mandates efficiently and effectively.