

# Message from the Chairman and the President



The Central Deposit Insurance Corporation is the only institution vested with specific responsibility for handling deposit insurance in the Republic of China. In order to fulfill its strategic mission of thoroughly safeguarding the benefits of depositors in financial institutions, promoting savings, maintaining an orderly credit system and enhancing the sound development of financial operations, as well as enabling the deposit insurance system to keep abreast of international developments while consistently making progress over the longer term, the CDIC has, ever since its establishment in 1985, channeled the efforts of all of its employees in moving the corporation forward to accomplish its objectives.

In recent years, the local financial environment has been confronted by both unprecedented challenges and also new opportunities. To respond to the developments and changes taking place in global financial markets, and effectively resolve the problems faced by the domestic financial system, President Chen announced that the year 2001 would be the first of several years with a focus on financial reform. The government has thus held fast to the principles of supervision and self-discipline, order and stability, while making every effort to promote a series of financial reform policies. These reforms have included the establishment of the Executive Yuan's Financial Restructuring Fund as one means of resolving financial crises, making the financial regulatory system more sound in order to improve the operations of financial institutions, promoting mergers and acquisitions among financial institutions so as to speed up the process of integration within the financial sector, drafting the Financial Holding Company Law to speed up the process of integration across industries, establishing a mechanism to actively deal with the bad debts of financial institutions, and promoting the establishment of a single financial supervisory body to more effectively supervise merger activity. In all these areas, the intention has been to provide financial institutions with a high-quality financial environment, thereby enhancing Taiwan's overall financial competitiveness. The CDIC is one member of the financial safety net and, besides continuing to maintain financial order through deposit insurance, it will in accordance with government policies actively participate in the design and implementation of all new measures related to the financial system. In order to fully achieve these objectives, the CDIC will, within the overall blueprint for development, draw

up concrete medium and long-term development plans in an orderly, phased and systematic manner, and will promote various kinds of related activities and measures. During the current year, the CDIC accomplished the following:

#### 1. Disposing of 36 Problem Financial Institutions

A sound financial environment has a pivotal role to play in the upgrading of an economy. The government, in order to allow financial institutions with unsound operations to peacefully withdraw from the market, thereby avoiding the occurrence of financial turmoil and to bring social costs down to an absolute minimum, made the passing of the Statute for the Establishment and Management of the Financial Restructuring Fund, which took place on June 27, 2001, its utmost priority. The CDIC was entrusted by this Financial Restructuring Fund with the handling, in accordance with related laws and regulations, of 36 community financial institutions whose operations were unsound. It was thus able to successfully resolve problems that had persisted for years.

#### 2. Promoting International Exchanges and Cooperation

The CDIC is the only institution vested with specific responsibility for handling deposit insurance in the Republic of China. In order to make the deposit insurance mechanism more complete, the CDIC has, in addition to giving careful consideration to the superior-quality systems of the advanced countries and looking into appropriate mechanisms for Taiwan, taken an active part in the drafting of international deposit insurance standards. By means of these exchanges with deposit insurance corporations in other countries and the sharing of information and experiences, the deposit insurance mechanism in the R.O.C. is able to keep abreast of international trends.

#### 3. Strengthening Examination Personnel Training

In order to increase the effectiveness of supervision, the CDIC has, besides effectively using the results of its Financial Early-Warning System to determine the frequency of examination, actively engaged in research and development to make use of computer-related software to assist in the work of examination. In addition, in view of the fact that the quality of examination personnel by and large depends on the extent of their experience, and that following financial internationalization and liberalization there has been a constant stream of new financial products, the CDIC has strengthened its handling of its staff training in relation to financial supervision and bank examination. It has also held bank examination individual case study discussion meetings and organized seminars in which examination personnel can exchange opinions, in the hope that, despite its limited examination resources, it can more quickly upgrade the overall quality and effectiveness of examination. In this way it can fulfill its important mission of conducting bank examination and accomplish the government's policy objective of promoting financial discipline.

#### 4. Improving Information Disclosure to Enhance Transparency

In order to strengthen the deposit insurance mechanism and control insured risk, the CDIC has on the one hand made use of on-site examinations to strengthen off-site monitoring, while on the other hand integrating its various kinds of off-site monitoring mechanisms, namely, its National Financial Early-Warning System, Internet-based monitoring system and "Account Officer" system, to swiftly adopt appropriate measures to extend assistance to and deal with insured institutions with abnormal operations. This has been in order to prevent the occurrence of insurance-related incidents, and to assist insured institutions in enhancing the

soundness of their operations. Among these, the information generated by the Financial Early-Warning System has been disseminated to other financial supervisory agencies for reference, whether in the form of reports, computer-related media or on line, with a view to unifying the work of supervision, thus enabling information to be shared and maintaining an effective financial safety net system.

#### 5. Implementing Six New Sub-regulations

In line with the successful passing of the revisions to the Deposit Insurance Act and the CDIC's being given the authority to handle problem financial institutions, the CDIC has drawn up six new sub-regulations. These are the Regulation Governing the CDIC's Handling of Cash Pay-offs, the Regulation Governing the CDIC's Provision of Financial Assistance to Problem Insured Institutions, the Regulation Governing the CDIC's Provision of Financial Assistance to Encourage Mergers and Acquisitions among Financial Institutions, the Regulation Governing the CDIC's Continuing to Operate Failed Institutions on a Temporary Basis, the Regulation Governing the CDIC's Handling of Insured Deposit Transfer Pay-offs, and the Regulation Governing the CDIC's Making Cash Advances to Uninsured Creditors on behalf of a Liquidator. Each of these sub-regulations has been ratified by the Ministry of Finance and publicly implemented by the CDIC. In the future, the CDIC will be in a better position to deal with problem financial institutions.

#### 6. Adjusting the Organizational Structure

In order to respond to the amendments to the Deposit Insurance Act, and to the increasing importance being attached to its role in handling problem financial institutions, the CDIC has continued to study and revise its organizational adjustment plan and to submit its proposals to the Ministry of Finance for approval. To this end, it intends to sub-divide its expanding Monitoring and Assistance Department to form two new departments, namely, the Risk Management Department and the Liquidation Department. The former will be specifically concerned with strengthening controls over the risk of insured institutions, while the latter will be responsible for the appropriate handling of problem and failed insured institutions. It is hoped that, by strengthening the degree of professionalism within its ranks, the CDIC can effectively enhance the efficiency of its service.

In the foreseeable future, the CDIC will continue to focus on its major responsibilities of phasing problem financial institutions out of the market in an orderly and peaceful manner, improving the Financial Early-Warning System to strengthen controls over insurance risk, upgrading bank examination skills and strengthening the function of the deposit insurance mechanism. Furthermore, the CDIC will adopt measures and concepts in line with the competent authority's policies by addressing issues such as the corporate governance of insured financial institutions, improving accounting practices to fully disclose financial information, taking prompt corrective action to phase problem financial institutions out of the market, and reserving abundant insurance funds for making pay-offs when needed.

Over the past year, the CDIC, complemented by the coordinated efforts of the various related agencies and assisted by the strenuous efforts of its excellent staff, has succeeded in resolving an unprecedented thorny issue in disposing of 36 problem financial institutions in one fell swoop. The CDIC is mulling over imminent changes to its assessment policy by transitioning from a blanket guarantee to a limited-coverage system, supported by the joint efforts of various regulatory agencies. These timely actions will ultimately facilitate significant changes in strengthening the deposit insurance function in the R.O.C. in the future.

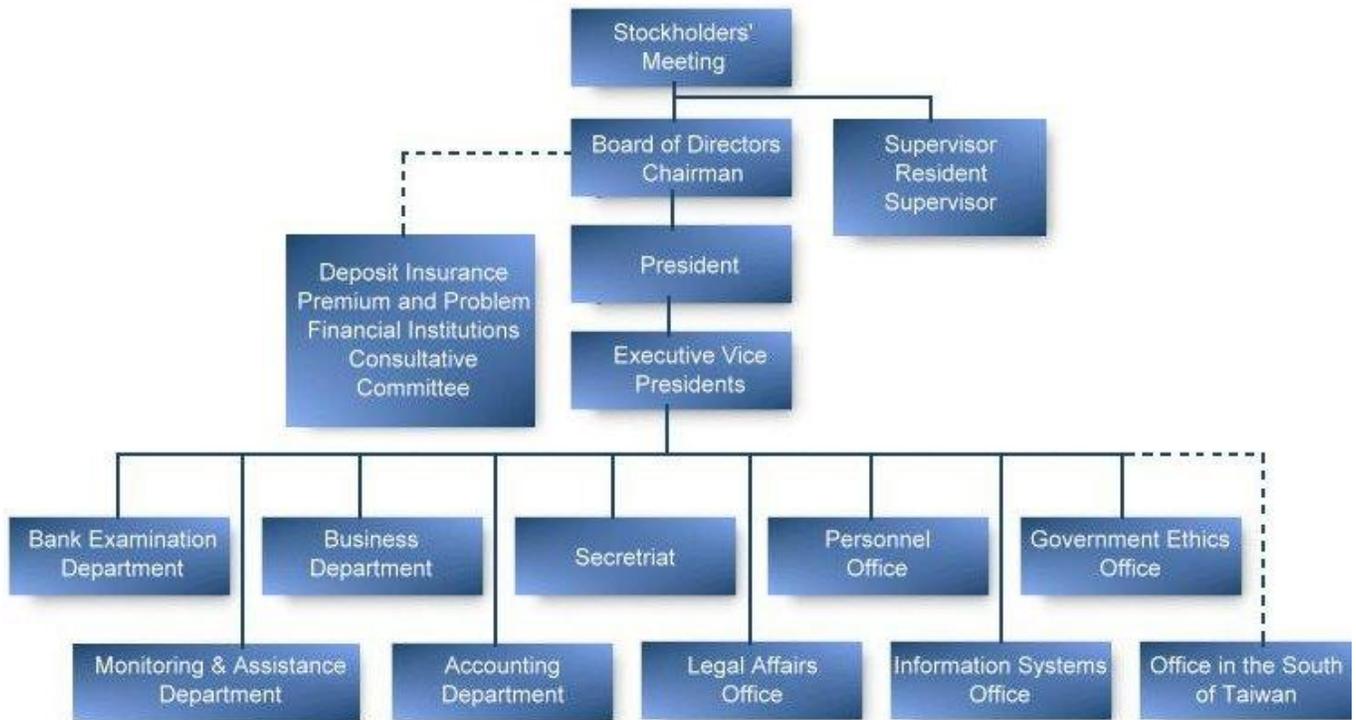
*C. T. Tsay*

Chairman

*Johanna Chen*

President

## Organization Chart



# Board of Directors, Supervisors and Executives

## Board of Directors

Chairman	Chin-Tsair Tsay (Representative of the Central Bank of China)
Directors	Fred S.C. Chen (Representative of the Central Bank of China Representative of the Central Bank of China Representative of the Central Bank of China)
	Cheng-Shang Chang (Representative of the Ministry of Finance)
	Jiin-Tang Yue (Representative of the Central Bank of China)
	Ming-Nang Yu (Representative of the Central Bank of China)
	Johnson C.S. Chen (Representative of the Ministry of Finance)
	Ching-Chiang Chen (Representative of the Ministry of Finance)

## Supervisors

Resident Supervisor	Chang-Shang Chen (Representative of the Ministry of Finance)
Supervisors	Kuo-Chung Hsu (Representative of the Ministry of Finance)
	Tang-Chieh Wu (Representative of the Ministry of Finance)

## Senior Executives

President	Johnson C.S. Chen
Executive Vice Presidents	W.H. Lai
	L.C. Pan
	Howard N.H.Wang

# Business Operations



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The Central Deposit Insurance Corporation (CDIC) is an institution vested with special responsibility for handling deposit insurance in the Republic of China. Its objectives are to safeguard the benefits of depositors in financial institutions, promote savings, maintain an orderly credit system, and enhance the sound development of financial operations. In order to enable it to practically implement these objectives, the Deposit Insurance Act vests the CDIC with four important responsibilities, namely, handling deposit insurance, examining insured institutions, assisting problem insured institutions, and handling failed insured institutions. During year 2001, the CDIC was entrusted by the Executive Yuan's Financial Restructuring Committee with the task of handling community financial institutions whose operations had become unsound. The major activities in which the CDIC is engaged are as follows:

## 1. Deposit Insurance

### (1) Financial Institutions and their Participation in Deposit Insurance

After participation in deposit insurance which was formerly administered on a voluntary basis was made mandatory, all deposit-taking financial institutions by law participated in deposit insurance, and hence became CDIC-insured institutions. During year 2001, because of the government's active promotion of its financial reform policies combined with the passing of the Statute for the Establishment and Management of the Executive Yuan's Financial Restructuring Fund, a total of 36 insured institutions with operations that were unsound that were handled by the Financial Restructuring Fund withdrew from the market. The number of insured institutions was thus significantly reduced. If account is taken of one foreign bank that terminated its branch operations in Taiwan and two other insured institutions

that voluntarily merged with or were acquired by other insured institutions, it can be seen that the total number of insured institutions declined from 456 at the end of the year 2000 to 417 at the end of the year 2001.

## (2) Insured Deposits and Fully Covered Depositors of All Insured Institutions

Currently, the maximum insurance coverage that the deposit insurance system extends to each individual depositor in any insured institution is NT\$1 million. According to the statistics reported by all of the insured institutions, as at December 31, 2001, total insurable deposits amounted to NT\$17,336 billion, of which NT\$7,986 billion were under maximum coverage. The average ratio of insured deposits to the total insurable deposits of all insured institutions was 46.1%. In terms of the different categories of insured institutions, the local branches of foreign banks had the lowest ratio of 22.1%, while the credit departments of fishermen's associations had the highest ratio of 67.4% (see Table 1). The average ratio of fully-covered depositors to total depositors of all insured institutions was 95.1%. Of the different categories, the investment and trust companies had the lowest ratio of 68.0%, while the credit departments of farmers' associations had the highest ratio of 96.7% (see Table 2). It can be seen that the current maximum coverage of NT\$1 million is able to provide most small depositors with full protection.

## (3) The Impact of the Executive Yuan's Financial Restructuring Fund on the Insurance Coverage Extended to Depositors

The maximum insurance coverage that the CDIC extends to each individual depositor in any insured institution is presently NT\$1 million. However, with the mechanism of the Financial Restructuring Fund in place (initially established for a period of three years from July 11, 2001 until July 10, 2004, with a possible extension of one year if deemed necessary), for all financial institutions with unsound operations that this Fund handles, the full amount of the deposits and accrued interest of depositors will be covered, without any restrictions being imposed by the maximum insurance coverage of NT\$1 million originally set by the deposit insurance system.

## (4) The Implementation of Deposit Insurance Risk-based Premium Systems

In order to avoid moral hazard, and appropriately reflect the operating conditions of each insured institution, the CDIC, with the approval of the Ministry of Finance, formally began to implement a tiered deposit insurance assessment rate on July 1, 1999. Based on the premise that a sound system of deposit insurance should establish sufficient funds for insurance pay-offs if the confidence of investors is to be maintained, the CDIC received the approval of the Ministry of Finance to raise its three-tiered deposit insurance assessment rates, effective January 1, 2000, from the previous 0.015%, 0.0175% and 0.02% rates of insured deposits to 0.05%, 0.055% and 0.06%, respectively. In this way, the CDIC is able to have an adequate supply of deposit insurance pay-off special reserves and an increased ability to handle problem insured institutions. Furthermore, the benefits of depositors can be safeguarded, insured institutions can be assisted in lowering their operational risk, and local financial order can be maintained.

Of the total number of insured institutions at present, the CDIC assesses about 50 percent of them on the basis of the 0.05% assessment rate, while a further 30 percent of them are assessed at the rate of 0.055% of insured deposits. Only about 20 percent of them are assessed at the maximum rate of 0.06% of insured deposits. In addition, as of December 31, 2001, accumulated deposit insurance pay-off special reserves totaled NT\$8.53 billion.

## (1) The Scenario of Examination

The CDIC currently uses two methods to examine insured financial institutions, namely, on-site examinations and off-site monitoring. On-site examinations consist of general-scope examinations and specific-scope examinations. General-scope examinations are concerned with examining all aspects of a financial institution's business, and key aspects of the examination can be adjusted along with financial trends. Specific-scope examinations are examinations of a specific nature directed towards specific business issues that are entrusted to the CDIC by the competent authority and which take place where there are abnormal changes in financial conditions or other unexpected events.

The examinations of insured institutions conducted by the CDIC may be categorized into examinations of insured institutions and commissioned examinations. Examinations of insured institutions are handled in accordance with Article 21 of the Deposit Insurance Act. Commissioned examinations are handled by the CDIC in accordance with the Regulations Governing the Ministry of Finance's Commissioning the CDIC with the Examination of Community Financial Institutions. The CDIC has since July 1996 had the task of examining all community financial institutions in Taiwan. In addition, in accordance with Article 45 of the Banking Law and a resolution passed at the 8th meeting of the Bank Examination Committee, the CDIC has since December 1998 been commissioned by the Ministry of Finance to examine the various computing centers that are shared by the community financial institutions. During fiscal year 2001, the CDIC completed a total of 270 general-scope examinations involving 700 branches. In addition, in order to control insured risk and guard against insured institutions' loans to related parties becoming pastdue, cash in vaults and money laundering, a total of 227 specific-scope examinations were completed over the same period.

## (2) Improving the Effectiveness of Supervision

a. Examining the Important Items that Need to be Checked by Bank Examiners when Examining Financial Institutions to Enhance the Quality of Examination

b. Designing Questionnaires so that Financial Institutions being Examined may Conduct their own Self-evaluations, to Strengthen Self-discipline among Insured Institutions

In order to encourage insured institutions to ensure that they abide by relevant laws and regulations in the conduct of their business while also maintaining controls over risk, the CDIC has drawn up a "Financial Institutions' Questionnaire" whereby financial institutions have been grouped into three categories, namely, banks, community financial institutions and shared computing centers, on the basis of the business in which they are engaged. The questionnaire is to be filled in by the institution being examined at the time of the examination, and should also be signed by the chief auditor or a department head or higher-ranking officer. This is in order to strengthen the function of self-discipline and enhance the effectiveness of examination.

c. Establishing a "Loan Examination Evidence-gathering Task Force" to Strengthen the Examination of Loans that have been made Illegally

In order to respond to Article 16 of the Statute for the Establishment and Management of the Executive Yuan's Financial Restructuring Fund which vests the CDIC with the authority to file civil proceedings against the responsible officials or employees of financial institutions with unsound operations and to put a stop to the illegal behavior of community financial institutions, the CDIC, besides furthering the training of its examination personnel in relation to regulatory systems and the extending of loans, has established a "loan examination evidence-gathering task force," with special responsibility for

examining loans that have been extended illegally. In addition, it has designed tables of items that should be examined that focus on issues including "diversifying the extending of loans and centralizing their use," "the extending of loans to inappropriate related parties," "the inappropriate evaluation of collateral," and other examples of inappropriate lending where there has been negligence and other illegal activity. In this way it has strengthened the gathering of evidence and examination of instances in which loans have been extended illegally, and has facilitated the subsequent filing of civil proceedings.

d. Participating in the Financial Examination Committee's Consultations Regarding Important Issues in Bank Examination

The purpose of the Financial Examination Committee is to plan and integrate the whole task of bank examination, and thereby raise its overall effectiveness. Through the meetings convened by this committee during FY2001, the consultations and the results of the discussions, the CDIC formulated and assisted in implementing the "Operating Procedures for Examining the Data of Financial Institutions that are not Examined by the CDIC," "The Criteria for Handling, Reporting and Identifying Financial Institutions with Abnormal Conditions that Transfer Cash to the Bank of Taiwan, the Land Bank of Taiwan, Taiwan Cooperative Bank and the Farmers' Bank of China," "Key Points for Examining the Clients of Financial Institutions that have Transactions or Dealings with International Terrorists and their Organizations," "The Financial Holding Company Examination Handbook," and "The Ministry of Finance's Guidelines Regarding Financial Institutions Experiencing Operating Crises."

e. Formulating the File Formats and Formatting Codes of Financial Institutions, and Use of Auditing Software to Assist in Bank Examination, thereby Enhancing the Quality of Examination.

In view of the ever-increasing quantity and complexity of financial business information, and the greater emphasis on transactions being conducted electronically, in order to upgrade the efficiency and quality of examination, the CDIC has already made arrangements with each of the community financial institutions' shared computing centers to use the file formats and formatting codes formulated by the CDIC, to assist with the writing of computer files' conversion formulae, that provide the CDIC with information on insured institutions for use in bank examination.

Beginning this year, the CDIC has successively made use of ACL (Audit Command Language) software in relation to a number of insured institutions to serve as an auditing tool that will help in the work of bank examination. By means of this auditing software, the CDIC has had considerable success in verifying the completeness and correctness of the computer file data of the units being examined, engaging in the screening and analysis of abnormal data, examining regulatory compliance, increasing the objectivity of the examination samples, enlarging the scope of examination, reducing the time spent on examinations and economizing on manpower.

f. Actively Cultivating Examination Personnel

In order to make effective use of its examination personnel and increase efficiency, the CDIC based on each examiner's area of specialization and practical experience has actively cultivated its professional expertise in the areas of financial business, law and bank examination, and has thereby enhanced its ability to evaluate the overall operating risk of the institutions being examined. Together with the Central Bank of China and the Ministry of Finance's Bureau of Monetary Affairs, it regularly holds joint training in the work of bank examination.

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### 3.The Financial Early-Warning System and Follow-up Evaluation

#### (1)Financial Early-Warning System

In order for the CDIC to firmly grasp the changes taking place in the operating trends and financial conditions of insured institutions in a timely manner, to discover problem insured institutions at an early stage, and to provide reference material regarding the focus and frequency of its planned on-site examinations, the CDIC has been commissioned by the Ministry of Finance to set up a National Financial Early-Warning System. In line with the changing financial environment and the needs of supervision, it will continue to study the system, and make necessary adjustments and revisions. The following is a summary of the various tasks handled by the CDIC in this regard:

- a. Compiling a "Quarterly Analysis of the Finance and Business of Community Financial Institutions," and forwarding copies to the competent authority for reference, in order to strengthen the off-site monitoring of community financial institutions. In addition, the CDIC has compiled a "Quarterly Statistical Report on the Financial Data and Related Indicators in Respect of R.O.C. Community Financial Institutions," and has disclosed excerpts from these for reference purposes in reports in its quarterly Deposit Insurance Journal, and on the CDIC's website, in line with the government's policies related to the public disclosure of the data of financial institutions. This is to enable the general public to obtain all information related to the community financial institutions' financial and other important indicators.
- b. In order to enhance the ability of the Financial Early-Warning System to assist in the work of financial supervision, the CDIC has compiled a "Summary Report on Community Financial Institutions with Abnormal Financial Data" on a quarterly basis for supervisory reference purposes, in order to determine from the data relating to specific points in time and trends that have been reported any changes that have taken place, and to schedule the frequency of examination and forward the findings to the competent authority as reference material for the work of financial supervision.
- c. In order to increase the decision-making function of bank examination, enhance the function of financial supervisory policies, and achieve the information sharing principle, the CDIC in early 2001 successfully established an on-line link-up with the Central Bank of China's Bank Examination Department, providing ready access to the CDIC's Financial Early-Warning System data, while at the same time updating its on-line link-up with the Ministry of Finance.
- d. Regularly compiling and forwarding reports on the results of examination appraisals, and compiling on a quarterly basis its "Report on the Ranking of the Data of Financial Institutions in the R.O.C." which it submits to the Ministry of Finance for supervisory reference purposes.

#### (2) Follow-up Evaluation

In addition to strengthening its handling of both general-scope and specific-scope examinations of insured institutions, the CDIC has, in accordance with relevant regulations, drawn up the CDIC Enforcement Procedures for the Follow-up Evaluation of Insured Institutions' Business Deficiencies to regulate institutions' operations. Furthermore, based on Article 6 of the Regulations Governing the Ministry of Finance's Commissioning the CDIC with the Examination of Community Financial Institutions, the CDIC conducts follow-up operations as part of its overall scope of operations. These follow-up evaluation measures have included the following:

- a. Establishing and amending files for all insured financial institutions, in order to firmly control information relating to the operations of these institutions.
  - b. Handling 2,796 written examination opinions in relation to those financial institutions that the CDIC is responsible for examining, and requesting in writing that those insured institutions with major operational deficiencies make improvements within a specified time period.
  - c. Attending meetings of the Special Guidance Task Force convened by the competent authority or other important meetings on a total of 336 occasions.
  - d. Examining the internal audit reports of institutions being examined in order to understand the internal audit function, as well as to serve as valuable reference material for on-site examinations.
  - e. Referring to an analysis of the results of the early-warning systems and internet supervision systems of insured institutions, and taking follow-up evaluation measures in cases where the financial situations of the institutions concerned have worsened.
  - f. Establishing specific files with regard to significant events involving CDIC-examined financial institutions, important warning signal files, as well as documents relating to financial institutions with high dishonored-check ratios.
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#### 4. Handling the Provision of Assistance, Supervision and Conservatorship

##### (1) Strengthening Off-site Assistance to Insured Institutions with Major Operational Deficiencies

In order to reduce insured risk and maintain financial order, the CDIC during FY 2001 assisted 74 insured institutions with major operational difficulties through its account officer system. It is hoped that these institutions will quickly make improvements by availing themselves of the appropriate and timely guidance offered in relation to their operational deficiencies. So far, 36 community financial institutions with unsound operations have been forced to withdraw from the market with the help of the Executive Yuan's Financial Restructuring Fund.

##### (2) Extending Guidance to 36 Community Financial Institutions with Unsound Operations

In line with the handling by the Executive Yuan's Financial Restructuring Fund of 36 community financial institutions with unsound operations and with the approval of the Ministry of Finance, the CDIC on August 10, 2001 dispatched a total of 118 personnel hired from outside CDIC, together with support staff from four banks, namely, Taiwan Cooperative Bank, the Bank of Taiwan, the Land Bank of Taiwan and the Farmers' Bank of China. With the resulting 194 people, the CDIC formed assistance task forces to take control of these ailing institutions and extend assistance to them. In this way, the CDIC was able to effectively understand their financial and business situations and control moral hazard. Subsequently, on September 1 and September 15, ten banks took over these 36 troubled financial institutions, as instructed by the Ministry of Finance, and on September 3 and September 17, the acquiring banks formally resumed their day-to-day operations.

##### (3) Taiwan Development & Trust Corporation's Supervision Completed

The CDIC, as instructed by the competent authority, on May 13, 2000 placed Taiwan Development & Trust Corporation under supervision. On May 11, 2001, because each of the areas in which readjustments had been made had been successfully dealt with, the corporation no longer needed to remain under such supervision. However, the corporation is still receiving assistance, in the hope that its operations will once again become healthy and stable.

#### (4) Chung-Shing Bank under Conservatorship

On April 28, 2000, again in accordance with the competent authority's instructions, the CDIC placed Chung-Shing Commercial Bank under supervision. This supervision remained effective until October 25, 2001 at which point the bank was placed under conservatorship, which meant that during this period of time the powers of the bank's shareholders' meeting, directors and supervisors were vested in the CDIC. In addition, because that bank's net worth had already become negative at the end of September 2001, the Executive Yuan's Financial Restructuring Fund's Management Committee passed a resolution enabling the bank to be handled by the Committee as a problem institution.

#### (5) Strengthening the provision of assistance to financial institutions that have not complied with the CDIC Insurance Standard to improve their operational shortcomings within a limited period.

After the Deposit Insurance Act was amended and participation in deposit insurance was made mandatory, it was found that a total of 36 insured institutions had not conformed to the CDIC's Insurance Standard. Of these, nine of them, whose adjusted net worth had become negative, began to be handled by the Executive Yuan's Financial Restructuring Fund, and were taken over by other banks in September 2001. As for the remaining 27, pursuant to Article 2 of the Enforcement Regulations of the Deposit Insurance Act, they were to submit a concrete improvement plan that was not to extend beyond a period of three years. The CDIC was to continue to follow up and examine such an improvement plan to see that it was actually implemented. At present, besides regularly reporting each quarter to the Ministry of Finance the extent to which improvements have been made and the measures adopted, the CDIC is actively guiding such insured institutions, in the hope that within the time period stipulated by the plan the operational deficiencies can be improved.

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## 5. Research and Development

In view of the rapid changes currently taking place in the financial environment, as well as the trend towards universalization in the financial sector, the CDIC, in order to keep pace with current trends, has made every effort to strengthen its research and development. In addition to gathering information related to the opinions of insured institutions and the latest developments in deposit insurance both at home and abroad, the CDIC has also completed a number of research reports. Important achievements during the current fiscal year include the following:

(1) Five staff members and senior management executives were dispatched during the year to the United States, Canada, Japan and Southeast Asian countries to study or attend seminars on topics such as deposit insurance systems, and financial supervisory skills, etc. All of those sent abroad have subsequently returned, and will shortly be submitting reports on the respective topics covered as is normally required of such personnel (see Appendix 2).

(2)The CDIC during the previous year (the second half of fiscal year 1999 and fiscal year 2000) dispatched personnel overseas to conduct research. They have already submitted research reports (see Appendix 2) to the CDIC for reference purposes.

(3)One of the CDIC's research reports conducted during the previous year (the second half of fiscal year 1999 and the whole of fiscal year 2000) and entitled "A Study on Strengthening the Mechanism for Handling Problem Financial Institutions in the R.O.C.," continued to reflect the excellent standards of CDIC's specialized research projects as in years past. It was once again awarded a top prize by the Ministry of Finance, and also represented the Ministry of Finance in a very distinguished research competition organized by the Executive Yuan, where it won the second prize.

(4)The CDIC collected the latest information with regard to deposit insurance and banking supervision both locally and overseas and completed numerous research papers (see Appendix 2) that were used for reference purposes.

(5)Four copies of the Deposit Insurance Journal, a quarterly periodical containing highlights of the operational management of financial institutions, financial supervision, financial regulations, the deposit insurance system, and financial legal affairs, etc., were published during the year and sent to financial institutions, relevant government departments, universities and colleges, public representatives at all levels, and all libraries and cultural centers for reference purposes.

(6)Nine issues of CDIC research papers that included annual work commissioned by the Ministry of Finance and work done by staff studying abroad over the last year (i.e. the second half of fiscal year 1999 and the whole of fiscal year 2000) were published in order to provide financial institutions, related government agencies, research institutions and scholars with valuable materials for reference.

(7)Conferences focusing on particular issues were held at various times during the year, the speakers being either outstanding CDIC examination personnel or else experts hired from outside. A total of 7 meetings to discuss specific examination cases were held and outside scholars and experts were invited to lecture on specific topics at the CDIC on a further 11 occasions.

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## 6.Computerization

(1)In order to appropriately respond to the developments in information technology and increase the operational efficiency of the CDIC's application systems, the CDIC during the current year completed three Windows-based application systems, namely, the "Bank Examination Report Operating System," the "Examination Administration System" and the "Fund Utilization Management System."

(2)In line with its being entrusted with the task of dealing with financial institutions whose operations were unsound, the CDIC completed its development of a Cash Pay-off Operating System, and a Financial Institutions' Computer File Data Internet Transmission Operating System, in order to increase the authenticity and efficient handling of pay-off data.

(3)The CDIC completed its development of four of the Executive Yuan's Financial Restructuring Fund's Management Accounting Systems, including a Budget Operating System, an Account Handling System, a Cashier Operating

System, and a Property Management System. This was in order to enable the CDIC to increase the efficiency of its accounting operations.

(4) In line with the Executive Yuan's promotion of its objective to computerize documentation, the CDIC completed its establishment of an operating system whereby it could exchange documents electronically with other government bodies. This can enhance the timely and efficient handling of documents.

(5) The CDIC completed its on-line network operating mechanism with the Ministry of Finance's Bureau of Monetary Affairs and the Central Bank of China. This will make it easier for financial supervisory agencies to examine Financial Early-Warning System data, thereby achieving the CDIC's objective of pooling resources.

(6) To strengthen the operational safety of its networks, and increase the effectiveness of network services, the CDIC renewed its firewall system, and upgraded its Internet transmission safety digit certification to 128 digits. In addition, it was given permission to become part of the Government Service Network (GSN). The CDIC also completed its formulation of the "CDIC's Operating Guidelines Regarding the Collection and Safe Management of its Data," and established standard compliance procedures encompassing the handling of all of its data, in order to maintain the operational safety of data.

#### 7. CDIC's Manpower Structure

year	No. of Employees	Average Age	Educational Background		
			Graduate School	College	Others
2001	294	38	43	242	9
2000	282	38	43	230	9
1999	291	35	51	231	9
1998	296	34	54	233	9
1997	272	34	55	209	8

#### Departmental Deployment (2001):

Bank Examination Department	177
Business Department	42
Accounting Department	13
Personnel Department	10
Government Ethics Office	10
Monitoring & Assistance Department	20
Legal Affairs Department	5
Secretariat Department	15
Information Department	2

# Financial Statements

## BALANCE SHEET

(NT\$'000s)

	FY 2001 (Ended Dec. 31, 2001)	FY 2000 (Ended Dec. 31, 2000)
<b>Assets</b>		
Cash and deposits with Central Bank	17,564,060	15,016,658
Securities purchased	1,895,548	2,384,560
Receivables, prepayments and short-term advances	424,616	407,943
Fixed assets	534,061	540,430
Intangible assets	7,030	4,912
Other assets	6,969	12,468
<b>Total Assets</b>	<b>20,432,284</b>	<b>18,367,004</b>
<b>Liabilities and Stockholders' Equity</b>		
Accounts payable	598,759	411,240
Special financial accommodation from Central Bank of China	-	1,810,000
Insurance pay-off special reserves	8,528,358	4,839,569
Long-term liabilities	27,335	27,423
Other liabilities	1,068	2,008
<b>Total Liabilities</b>	<b>9,155,520</b>	<b>7,090,240</b>
Capital stock	10,000,000	10,000,000
Paid-in capital	40,986	40,986
Retained earnings	1,235,778	1,235,778
<b>Total Stockholders' Equity</b>	<b>11,276,764</b>	<b>11,276,764</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>20,432,284</b>	<b>18,367,004</b>

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## BALANCE SHEET

(NT\$000s)

	FY 2001 (Ended Dec. 31, 2001)	FY 2000 (Ended Dec. 31, 2000)
Operating Revenue		
Interest revenue	898,505	1,400,318
Insurance revenue	3,408,582	3,803,703
Other revenue	-	918
Total Operating Revenue	4,307,087	5,204,939
Operating Costs and Expenses		
Provision for insurance pay-off special reserves	3,694,257	3,537,444
Interest Expenses	71,638	281,666
Commissioned expenses	190,923	268,171
Business expenses	294,524	400,029
Administrative expenses	52,131	74,299
R&D and staff training expenses	4,563	7,355
Other expenses	459	634
Total Operating Costs and Expenses	4,308,495	4,569,598
Net Operating Income	-1,408	635,341
Net Non-operating Loss	1,408	-1,706
Net Income before Income Tax	-	633,635
Income Tax	-	158,558
Net Income after Income Tax	-	475,077

### Notes to Financial Statements

1. The figures specified in the Balance Sheet and the Statement of Income for FY 2000 (July 1, 1999-Dec. 31, 2000) are those reviewed and adjusted by the Ministry of Audit, while those for FY 2001 (January 1, 2001-December 31, 2001) remain subject to audit by the Ministry.
2. The CDIC's significant accounting principles are summarized as follows:
  - (1) and liabilities on an accruals basis in accordance with the Generally Accepted Accounting Principle.
  - (2) "Securities purchased" under the Deposit Insurance Act are limited to government bonds and bank debentures.
  - (3) In fixed assets, land is booked at its reappraised value, while buildings and improvements, machinery, transportation and communications equipment and other equipment are stated at cost less accumulated depreciation. Depreciation is calculated by means of the straight-line method.
  - (4) Provision for "Insurance pay-off special reserves":
    - a. According to the Enforcement Regulations of the Deposit Insurance Act, "Insurance pay-off special reserves" are provided each year in an amount not less than 60% of that year's insurance revenue. However, in order to more speedily enhance the CDIC's pay-off capability, the actual amounts provided for in past years have constituted 80% of annual insurance assessment income. From FY1999 onwards, at which time participation in deposit insurance was made compulsory for all

deposit-taking institutions, it was expected that CDIC's insured risk would increase. Therefore, the CDIC submitted a letter to the Ministry of Finance asking that the amount provided for "Insurance pay-off special reserves" be changed to 90% of annual insurance assessment income. The Ministry of Finance subsequently gave the CDIC permission, within a four-year period commencing July 1, 1999, to fully provide 3% of its other income (i.e. income not related to major income categories) for "Insurance pay-off special reserves" in accordance with Article 11(3) of the Business Tax Law. Through these measures, the CDIC will be able to more rapidly accumulate "insurance pay-off special reserves" and will thereby strengthen its ability to bear risk.

- b. Pursuant to Article 7 of the Deposit Insurance Act as amended on July 9, 2001, which states that the CDIC shall close all accounts at the end of each business year, and shall place the whole amount of the profit, if any, in the deposit insurance pay-off reserves fund, and shall not distribute it in accordance with the relevant provisions of the Company Law, the CDIC's net income before income tax of NTS524,276 thousand was deposited in the "Insurance pay-off special reserves" account.

(5)Manufacturers provided guaranteed items totaling NTS6,877 thousand, which was recorded in the accounts under the items "Contingent assets for trust agency and guarantee," and "Contingent liabilities for trust agency and guarantee." Because of their contingent nature, in accordance with regulations these items were not included in the balance sheet.

3. Pursuant to Article 7 of the Deposit Insurance Act as amended on July 9, 2001, the whole amount of the net income before income tax of NTS524,276 was placed in the deposit insurance pay-off special reserves fund, and so net profit for the year was NTS0, and retained earnings were the same as at the end of last year.

# Statistics

**Table 1**  
**Major Revenue and Expense Items for the Last Five Years**

Items	FY2001	FY2000	FY1999	FY1998	FY1997
Operating Revenues	4,308	5,205	1,418	1,396	1,157
Interest revenue	899	1,401	751	710	707
Insurance revenue	3,409	3,804	663	485	448
Other revenues	-	-	4	-	2
Commissioned revenue	-	-	-	201	-
Operating Costs and Expenses	4,309	4,570	1,013	913	770
Provision for insurance pay-off special reserves	3,694	3,538	596	388	359
Interest expense	72	282	91	43	132
Commissioned expenses	191	268	-	188	-
Business expenses	295	400	261	232	225
Administrative expenses	52	74	53	52	48
R&D and staff training expenses	3	4	6	6	6
other expenses	2	4	6	4	-
Net Operating Income	-1	635	405	483	387
Net Non-operating Loss	1	2	169	2	2
Net Income before Income Tax	-	633	236	481	385

Notes :

1. The figures specified in the above table for FY 1997 to FY 2000 (i.e. July 1, 1999-Dec. 31, 2000) are those reviewed and adjusted by the Ministry of Audit, while those for FY 2001 remain subject to audit by the Ministry.

2. Pursuant to the revisions to Article 7 of the Deposit Insurance Act of July 9, 2000, i.e. "the CDIC shall close all accounts at the end of each business year, and shall place the whole amount of the profit, if any, in the deposit insurance pay-off reserves fund, and not in accordance with the relevant provisions of the Company Law," the Net Income before Income Tax for FY 2001 of NT\$524 million was placed in the "insurance pay-off special reserves."
3. Accumulated insurance pay-off special reserves as at Dec. 31, 2001 amounted to NT\$8,528 million.
4. In FY 2001, the accounting year was changed to the calendar year, i.e. from January 1 to December 31.

**Table 2**  
**Numbers of Examinable Insured Institutions On-Site Examinations**

Types of Depository Institutions	2001	2000	1999	1998	1997
Domestic Banks	17	17	16	13	9
Trust and Investment Companies	2	2	2	3	3
Credit Cooperative Associations/th>	39	48	51	56	71
Credit Departments of Farmers' Associations	260	287	287	287	285
Credit Departments of Fishermen's Associations	25	27	27	27	27
Information Centers of Community Financial Institutions	7	7	6	-	-
Number of Examined Head Office On-Site Examinations	350	388	389	396	395
Number of Examined Head Office & Branch On-Site Examinations	1,197	1,913	1,589	1,524	1,545

Notes :

1. The numbers of examined financial institutions in respect of on-site examinations include general-scope examinations and specific-scope examinations.
2. The reduction in the numbers of credit cooperative associations and the credit departments of farmers' and fishermen's associations may be explained by Cosmos Bank's acquisition of Miaoli County & City Credit Cooperative, and Macoto Bank's takeover of Chiayi City Second Credit Cooperative. Of the 36 community financial institutions with unsound operations that were handled in accordance with the Executive Yuan's Financial Restructuring Fund, 7 were credit cooperative associations, 27 were the credit departments of farmers' associations and 2 were the credit departments of fishermen's associations.
3. The reduction in the number of on-site examinations was mainly due to about 80% of the examiners being dispatched to handle the 36 problem financial institutions over a three-month period.

**Table 3**  
**Number of Insured Institutions for the Last Five Years**

Types of Depository Institutions	FY 2001	FY 2000 (7.1.1999 - 12.31.2000)	FY 1999	FY 1998	FY 1997
Domestic Banks	53	53	51	39	35
Investment and Trust Companies	3	3	3	4	4
Credit Cooperative Associations	39	48	51	53	67
Credit Departments of Farmers' Associations	260	287	287	249	243
Credit Departments of Fishermen's Associations	25	27	27	27	27
Local Branches of Foreign Banks	37	38	42	29	28
total	417	456	461	401	404

Notes :

1. The number of insured institutions in FY 2001 was 39 less than in FY 2000, representing a significant decline. The main reasons for this were that 7 credit cooperative associations and 29 credit departments of farmers' and fishermen's associations with unsound operations withdrew from the market after being handled by the Financial Restructuring Fund. In addition, two credit cooperative associations were acquired by banks and one local foreign bank branch closed its business operations in Taiwan.
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**Table 4**  
**Total Insurable Deposits for the Last Five Years**

Types of Depository Institutions	FY2001			Ratio of Insured Deposits to Total Insurable Deposits			
	Insured Institutions (a)	Insurable Institutions (b)	Ratio of Insured Deposits to Total Insurable Deposits % (a)/(b)	FY 2000(7.1.1999~31.12.2000) %	FY 2000(7.1.1999~31.12.2000) %	FY 1999 %	FY 1997 %
Domesitic Banks)	6,692,281	14,955,434	44.7	43.5	44.9	40.2	35.4
Investment and Trust Companies	54,776	120,482	45.5	31.9	26.2	26.3	26.0
Credit Cooperative Associations	392,628	694,494	56.5	56.6	56.0	54.9	53.9
Credit Departments of Farmers' Associations	751,287	1,197,903	62.7	62.7	62.8	63.0	63.6
Credit Depratments of Fishermen's Associations	20,708	30,733	67.4	67.4	67.4	69.5	70.1
Local Branches of Foreign Banks	74,486	337,679	22.1	24.6	27.7	27.9	23.8
Total	7,986,148	17,336,725	46.1	42.7	44.2	46.6	44.7

Notes :

1. Insured deposits are the total of each depositor's deposits which are less than the maximum insurable coverage. (The maximum insurance coverage was originally set at NT\$700,000, but was increased to NT\$1,000,000 effective in FY 1988 in the case of each insured institution.) The insured deposits are calculated on the basis of the balance as of June 30 for each fiscal year, apart from FY 1997 to FY 1999 in which cases the balance as of December 31 is used.
2. Total insurable deposits refer to the total of checking accounts, passbook deposits, passbook savings deposits, time deposits, time savings deposits, and trust funds in NT dollars for specific uses accepted by each deposit money institution.

**Table 5**  
**Insured Deposits, Insurance Pay-off Special Reserves and Stockholders' Equity**

year-end (Dec.31)	The Max. Insurance Coverage	Insured institutions				Insurable Deposits Ratio %	Premiums	Insurance Pay-off Special Reserves (c)	Stockholders' Equity (d)	Ratio of Insurance Pay-off Special Reserves to Insured Deposits% (c)/(b)	Ratio of Insurance Pay-off Special Reserves and Shareholders' Equity to Insured Deposits%((c) +(d))/(b)	Exchange rate per USD End (Dec.31)
		No. of Insured Institutions	Total Insurable Deposits (a)	Insured Deposits (b)	Ratio of Insured Deposits to Total Insurable Deposits% (b)/(a)							
2001	1,000	417	17,894,174	8,116,092	45.4	100	3,408	8,528	11,277	0.11	0.25	35.0
2000	1,000	456	16,773,476	7,582,735	45.2	100	3,321	4,916	11,220	0.06	0.21	33.0
1999	1,000	459	16,420,852	7,769,081	47.3	100	900	1,752	10,185	0.02	0.15	31.4
1998	1,000	406	8,113,246	3,594,906	44.3	67.9	509	2,200	8,967	0.06	0.31	32.2
1997	1,000	403	7,313,529	3,289,797	45.0	65.8	465	1,793	8,457	0.05	0.31	32.6
1996	1,000	400	7,152,291	3,058,978	42.8	63.6	427	1,421	5,753	0.05	0.23	27.5
1995	1,000	350	6,550,052	2,772,773	42.3	51.9	325	1,080	5,587	0.04	0.24	27.3
1994	1,000	200	4,953,265	1,923,972	38.8	48.7	252	820	5,472	0.04	0.33	26.2
1993	1,000	183	4,076,410	1,608,539	39.5	40.6	189	618	5,331	0.04	0.37	26.6
1992	1,000	173	3,038,070	1,151,692	37.9	39.4	146	481	4,181	0.04	0.40	25.3
1991	1,000	163	2,444,853	943,196	38.6	37.3	120	396	2,076	0.04	0.26	25.7
1990	1,000	157	1,916,763	753,861	39.3	33.2	98	300	2,007	0.04	0.31	26.9
1989	1,000	151	1,524,996	618,248	40.5	31.4	77	222	1,985	0.04	0.36	26.4
1988	1,000	141	1,110,468	483,378	43.5	23.4	59	157	1,974	0.03	0.44	28.6
1987	700	99	808,249	379,379	46.9	18.9	97	116	1,611	0.03	0.46	31.8
1986	70	79	531,693	201,850	38.0	17.3	69	48	1,195	0.02	0.62	37.8

Notes :

1. The figures specified in the above table are dated as at December 31 of each year; those for 1986 to 2000 are those reviewed and adjusted by the Ministry of Audit, while those for 2001 remain subject to audit by the Ministry.
2. Insured deposits are the total of each individual depositor's deposits which do not exceed the maximum insurable coverage.

3. The insurable deposits ratio refers to the ratio of total insurable deposits of insured institutions to those of insurable institutions in each year.
4. The CDIC provided NT\$1,284 billion in financial assistance in September 1999, in order to assist the Bank of Taiwan in acquiring the Tungkang Credit Cooperative in Pingtung county, which resulted in a decrease in insurance pay-off special reserves.
5. In view of the rapidly-changing local financial environment and the experiences of the advanced countries, and in order to speed up the accumulation of the CDIC's insurance pay-off special reserves, the CDIC on January 1, 2000 upwardly adjusted its very low risk-based assessment rates (of 0.015%) to 0.05%, 0.055% and 0.06% of insured deposits for three different risk categories.

# The Deposit Insurance System

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## 1.The Deposit Insurance System

### (1)Establishment of the Central Deposit Insurance Corporation

Pursuant to Article 46 of the Banking Law, the government or banks may set up a deposit insurance organization to safeguard the benefits of depositors in financial institutions. In response to the world-wide trend toward the liberalization of financial markets, the government proposed the idea of deposit insurance at a National Banking Conference in 1982, at which a consensus was reached by the banks and scholars represented there to go ahead and implement it. Shortly afterwards, the Ministry of Finance, in consultation with the Central Bank of China, invited representatives of the banking sector to draw up the Deposit Insurance Act, which was submitted to the Executive Yuan with the approval of the Legislative Yuan and promulgated by the President on January 9, 1985. Thereafter, the Ministry of Finance and the Central Bank jointly established the Central Deposit Insurance Corporation (CDIC), which formally opened on September 27, 1985. The CDIC is in charge of deposit insurance and serves as an integral part of the country's financial system. The board of directors consists of seven members who are appointed by the Ministry of Finance and the Central Bank of China.

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### (2)Objectives

The objectives of a deposit insurance system are defined in Article 1 of the Deposit Insurance Act as follows:

- To safeguard the benefits of depositors in financial institutions
  - To promote savings
  - To maintain an orderly credit system
  - To enhance the sound development of financial operations
- 

### (3)Insured Financial Institutions

All financial institutions that may, pursuant to law, either accept deposits (including postal savings) or trust funds whose principal and interest are guaranteed and which are designated for special uses shall participate in deposit insurance as insured institutions. For those branches of foreign banks in the Republic of China that accept deposits and are already safeguarded by the deposit insurance system in their own countries, this regulation is not applicable.

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### (4)Ways of Applying for Deposit Insurance

In order to achieve the goal of maintaining the confidence of depositors and enabling deposit insurance to have its full effect, participation in deposit insurance, which was formerly administered on a voluntary basis, has since February 1, 1999 been made mandatory.

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#### (5) Insured Deposits

The following items are covered by deposit insurance:

- Checking accounts
- Passbook deposits
- Time deposits
- Savings deposits, including postal savings deposits
- Trust funds whose uses are not designated by the trustors
- Other deposits which the Ministry of Finance has approved as insurable

The following are not covered by deposit insurance:

- Foreign currency and foreign exchange proceeds deposits
  - Trust funds whose uses are designated by the trustors
  - Negotiable certificates of deposit
  - Amounts due to all levels of government
  - Amounts due to the Central Bank
  - Amounts due to banks, the postal savings system, trust and investment companies, credit cooperative associations, and the credit departments of farmers' and fishermen's associations
  - The balance of those deposits which exceeds the maximum insurance coverage offered to individual depositors
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#### (6) Insurance Coverage

Pursuant to Article 9 of the Deposit Insurance Act, the maximum insurance coverage that the CDIC offers to each depositor of any insured institution shall be determined by the competent authority in conjunction with the Central Bank of China. Currently, the maximum insurance coverage is set at NT\$1 million. In addition, the Executive Yuan's Financial Restructuring Fund has been established by law in order to deal with financial institutions with unsound operations and create a healthy financial environment. This Fund covers the period from July 11, 2001 to July 10, 2004, but may be extended by one more year subject to the approval of the Legislative Yuan. All of the deposit-related and non-deposit-related claims on financial institutions with unsound operations that are handled by this Fund are fully protected.

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#### (7) Deposit Insurance Assessments

As stipulated by the Deposit Insurance Act, the assessment rate for deposit insurance shall be proposed by the CDIC and approved by the competent authority, i.e. the Ministry of Finance, prior to implementation. The deposit insurance assessment base shall be computed on the basis of the standard dates and in accordance with the maximum insurance coverage offered to individual depositors within insured institutions. The deposit insurance assessment rate in the R.O.C. is calculated using a risk-based assessment rate system, with the insured institutions' "capital adequacy ratio" and the "Composite score of the Examination Data Rating System" that forms part of the National Financial Institutions' Early-Warning System (NFIEWS)" being the indicators of risk. At present, assessment rates are based on three different levels of risk, namely, 0.05%, 0.055% and 0.06%. Assessments are due in advance for each six-month period. The assessment base is computed once every semi-annual period. The standard dates for computing such a base are June 30 and December 31, and may be altered from time to time by the Ministry of Finance in conjunction with the Central Bank.

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#### (8) Sources of Funds

The CDIC has four sources of funds:

a. Capital

Pursuant to the stipulations of the Enforcement Regulations of the Deposit Insurance Act, the total capital of the CDIC shall be NT\$10 billion.

b. Assessment income

Assessment income is the major source of the insurance pay-off. In order to enhance the pay-off capability, the CDIC, pursuant to the Enforcement Regulations of the Deposit Insurance Act, shall set aside insurance pay-off special reserves each year in an amount of not less than 60% of that year's assessment income. Since participation in deposit insurance became compulsory in 1999, in order to respond to the increased risk being underwritten, the CDIC with the approval of the Ministry of Finance raised the amount of insurance pay-off special reserves to be set aside to 90% of the year's assessment income. Then, after the amendments to the Deposit Insurance Act were passed on July 9, 2001, this was changed so that deposit insurance pay-off reserves to be set aside comprised the total amount of the CDIC's surplus once the accounts had been closed at the end of the business year.

c. Income from the CDIC fund

The CDIC's primary consideration in the use of its funds is safety. Pursuant to Article 8 of the Deposit Insurance Act, the funds of the CDIC shall be deposited with the Central Bank of China or with financial institutions that are approved by the competent authority with the provision of government bonds as collateral, and shall be invested exclusively in government bonds and bank debentures.

d. Special financial accommodation from the Central Bank of China

According to Article 20 of the Deposit Insurance Act, in order for the CDIC to take action in accordance with Articles 15, 15-1, 15-2, 16 and 17 of the Deposit Insurance Act, the CDIC may apply to the competent

authority (i.e. the Ministry of Finance) to negotiate with the Central Bank of China for special financial accommodation. In the case where such accommodation exceeds the amount for which the CDIC is able to provide collateral, the excess portion shall be guaranteed by the National Treasury. Should the amount for which collateral is provided exceed the CDIC's net worth, the Ministry of Finance together with the Central Bank of China shall submit a report regarding that amount to the Executive Yuan for approval.

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#### (9) Distribution of Earnings

Following the passing of the amendments to the Deposit Insurance Act on July 9, 2001, it was stipulated that the total amount of the CDIC's surplus be placed in the deposit insurance pay-off reserve fund, and that the relevant provisions of the Company Law would no longer be applicable. This was in order to more quickly replenish the pay-off reserve fund as well as to enhance the CDIC's ability to bear risk.

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#### (10) Examining Insured Institutions

Following its establishment in September 1985, the CDIC has, pursuant to Article 21 of the Deposit Insurance Act and the Designated Task Assignment Guideline of Bank Examination promulgated by the Executive Yuan, examined a number of insured institutions' business records. In addition, in accordance with the Plan Governing the Reform of Financial Supervision and Regulation which was put forward by the Executive Yuan in April 1996, and the Regulations Governing the Ministry of Finance's Commissioning the CDIC with the Examination of Community Financial Institutions, the CDIC has since July 1, 1996 taken over the examination of all of the community financial institutions in Taiwan. In addition, in accordance with Article 45 of the Banking Law and a resolution passed at the 8th meeting of the Financial Examination Committee, the CDIC has since December 1998 been entrusted by the Ministry of Finance with the work of examining the information centers shared by community financial institutions.

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#### (11) Handling Problem Financial Institutions

##### a. Assisting Problem Insured Institutions

Pursuant to paragraph 1 of Article 17 of the Deposit Insurance Act, in order to ensure that insured institutions have sound operations, the CDIC may when necessary, with the prior approval of the Ministry of Finance, dispatch personnel to assist insured institutions with their business operations, or pursuant to Article 16-1 of the Banking Law, the competent authority may dispatch personnel to assist them with their business operations, thereby safeguarding the rights of depositors.

##### b. Providing Financial Assistance

In addition, paragraph 2 of Article 17 of the same Act stipulates that the CDIC may extend loans to, or deposit funds in, an insured institution to which the CDIC provides assistance or in relation to which the CDIC performs the functions of a supervisor or conservator. In the event that another healthy insured institution

intends to merge with such a problem institution, the CDIC may on the basis of item 3 in paragraph 1 of Article 15 of the Deposit Insurance Act extend financial assistance to other insured institutions in order to facilitate a merger with the problem insured institution. The purpose behind the above regulation is to enable the CDIC to extend needed financial support to problem insured institutions in emergency situations (such as panic runs), so as to assist them in maintaining stable and healthy business operations, or else to enable such problem insured institutions to withdraw from the market without affecting the stability of the financial system. In this way, the crisis can be prevented from spreading, and the rights of depositors may be effectively safeguarded, orderly credit maintained, and the sound development of financial operations enhanced.

c. Entrusted by the Financial Restructuring Fund to deal with problem insured institutions

According to Article 17 (1) of the Deposit Insurance Act, the CDIC shall, as entrusted by the Executive Yuan's Financial Restructuring Fund and within the period in which the Fund remains operative, settle the liabilities and deal with the assets of problem insured institutions.

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## (12) Handling Failed Insured Institutions

Pursuant to Article 15 of the Deposit Insurance Act, in the event that an insured institution shall have been closed by the competent authority, the CDIC should, in order to maintain an orderly credit system and protect the interests of that insured institution's depositors or its designated beneficiaries in the case of trust funds, fulfill its responsibility as a deposit insurer by means of any one of the following four methods:

- a. By directly making cash pay-offs in relation to principal from its insured deposits in accordance with the failed institution's own accounting records or based on evidence of outstanding amounts provided by the depositors.
- b. By holding consultations with other insured institutions that are in close proximity to the failed institution, and transferring the deposit accounts of the depositors in the failed institution to those institutions so that the claims of depositors can be met.
- c. By extending financial assistance to other insured institutions through the provision of funds, loans or deposits, or by guaranteeing the liabilities of the closed institution to make it easier for the sound institutions to merge with the closed institution or else to assume its operations, assets and liabilities either in whole or in part.
- d. By assuming and temporarily continuing the operations of the closed institution in the name of the CDIC should the CDIC be unable through negotiation to find other insured institutions to handle the matters referred to in methods two and three above, before once again resorting to method three.

It needs to be noted, however, that the cost to CDIC of proceeding with any one of the last three methods needs to be less than the losses that would arise from directly making a cash pay-off on the basis of the first method.

Upon the closing of an insured institution, the CDIC, in addition to performing the insurance obligation mentioned above, shall, pursuant to paragraph 1 of Article 16 of the Deposit Insurance Act, be appointed by the competent authority as the receiver to commence the winding up of the closed institution. In addition, according to paragraph 2 of Article 16 of the Deposit Insurance Act, the CDIC may, in order to meet the liquidity needs of the creditors of the closed institution, without increasing the costs incurred by the CDIC and after having calculated the value of the

closed institution's assets, make advance payment against claims filed by depositors beyond the maximum insurance coverage and non-depositors based on the anticipated reimbursement ratio. Any such advance payments should be recorded item by item in order of payment and set against any amounts recovered arising from such claims. Such amounts may first be deducted from the total sum of money finally realized from the liquidation and repaid to the CDIC.

### The Enlargement and Improvement of the Deposit Insurance System in the Republic of China

	1985 (The Year of CDIC's Establishment) (Sep. 27, 1985)	Subsequent Changes (Sep. 27, 1985-July 2001)	Current System July 2001-
Type of Participation	Voluntary	Changed to Mandatory	As on left
Capital	* Total capital prescribed by the Executive Yuan: NT\$2 billion * Actual paid-in capital: NT\$800,050,000	* Total prescribed capital was increased in July 1992 to NT\$5 billion * In November 1995 the capital was further increased to NT\$10 billion	As on left
Participating Institutions	* Domestic Banks (not including the Postal Savings System) * Medium Business Banks * Investment and Trust Companies * Credit Cooperative Associations * Credit Departments of Farmers' and Fishermen's Associations * Local Branches of Foreign Banks (Local branches of foreign banks that accept deposits that are protected by their respective countries may still participate) * Other financial institutions appointed by the Ministry of Finance	* All of the institutions listed to the left as well as the Postal Savings System * Local branches of foreign banks in Taiwan that have already had their deposits guaranteed by their respective countries are not required to participate	As on left
Insurance Premium	A uniform rate of 0.05% of insured deposits	* In July 1987, the uniform assessment rate was lowered to 0.04% * In January 1988, the assessment rate was further lowered to 0.015% * From July 1999, the CDIC adopted a risk-based assessment rate system, whereby three rates were used, namely, 0.015%, 0.0175%, and 0.02% of insured deposits * From January 1, 2000, these three rates were adjusted to become 0.05%, 0.055% and 0.06%.	As on left, a system of three different rates was used, namely, 0.05%, 0.055% and 0.06%.
Maximum Insurance Coverage	NT\$700,000	On August 15, 1987, the maximum coverage was increased to NT\$1 million.	Still NT\$1 million. However, in order to deal with problem financial institutions, the government has especially established by law the Executive Yuan's Financial Restructuring Fund. During its three years of operation, all of the deposit claims and non-deposit claims on problem financial institutions that conform to the Fund's criteria and are handled by it will be safeguarded to the full amount.

Scope of Coverage	Principal and Interest relating to Deposits	Restricted to Principal only	As on left, restricted to principal only. However, after being handled by the Financial Restructuring Fund, both deposit claims and non-deposit claims will be fully safeguarded.
Institutions in which CDIC funds may be Deposited	Limited to the Central Bank of China	* The Central Bank of China * Financial institutions approved by the competent authority to provide government bonds as collateral	As on left
Means of Fulfilling the Insurance Obligation	* Cash Pay-offs * Deposit Transfers * Temporarily continuing to operate failed institutions in the name of the CDIC	In addition to the three methods to the left, financial assistance may be provided to encourage other insured institutions to either merge with or acquire the failed institution or its operations, assets and liabilities in whole or in part	As on left
Making of Advance Payments (Against Claims filed by the depositors beyond the Maximum Insurance Coverage and also by Non-depositors)	No premium	Based on the principle that the costs incurred by the CDIC do not increase, the CDIC may make advance payments against claims to meet the liquidity needs of creditors of the closed institution	As on left
Exemption of Handling Problem Insured Institutions and Failed Insured Institutions from Invitation for Tender, Price Comparison, Price Negotiation and Articles 25 to 27 of the Budget Law	No provision	New Amendment	As on left
Recipient of Financial Assistance and the Form of such Assistance	Limited to assistance either in the form of loans or asset purchases to enable those failed institutions to resume operations	* For those insured institutions receiving assistance, or being placed under supervision or conservatorship, the CDIC may extend loans and place deposits in such institutions * Other financial institutions that either merge with or acquire the operations, assets and liabilities, in whole or in part, of financial institutions, which are receiving assistance, or are being placed under supervision or conservatorship or have failed, are eligible for such assistance, which can take the form of extending loans, placing deposits in those institutions, and providing funds and guaranteeing liabilities	As on left
Borrowing Funds from the Other Financial Institutions before Applying to the Central Bank for Special Accommodation in Case of Emergency	No provision	New Amendment	As on left
The Provision of Collateral when Applying to the Central Bank for Special Accommodation	Sufficient collateral must be provided	* That part for which the CDIC is unable to provide collateral shall be guaranteed by the National Treasury * For that part guaranteed that exceeds the CDIC's net worth, the competent authority and the Central Bank of China shall seek the approval of the Executive Yuan	As on left

Penalty for Refusing to Participate in Deposit Insurance	No provision	A fine of two times the insurance premium payable	As on left
Penalty for Failure to Accept the Personnel Dispatched by the CDIC or to Comply with the Opinions Given by the Personnel	No provision	A fine of between NT\$360,000 and NT\$1,800,000	As on left
Penalty for Failing to Comply with a Corrective Order within the Time	No provision	A further fine of between 1 and 5 times the aforesaid penalty on the same fact or action	As on left

## 2. Deposit Insurance-related Regulations

A total of three articles of the Deposit Insurance Act were either amended or revised in 2001, the main changes being as follows:

- In order to enhance the CDIC's pay-off ability, Article 7 was revised. This article stipulates that the full amount of the CDIC's surplus shall be placed in the deposit insurance pay-off reserve fund, and that the relevant provisions of the Company Law are no longer applicable.
- In line with the implementation of the Statute for the Establishment and Management of the Executive Yuan's Financial Restructuring Fund, the amended Article 17-1 stipulates that the CDIC shall be entrusted by the Executive Yuan's Financial Restructuring Fund to handle the settlement of liabilities and to deal with the assets of insured institutions in line with this Statute, and to use the whole amount of the incremental deposit insurance assessment income received over the next ten years to assist in a limited way in supporting the Financial Restructuring Fund.
- The addition of paragraph 3 of Article 21 stipulates that banks shall publicly announce their important financial business information every quarter. The contents, format and style of the reports shall be determined by the competent authority, thereby promoting the transparency of information among financial institutions, so that the market may exercise its supervisory role.

### Amendments and Revisions to the Deposit Insurance Act

Promulgated on July 9, 2001 by Presidential decree No. 9000134130 as amended (Article 17-1), and revised (Article 7 & Article 21).

#### Article 7

The CDIC shall close all accounts at the end of each business year, and shall place the whole amount of the profit, if any, in the deposit insurance pay-off reserves fund, and shall not distribute it in accordance with the relevant provisions of the Company Law.

#### Article 17-1 (amended)

The CDIC, pursuant to paragraph 3 of Article 5 and Article 10 of the Statute for the Establishment and Management of the Executive Yuan's Financial Restructuring Fund, and when dealing with financial institutions as entrusted by

that Fund, shall in line with that Fund deal with the settlement of the liabilities and the assets of insured institutions whose operations are unsound.

The Central Deposit Insurance Corporation, when dealing with financial institutions in accordance with the regulation stipulated in the above paragraph and within the period in which the Executive Yuan's Financial Restructuring Fund referred to in the Statute for the Establishment and Management of the Executive Yuan's Financial Restructuring Fund remains effective, shall use up to the full amount of the incremental deposit insurance assessment income received over the next ten years.

#### Article 21

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.

The CDIC, based on the findings of the aforesaid examination or submitted statements, shall recommend improvements to the insured institution for its rectification within a stipulated period of time. If within such time-limit rectification is not made, the CDIC may report this matter to the competent authority.

The important financial business information of banks shall be publicly announced every quarter, and the contents, format and style of such reports shall be determined by the competent authority.

# Operations Overview of the Executive Yuan's Financial Restructuring Fund

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## 1. Introduction to the Executive Yuan's Financial Restructuring Fund

To provide the financial sector with a high-quality operating environment, the government has taken active steps to improve its legal and regulatory structure, and to strengthen the system of financial supervision. This has included, from November 2000 onwards, the promulgation of the revisions to the Banking Law, the Financial Institutions' Merger Law, and the "Six Financial Regulations," in order to recreate for Taiwan's financial institutions an environment where there is formal disclosure of operating information. In order that financial institutions whose operations are unsound may quietly and smoothly withdraw from the market and thereby avoid the triggering of a financial crisis, the most important task with which the government has been recently faced, based on a careful study of the ways in which countries such as the U.S., Japan and Korea have supplemented their public funds, is to appropriately implement within a set time period a mechanism that fully safeguards the benefits of depositors and which can make up for the shortages of capital that problem financial institutions face. Therefore, after carefully considering Taiwan's financial environment, the R.O.C. government on June 27, 2001 passed the Statute for the Establishment and Management of the Executive Yuan's Financial Restructuring Fund (hereinafter simply referred to as the Financial Restructuring Fund Statute), which it subsequently promulgated and implemented by Presidential decree on July 9 of the same year. This Financial Restructuring Fund Statute also serves the purpose of integrating financial markets and stabilizing financial conditions, and may be referred to as a regulation concerned with financial reform that is particularly meaningful to these times.

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### (1) Special Features of the Restructuring Fund

- a. Quickly passing the Financial Restructuring Fund statute with a consensus among all sections of society.

During a period of only half a year from December 2000 when the government planned to establish a mechanism for a Financial Restructuring Fund until June 27, 2001 when the Financial Restructuring Fund Statute's third reading was completed in the Legislative Yuan, a consensus was quickly reached between the government and the general public with regard to setting up a special purpose fund to deal with problem financial institutions and implementing temporary measures to fully safeguard depositors, that was backed up with the support of the financial industry and academic communities. To enable the drafts of this Statute and other relevant regulations concerned with financial reform to rapidly become law, the Legislative Yuan, through an unprecedented extraordinary meeting held after the Legislature had adjourned, at one stroke passed the Six Financial Regulations in which the Financial Restructuring Fund Statute was included. This actively demonstrated the R.O.C.'s resolve in implementing financial reforms.

- b. The Restructuring Fund was established at an early stage to avoid the occurrence of a financial crisis.

Compared with the situations prevailing in the U.S., Japan and other countries where the respective governments drew up budgets and mobilized public funds only after many financial institutions had collapsed and precipitated a financial crisis, in the R.O.C. the government first of all passed a law to establish a Financial Restructuring Fund before several of the problem financial institutions collapsed. This resulted in the government's handling problem financial institutions more efficiently due to a sufficiency of resources, and a financial crisis was successfully averted.

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## (2)Competent Authority

The Financial Restructuring Fund's competent authority is the competent authority as stated in the Banking Law. At the present time, this is the Ministry of Finance.

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## (3)Governing Body: The Financial Restructuring Fund's Management Committee

The Financial Restructuring Fund's governing body is the Financial Restructuring Fund's Management Committee, which is responsible for deliberating the uses and operations of the Fund, approving the Fund's receipts and expenditures custodianship plans, reviewing the Fund's financial reports and cashflow arrangements, and the appraisal of other issues concerned with the management, implementation and public disclosure in relation to the Fund. The Committee consists of nine to thirteen members, including one Committee Chairman and one Committee Vice-Chairman, who according to the Financial Restructuring Fund Statute serve concurrently as the Head and Deputy Head of the competent authority, respectively. In addition there are four Committee members, who serve concurrently as the Deputy Governor of the Central Bank of China, the Deputy Chairman of the Council of Agriculture, Executive Yuan, the Deputy Director of the Directorate-General of Budget, Accounting and Statistics, Executive Yuan, the Chairman of the Central Deposit Insurance Corporation (hereinafter simply referred to as the CDIC). As for the remaining Committee members who are appointed, these serve on the basis of the professional knowledge and experience that they have in law, economics, finance and other fields that are relevant to the Committee. Such Committee members associated with the same party should not exceed one half of the total number of Committee members, in order that the Committee's decision-making process can be more independent.

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## (4)Executive Body: The Central Deposit Insurance Corporation

the passing of resolutions by the Committee may be, pursuant to Article 10 of the Financial Restructuring Fund Statute, entrusted to the CDIC for implementation. The results of the implementation are then reported to the Committee for ratification, in order to achieve the division of duties objective.

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## (5)Financial Resources and Funding Accommodation

The Fund's resources include government financial business tax revenue and deposit insurance premium income received from the financial sector. The former one includes financial business tax revenue covering the years 2002-2005, and it is estimated to be about NT\$120 billion. The latter one comprises the CDIC's incremental insurance premium income covering a ten-year period from January 2002 onwards that arises as a result of the increase in the insurance assessment rate which took effect on January 1, 2000, and which is expected to amount to approximately NT\$20 billion.

In the event that the revenues from the above financial sources are not realized, the CDIC may apply to the Central Bank of China for accommodation, borrow from other financial institutions, or else issue bank debentures, in order to meet the needs of the Fund's operations, and shall repay any such amounts from the above financial resources.

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#### (6) Applicable Financial Institutions

- a. The financial institution's adjusted net worth is negative.
- b. The financial institution is unable to pay its debts
- c. The financial institution's financial situation is deteriorating, and the competent authority maintains that it cannot continue to operate.

Since of all the financial institutions at present it is the community financial institutions that, because of structurally-derived problems, are in a relatively serious situation, the Fund stipulates that priority shall be given to the handling of community financial institutions.

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#### (7) Handling Problem Financial Institutions

In order to both swiftly and effectively resolve the problem financial institutions, and avoid a crisis of confidence among depositors and a chain risk reaction, the Financial Restructuring Fund Statute has removed the restrictions in the Deposit Insurance Act that state that the cost of handling problem financial institutions shall be less than the loss arising from the cash pay-offs. The Statute also stipulates that the Fund shall provide a transitional blanket guarantee to all depositors and other creditors of the problem financial institutions handled by the Fund. As to the way in which the financial institutions are handled, this will be in line with relevant regulations at the present time such as the Banking Law, the Financial Institutions' Merger Law and the Deposit Insurance Act, including:

- a. Settling the liabilities and taking over the assets, and selling such assets by tender.
  - b. The difference by which the liabilities to be settled exceed the assets.
  - c. Becoming a shareholder in the financial institutions by means of preferred shares.
- 

#### (8) Custody of the Fund

The Fund's funds, apart from being used to handle problem financial institutions with unsound operations, shall be deposited in the form of cash in creditworthy financial institutions, used to purchase government bonds, bank

debentures, and negotiable certificates of deposit issued by banks, or else maintained by other means in accordance with regulations prescribed by the competent authority.

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#### (9)The Handling of Acquired Assets

Pursuant to the Financial Restructuring Fund Statute, the Restructuring Fund shall entrust the CDIC with the full amount required to settle the deposit-related and non-deposit-related claims on problem financial institutions with unsound operations. The Restructuring Fund shall, in its own name, take over the assets of the aforementioned financial institutions, and shall dispose of them by offering them for sale by tender, auction or other method. Any proceeds from the disposal shall be included in the Restructuring Fund.

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#### (10)Accounting Treatment

When handling accounting and auditing matters, the Fund shall conform to generally accepted accounting principles and auditing standards, and shall establish an accounting system which conforms to such principles and standards.

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#### (11)The Fund's Period of Operation and its Termination

The Fund shall be operative for a period of three years from the date on which the Financial Restructuring Fund Statute is promulgated. However, the period may be extended for a further year with the approval of the Legislative Yuan. After the Fund is no longer operational, its assets and liabilities shall be taken over by the National Treasury. However, if the assets which have been taken over by the Fund still have not been fully disposed of by the set time, the National Treasury may value them as property, and reinvest such assets in the CDIC, in order to handle them more efficiently and increase the CDIC's capital.

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#### (12)Penalties for Losses Incurred by the Fund

In order to guard against the making of illegal profits by the responsible officials or employees of institutions participating in deposit insurance, leading to the occurrence of moral hazard, the Financial Restructuring Fund Statute stipulates that any person who with intent illegally benefits from the Fund whether for himself or a third party, or damages property or other benefits of institutions participating in deposit insurance, or the CDIC or the Restructuring Fund, such person shall receive a sentence of between three and ten years, together with a fine of up to NT\$100 million. In addition, in order to prevent the insured institution's responsible official or two or more employees from collaborating together in committing the above-mentioned crimes, the Statute stipulates that the aforesaid penalties shall be increased by half, and that the violators shall jointly or severally be required to pay compensation, in order to serve as an effective threat. The CDIC shall also, in its own name, file civil proceedings against the person(s) who should pay compensation on behalf of the institution participating in deposit insurance or the Fund, to thereby put a stop to moral hazard.

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## 2.The CDIC's Pre-planning Assignment

In order to resolve the problems associated with those problem community financial institutions, the government very early on began to formulate response policies, drawing heavily on the concept of establishing a Financial Restructuring Fund based on the experiences of the U.S., Japan and other countries. Subsequently, in December 2000, the R.O.C. government formally began the process of setting up a Financial Restructuring Fund mechanism. The CDIC in that same month established an ad hoc committee, under the oversight of CDIC Chairman Chin-Tsair Tsay and with CDIC President Johnson C.S. Chen as the convener and two Executive Vice Presidents as the deputy conveners, to deal specifically with problem financial institutions. The committee was subdivided into coordination task forces and planning task forces that consisted of the department heads and deputy heads and those employees of the rank of deputy division chief or above from the CDIC's Monitoring & Assistance Department, Business Department, Bank Examination Department, Legal Affairs Office and the Information Systems Office. It was intended that, by promoting both specialization and coordination among the various departments, cautiously engaging in both basic research and planning, and drawing up a planning schedule and related handling procedures, the CDIC could within a short-period of time smoothly complete the pre-planning process. The means by which the planned activities were to be handled included: cash pay-offs, deposit transfer pay-offs, whole or partial bank purchases and assumption of the problem institutions, and temporarily taking over financial institutions and continuing to operate them in the name of the CDIC. Related measures included engaging in extending assistance to the problem institution or placing it under supervision at the pre-planning stage, developing plans with various kinds of handling approaches and related procedures, the deployment of funds, the liquidation and disposal of assets and liabilities, the handling of the accounting system and accounts, providing various kinds of training, dealing with the employees of failed institutions, and coordinating efforts among related parties. By carefully planning for each kind of situation that might be faced and the response measures, and establishing regular follow-up based on a controlled time schedule, the CDIC could ensure that the plan progressed at the right speed, and would therefore be in a position to respond to the problems needing to be overcome in a timely manner.

Because the sheer size of the task and the methods needed to be adopted were unprecedented in the process of financial reform in the R.O.C., and difficulties abounded, the CDIC's employees moved forward with trepidation. Many cancelled their vacations and public holidays to fully devote themselves to making careful plans. On several occasions, meetings were held to discuss the issues at stake. At least ten such meetings were convened by the Chairman and the President, and another thirty or more were presided over by Executive Vice Presidents. In addition, in order to fully comprehend just how diligent and under pressure the staff were, the CDIC Chairman and President in turn met with various members of staff and one by one briefed them on the tasks needing to be done. On this occasion the whole of the CDIC workforce was to be mobilized. Not only were more than one hundred staff actively dispatched to deal with these problem financial institutions, but most of the other staff were also responsible for the planning and coordination efforts, as well as other supporting activities. The huge task that they faced was indeed close to being a "Mission Impossible."

Each of the methods to be used for handling the problem financial institutions described above were compared, as well as the total cost of the program and the impact that it would have on society. The cash pay-offs and deposit transfer pay-offs would immediately require an outlay of approximately NTS200 billion, the costs associated with handling the assets and remaining liabilities were extremely high, and the fact that the rights of the employees of the problem financial institutions were not protected by law suggested that protests following their dismissal leading to

more serious social problems would result. Furthermore, the cash pay-offs would result in financial services being cut off and there was a need to invest in a large amount of equipment and in more than a thousand personnel to facilitate the pay-offs. In so far as the CDIC's temporarily taking over and continuing to operate these problem institutions was concerned, the CDIC was unable to provide such a large number of professional management personnel. It was thus feared that this would affect the deposit insurance mechanism and the work in which the CDIC was traditionally engaged. Following careful comparison and analysis, coordinating the taking over by the large financial institutions of all of the assets and liabilities of the problem financial institutions was considered to be the cheapest and most efficient approach among the alternatives considered, and therefore it was this approach that was actively pursued. In addition, in order to continue to offer financial services to the general public, the goal that was set was that the business operations of the problem community financial institutions would be terminated on the Friday, and after dealing with the termination of their status and their takeover by the acquiring bank, the operations would be reopened for business on the following Monday morning in the name of the acquiring bank.

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### 3.The Actual Experience

The Statute for the Establishment and Management of the Executive Yuan's Financial Restructuring Fund was promulgated by the President on July 9, 2001. On July 16 of the same year, the Fund Management Committee was formed and the Committee's 1st meeting convened. The CDIC subsequently on August 3 was entrusted by the Fund to handle financial institutions with unsound operations, and in view of the asset quality of problem community financial institutions continuing to deteriorate and in order to quickly deal with the situation and keep costs as low as possible, so as to safeguard the benefits of depositors, at the 4th meeting of the Fund Management Committee convened on August 7 it was resolved that the CDIC would be entrusted with this task of handling 36 community financial institutions whose adjusted net worths were already negative. After receiving the approval of the Ministry of Finance, the CDIC dispatched 118 personnel hired from outside CDIC and, together with support staff from four major banks, namely, the Bank of Taiwan, Taiwan Cooperative Bank, the Land Bank of Taiwan, and the Farmers Bank of China, resulting in a total of 194 people, the work of extending assistance was completed on August 19, 2001. In this way, the CDIC was able to thoroughly understand the financial and business situations of the problem financial institutions, and avoid the occurrence of moral hazard.

After careful deliberation with regard to the financial and business situations of the problem financial institutions, the kinds of financial services that other nearby financial institutions could provide, as well as the willingness, given the current financial environment, of other healthy financial institutions to take over the assets and liabilities of those problem financial institutions, the CDIC sought to determine the willingness of ten healthy banks, and after obtaining their agreement, these ten banks, in line with the Ministry of Finance's approvals, on September 1 and September 15 took over these problem institutions and completed legal and regulatory takeover procedures. During the process of handing over the problem institutions to the acquiring banks, apart from a small number of relatively forceful protests, various representatives of the competent authority and examination officials met with the local people and, through a variety of different forms of communication, the issues were gradually resolved, with the handover process in the case of the remaining institutions going extremely smoothly, so that by September 16 the whole handing over process had been completed. The acquiring banks formally commenced operations on September 3 and September 17, respectively. (For a detailed list of the 36 financial institutions with unsound operations that were handled by the Financial Restructuring Fund, as well as the names of the acquiring banks, please refer to Table 6.)

As for the amount by which assets fell short of liabilities in the case of the 36 problem financial institutions, following the Financial Restructuring Fund Management Committee's having these assets and liabilities valued by CPA firms, the CDIC, in accordance with the "pay-off contracts" regulation, on December 14 paid the whole amount of the shortfall together with interest to the acquiring banks.

Finally, in relation to the filing of lawsuits against officials who engaged in illegal activities, the CDIC, in accordance with the Financial Restructuring Fund Statute and the resolutions of the Financial Restructuring Fund Management Committee, asked the Bureau of Investigation to look into cases where the responsible persons or other officials in the 36 problem financial institutions had become involved in illegal activities. In addition, the CDIC filed civil proceedings against those responsible officials that needed to pay compensation, thereby fulfilling its civil responsibility.

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#### 4. Statute for the Establishment and Management of the Executive Yuan's Financial Restructuring Fund

Promulgated by Presidential Decree on July 9, 2001

Hua Tzung No. 9000134150

##### Article 1

This Statute has been formulated in order to establish the Executive Yuan's Financial Restructuring Fund (hereinafter simply referred to as the Fund) to handle financial institutions with unsound operations, with a view to stabilizing financial conditions, maintaining orderly credit, improving the financial structure, and promoting a healthy financial environment.

##### Article 2

The establishment, management and utilization of the Fund are each in accordance with the provisions of this Statute. For those areas not covered by the provisions of this Statute, the regulations contained in other related laws shall apply where appropriate.

##### Article 3

The competent authority that applies to this Statute is the competent authority referred to in the Banking Law.

##### Article 4

This Fund has the following sources:

1. Business tax levied on each industry, whether value-added or non-value-added pursuant to paragraph 1 of Article 11 of the Business Tax Law over the four-year period extending from January 2002 to the end of December 2005.
2. Within a ten-year period commencing January 2002, in accordance with the additional deposit insurance assessment income resulting from the increase in the deposit insurance assessment rate that became effective

on January 1, 2000.

3. Income from utilizing this Fund to deal with financial institutions with unsound operations.
4. Income from interest received on this Fund and income from related uses.
5. Other funding sources ratified by the Executive Yuan. The total amount of funds used shall not exceed the funding sources as laid down in the above paragraphs.

Until there is sufficient income from business tax and deposit insurance assessment income as referred to in items 1 and 2 of paragraph 1 above, in order to handle the pay-off items referred to in paragraph 3 of Article 5 and paragraph 1 of Article 10, this Fund shall empower the Central Deposit Insurance Corporation to invoke Article 20 of the Deposit Insurance Act to apply for accommodation. Alternatively, the Fund will empower the CDIC to invoke Article 72-1 of the Banking Law to issue bank debentures in its own name, and shall use the income generated from financial resources referred to in items 1 and 2 of paragraph 1 as collateral to sustain cash receipts and expenditures. The principal, interest and expense in relation to the accommodation for which the Central Deposit Insurance Corporation applies and the bank debentures it issues shall be repaid out of the financial resources referred to in paragraph 1.

#### Article 5

A financial institution that is referred to by this Statute as having unsound operations, is one that is characterized by one of the following:

1. Its adjusted net worth is negative.
2. It is unable to pay its debts.
3. Its financial situation has deteriorated, and the competent authority maintains that it is unable to continue operating.

This Fund shall give priority to the handling of community financial institutions.

The Central Deposit Insurance Corporation, when handling community financial institutions, shall, pursuant to paragraph 1 of Article 15 and paragraph 2(a) of Article 17 of the Deposit Insurance Act, apply to use this Fund, and shall utilize the whole amount to settle the deposit-related and non-deposit-related claims of financial institutions with unsound operations. It shall also use this Fund to acquire such institutions' assets, and shall not be subjected to the provisos of the restrictions in Article 9 of that Act concerning the maximum insurance coverage, or paragraph 2 of Article 15 and paragraph 2 of Article 17 of that Act concerned with the cost of providing assistance being less than the loss arising from the cash pay-offs.

#### Article 6

This Fund shall set up a Financial Restructuring Fund Management Committee (hereinafter referred to as the Committee) to handle the verification of the following items:

1. The uses to which the Fund is put.
2. The Fund's receipts and expenditure maintenance plan.
3. The Fund's financial reports and funding deployment.
4. Other matters concerned with the management, administration and public disclosure of the Fund.

The execution and formulation of the above resolutions shall be handled by the Central Deposit Insurance Corporation.

For resolutions of the Committee to be passed, at least two thirds of the Committee members must be present, of which at least two thirds of those present must support the resolution.

#### Article 7

The Committee shall be composed of nine to thirteen members, of which one shall be the Chairman, who pursuant to this Regulation shall concurrently serve as head of the competent authority. Another Committee member, who pursuant to this Regulation shall concurrently serve as a deputy head of the competent authority, shall be the Vice Chairman. Other Committee members, who shall serve concurrently in that capacity, shall include a Deputy Governor of the Central Bank of China, a Vice-Chairman of the Council for Agriculture, Executive Yuan, the Deputy Director of the Directorate-General for Budget, Accounting and Statistics, and the Chairman of the Central Deposit Insurance Corporation, and shall be appointed in that capacity and excused from office on the same basis. The remaining Committee members shall be selected on the basis of their professional knowledge and experience in the fields of law, economics, finance and other areas relevant to the Committee.

These Committee members who belong to the same party shall not exceed half of the total number of Committee members. These selected Committee members shall be appointed for a first term of three years, and for a second term of two years. Should a Committee member change his position before the term expires, his term of office shall extend to the original expiration date.

#### Article 8

The Committee shall have one Executive Secretary, who shall be a Grade 12 officer or above appointed by the Committee Chairman and who shall concurrently serve in that capacity. The Executive Secretary shall administer the affairs of the Committee as directed by the Committee Chairman. If the affairs are such that more people are needed, the competent authority and its subordinate departments shall dispatch currently-employed staff to concurrently serve in that capacity, and shall hire between one and five persons as is considered necessary.

#### Article 9

Meetings of the Committee shall be convened and chaired by the Committee Chairman. Whenever the Committee Chairman is for cause unable to execute the above duties, the Vice-Chairman shall act for him.

Whenever the Committee Vice-Chairman is for cause unable to execute the above duties, the Committee Chairman shall designate one of the other Committee members to act for him.

#### Article 10

The Fund shall entrust the Central Deposit Insurance Corporation with the handling of financial institutions whose operations are unsound in accordance with the following methods:

1. Settling the financial institutions' liabilities and taking over the assets, and selling such assets by tender.
2. The difference by which the liabilities to be settled exceed the assets.
3. Becoming a shareholder in the financial institutions by means of special shares.

The Fund regards such financial institutions in the same way as the financial institutions and asset management companies referred to in the Financial Institutions' Merger Law, and applies the related regulations contained within that law.

#### Article 11

The Fund's funds, apart from the portion used in accordance with the provisions of Article 5, shall be maintained by the Committee in the Fund's name in the form of:

1. Cash
2. Deposits in creditworthy financial institutions.
3. Purchases of government bonds, bank debentures, and negotiable certificates of deposit issued by banks.
4. Other methods that conform to the regulations of the competent authority.

#### Article 12

The proceeds resulting from selling the assets of financial institutions with unsound operations taken over by the Fund by tender, auction or by means of other methods shall be deposited in the Fund.

#### Article 13

The handling of the Fund's accounting and auditing matters shall be based on the system of generally accepted accounting and auditing principles.

#### Article 14

The established period during which this Fund remains operative shall extend for a period of three years from the date of promulgation. However, this period may be extended by one year after obtaining the agreement of the Legislative Yuan.

## Article 15

After the Fund ceases to be operative, its assets and liabilities shall be acquired by the National Treasury. Its assets shall be valued by the National Treasury and reinvested in the Central Deposit Insurance Corporation.

## Article 16

The responsible persons or officials of institutions that participate in deposit insurance who violate the terms of their office with intent by illegally benefiting from the Fund whether for themselves or a third party, or damaging the benefits of institutions participating in deposit insurance, the CDIC or the Restructuring Fund, to the extent that the property or other beneficiaries of institutions participating in deposit insurance, the Central Deposit Insurance Corporation or this Fund suffer damage or loss, shall receive a jail sentence of between three and ten years, together with a fine of up to NT\$100 million.

In cases where the responsible officials or employees of institutions that participate in deposit insurance collaborate with at least one other person in exhibiting the criminal behavior referred to in the previous paragraph, the aforesaid penalties shall be increased by half, and the violators shall jointly or severally be required to pay compensation. Those referred to in the first paragraph who fail in their attempt to commit a crime will be punished.

The Central Deposit Insurance Corporation shall, in its own name and on behalf of institutions that participate in deposit insurance or this Fund, file civil proceedings against persons who should pay compensation.

## Article 17

This Regulation shall become effective on the date of promulgation.

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**Table 6: The 36 Problem Financial Institutions Handled by the Financial Restructuring Fund and the Acquiring Institutions**

<b>September 1, 2001</b>	
<b>Acquiring Bank</b>	<b>Credit Department of Farmers' or Fishermen's Association being Ceded</b>
United World Chinese Commercial Bank	Taipei Municipality Sungshan District Farmers' Association
<b>September 15, 2001</b>	
<b>Acquiring Bank</b>	<b>Credit Department of Farmers' or Fishermen's Association being Ceded</b>
Bank of Taiwan	Taiwan Provincial Farmers' Association Pingtung County Hsinyuan Township Farmers' Association Pingtung County Farmers' Association

Hua Nan Commercial Bank	Taoyuan County Kuanyin Township Farmers' Association Hsinchu County Hsinfeng Township Farmers' Association Kaohsiung Municipality Hsiaokang District Farmers' Association Pingtung County Chiatung Township Farmers' Association Pingtung County Chutien Township Farmers' Association
Land Bank of Taiwan	Fukien Province Kinmen County Farmers' Association Taichung County Fengyuan City Farmers' Association Pingtung County Fangliao District Farmers' Association Pingtung County Kaoshu Township Farmers' Association
Chang Hwa Commercial Bank	Changhwa County Fangyuan Township Farmers' Association Changhwa County Fenyuan Township Farmers' Association Changhwa County Puyan Township Farmers' Association Pingtung County Checheng District Farmers' Association Pingtung County Linpien Township Farmers' Association
First Commercial Bank	Tainan County Chiku Township Farmers' Association Tainan County Nanhsi Township Farmers' Association Pingtung County Wanluan District Farmers' Association Kaohsiung County Tzukuan District Fishermen's Association Pingtung County Changchi Township Farmers' Association
The Farmers Bank of China	Pingtung County Fangliao District Fishermen's Association Pingtung County Wantan Township Farmers' Association Kaohsiung County Neimen Township Farmers' Association Kaohsiung County Liukui Township Farmers' Association Kaohsiung County Niaosung Township Farmers' Association
United World Chinese Commercial Bank	Pingtung County Pingtung City Farmers' Association
<b>Acquiring Bank</b>	<b>Credit Cooperative being Acquired</b>
Taiwan Cooperative Bank	Taichung City First Credit Cooperative Taichung City Fifth Credit Cooperative Taichung City Ninth Credit Cooperative Taichung City Eleventh Credit Cooperative
Sunny Bank	Changhwa County Yuanlin Credit Cooperative Pingtung City Second Credit Cooperative
Macoto Bank	Kaohsiung County Kangshan Credit Cooperative

# Appendix

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## The Responsibilities of the Various CDIC Departments

1. Bank Examination Department

Administering the preliminary investigations, specific-scope examinations, general-scope examinations and the gathering, arranging and analysis of information in relation to insured institutions.

2. Monitoring & Assistance Department

Administering the planning and operation of the Financial Early-Warning System, the organization and analysis of the data of financial institutions and conducting follow-up evaluations in relation to their operational shortcomings, the provision of assistance to financial institutions, the handling of panic runs on banks, and the placing of financial institutions under supervision and conservatorship.

3. Business Department

Administering promotional activities, the insuring of institutions, the collection of premiums, the utilization of funds, the custody of securities, the termination of the status of insured institutions, cash pay-offs, deposit transfer pay-offs, and the operation of failed insured institutions on a temporary basis in the name of the CDIC.

4. Accounting Department

Administering all budgets, financial accounting, statistics and internal audits.

5. Legal Affairs Office

Administering contracts, litigation, the planning regarding the handling of problem insured institutions, the liquidation of failed insured institutions, the planning of deposit insurance-related laws and regulations, research and development, books and publications, and other related legal matters.

6. Secretariat

Administering confidential matters, documentation, general affairs, property, custodianship, the handling of cash, public relations, the care of the official chops, the printing of books and periodicals, and other miscellaneous matters not pertaining to other departments.

7. Information Systems Office

Administering the planning, design, implementation and management of all electronic data handling operations and other related matters.

8. Personnel Office

Administering personnel management matters.

9. Government Ethics Office

Administering all matters to do with government ethics.

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## Research and Development Achievements

### (1) Research Reports from Overseas Study Trips in FY 2001

1. A Report on Participating in the 37th Annual Conference of the Federal Reserve Bank of Chicago entitled "The Financial Safety Net and Related Problems."
2. A Study on International Deposit Insurance Criteria.
3. How Malaysia's Asset Management Company Deals with Bank's Non-performing Loans.
4. The Structure of Overall Risk Management and Supervision in Bank Examination in Canada.
5. Japan's Financial Reforms.

### (2) Research Reports from Overseas Study Trips in the second half of FY1999 and FY 2000

1. A Report on Participating in an International Conference on Deposit Insurance Hosted by the Bank for International Settlements.
2. A Report on Participating in the 3rd Ministers' Meeting of the Financial Supervisory Bodies of SEACEN Member Countries and Holding Talks with Bank Indonesia, Indonesia's Central Bank.
3. A Study on the System of Financial Supervision and Supervisory Problems in East Asian Countries.
4. A Study on the U.S.'s Method of Handling Problem Financial Institutions and Related Procedures.
5. A Study on the U.S. Financial Supervisory Bodies' Approach to the Systems and Measures Adopted by Banks to Manage Risk.
6. The Achievements of the System of Financial Supervision in the U.K. and the Centralization of Financial Examination and the Actual Utilization of the Deposit Insurance Protection Fund.
7. A Report on Participating in the 5th Conference of Central American Vice Ministers to Discuss Economic Issues.
8. A Study on the U.S. Financial Authorities' Approach to the Safe Management and Auditing of the Structure of Networks in Electronic Banking.
9. A Report on the Financial Supervisory System and the Deposit Insurance System in South Korea and the Korea Asset Management Corporation.

### (3) Research Reports on Specific Topics in FY 2001

1. Studying and translating "South Korea's Depositors' Protection Act of December 30, 2000 and its Enforcement Regulations."
2. Studying and translating "Canada's Deposit Insurance Law as of December 1999."
3. Studying and translating "South Korea's Financial Supervision Committee's Major Policy Objectives for 2001."
4. A Study on Replenishing the Deposit Insurance Fund.