

FINANCIAL SECTOR ASSESSMENT PROGRAM

MOLDOVA

CORE PRINCIPLES FOR EFFECTIVE DEPOSIT INSURANCE
SYSTEMSDETAILED ASSESSMENT OF
OBSERVANCE

SEPTEMBER 2014

This Detailed Assessment Report was prepared in the context of a joint World Bank-IMF Financial Sector Assessment Program mission in Moldova during February and March, 2014, and overseen by the Finance and Markets Global Practice, World Bank and the Monetary and Capital Markets Department, IMF. The note contains technical analysis and detailed information underpinning the FSAP assessment's findings and recommendations. Further information on the FSAP program can be found at www.worldbank.org/fsap.



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GLOSSARY

BCBS	Basel Committee on Banking Supervision
BCP	Basel Core Principles on Effective Banking Supervision
CAR	Capital adequacy ratio
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulation
DIS	Deposit Insurance System
DGF	Deposit Guarantee Fund
EU	European Union
EFDI	European Forum of Deposit Insurers
EUR	Euro
EWS	Early Warning System
FSAP	Financial Sector Assessment Program
FSB	Financial Stability Board
GDP	Gross domestic product
IADI	International Association of Deposit Insurers
IAIS	International Association of Insurance Supervisors
IFRS	International Financial Reporting Standards
IT	Information Technology
MBA	Moldovan Banks Association
MDL	Moldovan Lei ¹
MOF	Ministry of Finance
MOU	Memorandum of Understanding
NCFM	National Commission for Financial Markets
NCFS	National Committee for Financial Stability
NBM	National Bank of Moldova
NPL	Non-Performing Loan
OECD	Organization for Economic Cooperation and Development
ROSC	Report on Observance of Standards and Codes

¹ 1.00 USD = 13.552 MDL as of March 5, 2014

Report on the Assessment of the Deposit Insurance System in Moldova against the BCBS-IADI Core Principles for Effective Deposit Insurance Systems

I. Summary, Key Findings and Recommendations

- 1. During February 17-March 5, 2014 an assessment under the IMF/World Bank Financial Sector Assessment Program (FSAP) was conducted for the Republic of Moldova.** As part of the FSAP, the deposit insurance system was assessed against the Basel Committee on Banking Supervision (BCBS) –International Association of Deposit Insurers (IADI) Core Principles for Effective Deposit Insurance Systems.
- 2. The assessment was conducted by a team of experts from the World Bank and IMF.²** Meetings were held with officials from the Fondul de garantare a depozitelor in sistemul bancar (the Deposit Guarantee Fund or DGF), the Ministry of Finance (MOF), the National Bank of Moldova (NBM), the National Commission for Financial Markets (NCFM), the Moldovan Banks Association (MBA) and a number of commercial banks. The assessment team would like to thank the Moldovan authorities and the staff of the DGF in particular for their help and cooperation during the mission.
- 3. The team found the DGF is Compliant or Largely Compliant with 12 out of 17 applicable Core Principles, Materially Non-Compliant with 4 Core Principles and Non-Compliant with one.** This report is made up of a review of the background and structure of the DGF, a review of preconditions for effective deposit insurance systems, a summary of key findings and recommendations and a section providing the detailed assessment of the Core Principles.

Background and Structure of the DGF

- 4. The DGF was established in 2004 with the public policy objective of protecting small depositors from loss on their insured deposits.** The Law on Guaranteeing Individual Deposits (“the DGF Law”) came into force in 2004. Since then the DGF has been involved in 2 bank failures:

² The assessment was conducted by David Walker (consultant for the World Bank from the Canada Deposit Insurance Corporation). The FSAP was led by Brett Coleman (World Bank) and Simon T. Gray (IMF).

Investprivatbank S.A. in 2011 and Universalbank S.A. in 2012. All depositors in the Investprivatbank S.A. failure were protected. The DGF provided MDL 48.09 million with respect to insured (covered or guaranteed) depositors and the remaining depositors were protected through the transfer of deposits to Banca de Economii S.A. (BEM). The cost of protecting the uninsured depositors was borne by the government through supporting loans and guarantees to BEM totaling MDL 352 million and by the industry through the imposition of a special MDL 100 million obligation tax on banks. The failure of Universalbank S.A. in 2012 involved a liquidation and payout and MDL 2.36 million in depositor reimbursements to 3,795 insured depositors. No uninsured depositors were protected.

5. **The DGF is a government legislated and administered agency with a relatively narrow “paybox-plus” mandate.** It is responsible for reimbursement of insured depositors in the event of a bank failure and is governed by a 5-member Administrative Council. The Council members are appointed by the Parliament for 7-year terms. Candidates are proposed by the Ministry of Justice (MOJ), Ministry of Finance (MOF), Ministry of the Economy (MOE), the NBM and the MBA. The head of management of the DGF is the Executive Director who is supported by 5 employees. Information sharing and coordination arrangements are governed through legislation and MOU arrangements. A National Committee for Financial Stability (NCFS) has been formed with membership from the DGF, MOF, NBM and NCFM. In addition to depositor reimbursement, the DGF can provide financial assistance, on a least-cost basis, to help facilitate bank resolutions.³

6. **Membership in the DGF is compulsory for all banks and coverage is limited to MDL 6,000 (USD 445).** Presently, the DGF has 10 domestic banks and 4 foreign bank subsidiaries as members. Deposit insurance is provided to residents and non-resident individuals in both domestic and foreign currency. In addition to the restriction of the MDL 6,000 coverage limit, which is applied per depositor per bank, depositors who are deemed professional financial market participants, bank management and bank shareholders are also excluded from coverage. Proposals to raise the coverage limit in order to bolster protection for depositors and contribute more effectively to financial stability are under review.

³ Financial assistance can be provided to a purchasing or assuming bank where the costs of such assistance are estimated to be equal to or less than a liquidation and reimbursement.

7. **The DGF has a range of funding resources.** The DGF utilizes an ex-ante funding model with the ability to charge ex-post assessments, if required. A flat rate premium is charged to member banks at the rate of 0.25 percent of insured deposits and collected quarterly. The ex-ante fund of MDL 165.882 million (as of 30 September 2013) represents 6.9 percent of insured (covered) deposits. This appears adequate to deal with the simultaneous failure of the 6 smallest banks and one medium-sized bank. Emergency back-up liquidity funding can be obtained from special premium assessments on banks or from the MOF. However, access to MOF funding is not guaranteed and requires the approval of Parliament.

8. **Depositor reimbursement relies heavily on the use of liquidators and agent banks.** Payout processes rely heavily on obtaining detailed information on depositors from the liquidator following a bank failure and contracting agent banks to undertake reimbursements. In the case of the Universalbank S.A. failure, the NBM appointed a liquidator and Victoriabank S.A. acted as the agent bank. In practice, payout periods have begun as early as 5 days from the date of license revocation with the majority of depositors receiving their funds within 30 days. The DGF has limited resources to undertake the reimbursement process itself and relies on paying agent banks. Depositors receive a wide range of information on deposit insurance primarily through member banks.

Preconditions for an Effective Deposit Insurance System⁴

A. Macroeconomic Environment and Banking System

9. **Moldova's economy is still recovering from the recession of 2012.** In 2010–11, growth of remittances and investment fueled domestic demand and exports were strong. Real GDP grew by 6.4 percent in 2011. However, in 2012, GDP contracted by 0.8 percent, as the economy was hit by both a slowdown in external demand due to the Eurozone crisis and a drought-induced contraction in agriculture. In 2013, growth resumed, driven by industry and services, with GDP increasing by 4.9

⁴ This analysis is based on the IMF Article IV Moldova Consultation (June 2013), World Bank Centre for Financial Reporting Reform update on Moldova (June 2013), the World Bank Group Moldova Partnership Country Program Snapshot (October 2013) and the Draft Joint IMF-World Bank Financial Sector Policy Note: Financial Sector Assessment Program Update (March 2014).

percent in the first half of 2013. Growth has been supported by an expansionary monetary policy under an inflation targeting framework. Due to spending restraint Moldova's fiscal deficit has declined from 4.0 percent of GDP in 2009 to 2.1 percent in 2012.

10. **The banking system is small and relatively concentrated.** There are 10 domestic banks and 4 foreign banks in operation. The largest 5 banks control about 70 percent of the sector's assets (end June 2013). Almost three-quarters of the capital in the banking system is technically in foreign ownership but the use of off-shore vehicles is believed to be disguising local ownership. Lending stands at 40 percent of GDP. The rate of growth of deposits from the private sector has outpaced the growth of credit to private sector. Over the past three years, deposits (mainly individuals) have grown by a third to approximately 46 percent of GDP while credit (mainly to private non-financial enterprises) has grown around a quarter to 40 percent of GDP. Cash is widely used, fuelled by remittances, and weak infrastructure.

11. **Banks have remained liquid, well capitalized, and profitable, although non-performing loans remain high.** In September 2013, the aggregate capital adequacy ratio stood at 23.3 percent, above the required minimum of 16 percent but significantly lower than 2011 when it stood at 30.4 percent. System wide, return on equity was about 10 percent, and liquid assets represented a third of total assets—reflecting the traditionally high level of excess reserves. The NPL ratio currently stands at 12.4 percent, with provisioning at about 82 percent. Resolution of NPLs has been slow as banks have been reluctant to write off bad loans due to problems with collateral and a reluctance by the banks to accept the losses. The only exception is an important domestic bank that is partially owned by the state (BEM), which is experiencing chronic asset quality and undercapitalization problems.⁵

B. Sound Governance of Agencies Comprising the Financial Safety Net and Prudential Regulation and Supervision

12. **The NBM and NCFM are provided with a range of powers to support financial system stability.** The NBM is the supervisor for the banking system and performs financial stability analysis

⁵ The issue of undercapitalization of BEM was partly addressed by a capital increase, undertaken by the private shareholders. However, as a result of that capital increase, the state has lost its majority position in BEM.

and data collection. The NCFM is the supervisor for the credit union, insurance, pensions, and securities sectors. The DGF manages the deposit insurance system for banks in Moldova. The agencies coordinate their actions together and closely with the MOF. The safety-net participants exhibit a degree of operational independence and have adequate transparency and disclosure frameworks. However, more work needs to be done to bolster the operational independence of the safety-net agencies and the NBM in particular.⁶

13. **The NBM has intensified its supervisory approach and is in the process of reforming the resolution framework to better address systemic risks.** Nevertheless, there are a number of areas that need to be addressed. Primary among these are: (1) the opacity of shareholding structures, supported by the courts, which is inhibiting the NBM from carrying out its supervisory control function effectively; (2) weaknesses in the NBM's intervention and enforcement powers and in the securities registry have facilitated "raider" attacks on some banks, including the largest such as AgroindBank S.A. and Victoriabank S.A.; and (3) supervisory forbearance is a concern and may exacerbate fragilities in individual banks⁷.

C. Well-Developed Legal Framework

14. **Banking laws and regulations are updated to ensure that they remain effective and relevant; however, the legal framework needs improvement in areas such as corporate governance and resolution.** The Constitutional Court ruling on October 31st 2013 that certain provisions prohibiting the suspension by the courts of some NBM decisions were unconstitutional is disconcerting. As a consequence of this judgment, any court can suspend decisions of the NBM, except—and importantly—those on liquidation of banks and revocation of licenses, until the end of the court process. Subsequently, Parliament has passed a law attempting to preserve NBM powers while aligning to the ruling by the Constitutional Court, but uncertainty persists in how effective the new law will be.

⁶ Challenges for ensuring operational independence of the NBM include the fact that the condition for dismissing the Governor and other Board members are unclear. The NBM law contains a provision that leaves the door open to potential political interference. And, NBM board members and employees, including staff appointed as bank's liquidator, do not enjoy enough legal protection against lawsuits.

⁷ One example is Unibanca S.A. which, despite recapitalization to remedy its failure to meet minimum capital adequacy standards, remains in need of potentially full operational restructuring, including improved management and a new business strategy.

15. **Participants in the financial safety net protect depositors through a number of options including depositor reimbursements and financial assistance; but there is room for improvement in the framework for bank resolution.** The current framework does not explicitly include flexible resolution tools and relies mainly on corrective action, reorganization, and liquidation which can result in losses of asset value, and requiring up-front payment to insured depositors out of the assets of the deposit insurance fund.

D. Sound Accounting and Disclosure Regime

16. **Accounting and disclosure laws in Moldova have undergone a number of reforms and the current regime supports the ability of the NBM to adequately evaluate the health of individual banks.** Audited financial statements of banks and similar financial institutions are now published utilizing International Financial Reporting Standards (IFRS). The financial statements of banks are generally of a good quality, reflecting intensive supervision of the banking sector by the NBM. A public registry has been introduced and work is underway developing national accounting standards more in-line with EU requirements. A code of ethics for auditors was introduced in 2012.

17. **Nevertheless, implementation and enforcement of these reforms has been hampered by capacity and resource constraints.** There is still poor awareness of the importance of accurate and transparent disclosure of financial information, the MOF has limited capacity and resources in setting policy for the implementation of the standards, professional accountancy education needs strengthening, and the public oversight system still has limited capacity. Although bank financial statements have improved significantly, those of non-banks are generally incomplete particularly as regards disclosures.

Key Findings and Recommendations

18. **The team found the DGF is Compliant or Largely Compliant with 12 out of 17 applicable Core Principles, Materially Non-Compliant with 4 Core Principles and Non-Compliant with one.**⁸ In particular, the team would like to note favorably the key accomplishments of the DGF, including:

- i) The successful protection of insured depositors in two recent bank failures;
- ii) Development of a sound governance framework and information sharing and coordination arrangements with other financial safety-net participants;
- iii) The accumulation of an ex-ante fund equal to 6.9 percent of insured deposits; and
- iv) The creation of a process to begin reimbursing depositors within 12 days following the receipt of detailed depositor information from the liquidator and completing reimbursements to the majority of depositors within 30 days.

19. **However, the team found a number of deficiencies in the deposit insurance system and financial safety-net arrangements and accordingly is proposing a corrective action plan to address these areas (see Tables 1 and 2).** The major findings are:

- i) **The public policy objectives of the DGF need to be better clarified and reviewed.** The main public policy objective of the DGF is to protect small depositors from loss on their insured deposits and in so doing contribute to financial stability. This is inferred through legislation and the DGF Annual Report. There is no formal process to review the extent to which the DGF is meeting its policy objectives. It is recommended that “contributing to financial stability” be more clearly referenced as a public policy objective in the DGF Law and that a regular review process of the ability of the DGF to meet its objectives be introduced.
- ii) **The DGF is well managed and governance arrangements are sound; nevertheless, certain enhancements could be made to improve compliance with best international**

⁸ Core Principle 13 (Legal protection) was Non-Compliant, Core Principles’ 9 (Coverage), 15 (Early detection and timely intervention), 17 (Reimbursing depositors) and 18 (Recoveries) were Materially Non-Compliant. Core Principle 10 (Transitioning from a blanket guarantee) was not applicable. The remaining Core Principles were either Compliant or Largely Compliant.

practices. The DGF's operating budget is limited providing little room to enhance operational capacity and for expanding training and development opportunities for staff going forward. In addition, there is no strategic planning process currently in place and this should be rectified.

- iii) **Clarifying the Law on Financial Institutions confidentiality provisions would improve timely information flows to the DGF.** Information sharing and coordination arrangements (through legislation and MOUs) have been developed between the DGF and the NBM. The DGF is included in contingency planning exercises conducted through the NCFS. However, bank secrecy provisions in the Law on Financial Institutions can inhibit timely information sharing with the DGF about troubled banks.

- iv) **The DGF is not provided with clear legal authority to establish MOUs on deposit insurance matters with deposit insurers in other countries.** Although foreign bank subsidiaries in Moldova represent a significant portion of banking system deposits, the DGF does not have the legal authority to develop MOUs and share information on deposit insurance related matters with deposit insurers in other countries. The DGF Law should be amended to allow for the development of such MOUs.

- v) **The coverage limit should be raised to increase depositor protection and better contribute to financial stability.** Coverage is defined in the DGF Law and is credible and limited. However, the coverage limit of MDL 6,000 is very low (i.e. covering 63.0 percent of individual depositors and 8.2 percent of the total value of deposits) and a significant proportion of depositors are not adequately protected. Coverage does not extend to small and medium sized businesses even though these enterprises typically have small deposit balances, involve unsophisticated depositors and play a key role in economic development. A consultation process with the banks is underway to consider options for raising the coverage level. The team recommends that prior to deciding on any increase in the coverage limit, a thorough analysis be undertaken on the impact of raising coverage on: (1) the proportion of individual depositors and the total value of deposits covered; (2) overall funding requirements; and (3) changes to premium contribution rates going forward. Coverage limit increases and any associated changes in premium rates would best be

introduced after the banks complete paying their special assessment obligations which is expected by 2015⁹.

vi) **The DGF has a range of funding options although a target fund methodology and much greater assurance in the provision of emergency back-up funding is necessary.**

The DGF utilizes an ex-ante funding model with the ability to charge ex-post assessments, if required. Although the existing fund size appears adequate at present there is no methodology to support the setting of a target fund reserve ratio to 7.0 percent in the DGF Law.¹⁰ And, even though emergency back-up liquidity funding can be obtained from special assessments on banks and if that is not sufficient from the MOF-- the terms and conditions of MOF funding are unclear and any such funding would need Parliamentary approval. To provide greater assurance, consideration should be given to: (1) providing in MOF legislation the DGF with a line-of-credit from the MOF with a pre-defined limit; and (2) amending the DGF and NBM laws to include the NBM as an additional source of emergency liquidity back-up funding for the DGF.

vii) **Public awareness activities should be reviewed for effectiveness on a regular basis.**

The DGF has responsibility for promoting public awareness and relies heavily on member banks to inform the public about the terms and conditions of deposit insurance, under appropriate regulations from the DGF. The DGF's public awareness activities include some contingency planning. However, there is no review of the effectiveness of public awareness activities (e.g. measured awareness of deposit insurance among the population).

viii) **The DGF and those working on its behalf require legal protection and appropriate codes of conduct/ethics.**

There is no legal protection for the DGF or those working on its behalf, for their decisions and actions taken in good faith while discharging their mandate. Although there are some conflict of interest codes in place for staff (e.g. staff are prohibited

⁹ In June 2013, the DGF asked its member banks for their views on raising the deposit insurance coverage level to MDL 15,000. A number of private banks proposed an increase to MDL 9,000 -- but only after the special obligations tax imposed for financial stability (as a result of the liquidation of Investprivatbank S.A.) reached the designated target level of MDL 100 million.

¹⁰ Article 14.2 of the DGF Law sets the target fund ratio at 7.0 percent of insured deposits and once the ratio is reached the DGF has the option to stop collecting premiums from its member banks. In 2013 the target fund ratio was surpassed, however the DGF decided to continue its premium collections.

from using information received in the course of work for personal use or to disclose it to third parties), these are not comprehensive.

- ix) **Although the deposit guarantee fund is part of the early detection and intervention framework for troubled banks, deficiencies in the framework reduce its overall effectiveness.** Areas identified in the BCP assessment and a review of the resolution regime reveal issues with insufficient operational independence for the NBM, supervisory forbearance, lack of transparency in bank ownership structures, and recent court ordered reversals of supervisory actions which need to be addressed. In addition, there is uncertainty as to whether the NBM has the legal authority to establish a bridge bank (or any other special legal entity) for resolution purposes.
- x) **Providing the DGF with direct access to detailed depositor information in advance of bank failure would accelerate reimbursements.** The DGF is capable of giving depositors access to their insured funds as early as 5 days from the date of license revocation and reimbursements for the majority of depositors within 30 days. Reimbursement speed could be enhanced further by clarifying the DGF Law to give the DGF greater access to detailed information on depositors earlier and to have the ability to better verify insured deposit amounts. Introducing the ability to conduct advance, interim or partial payments would provide additional flexibility to the DGF in undertaking prompt reimbursements.
- xi) **The ranking of the DGF as a creditor in an insolvency needs to be elevated.** The DGF shares in the proceeds of recoveries from the estates of failed banks. However, the Law on Financial Institutions provides the DGF with a lower status as a creditor in insolvency than other depositors and unsecured creditors (e.g. uninsured household deposits and receivables of banks which granted credits to the insolvent bank). As a result, the proceeds from the recovery of the estates of failed banks are extremely low to non-existent for the DGF. The creditor ranking of the DGF should be increased and consideration given to providing insured depositor preference to the DGF.

Table 1. Summary Compliance with the BCBS-IADI Core Principles - Detailed Assessments

Core Principle	Grade	Comments
1. Public policy objectives	LC	The public policy objective of the DGF is to protect small depositors from loss on their insured deposits and in so doing contribute to financial stability. This is defined and disclosed through legislation. No formal process to review the extent to which the DGF is meeting its policy objectives on a regular basis exists.
2. Mitigating moral hazard	LC	The DGF has been provided with design features to mitigate moral hazard such as limitations on coverage. However, the ability of the supervisory and regulatory system to mitigate moral hazard is limited by a number of deficiencies as described in the BCP assessment (e.g., supervisory forbearance, lack of transparency in bank ownership structures, and recent court ordered reversals of supervisory actions).
3. Mandate	C	The DGF's mandate is clearly defined and formally specified in legislation as a narrow "paybox-plus" with responsibility for reimbursing insured depositors and providing financial assistance to facilitate certain bank resolutions.
4. Powers	C	The DGF has the powers necessary to fulfill its mandate and these are specified in the DGF Law.
5. Governance	LC	The DGF is well managed and overall governance arrangements are sound. Nevertheless, the operating budget is limited which restricts expanding staff training and development opportunities and payout capacity. And, there is no strategic planning process in place.
6. Relationships with other safety-net participants	LC	Information sharing and coordination agreements have been developed between the DGF, NCFM and NBM. The DGF is included in contingency planning exercises conducted through the NCFS. However, provisions on bank secrecy in the Law on NBM can inhibit timely information sharing on troubled banks.
7. Cross-border issues	LC	Although the DGF's foreign bank members represent a significant portion of banking system deposits, the DGF does not have the legal authority to develop MOUs and share related information on deposit insurance with deposit insurers in other countries.

8. Compulsory membership	C	Membership is compulsory for all domestic banks and foreign bank subsidiaries.
9. Coverage	MNC	Coverage is defined in law, credible and limited. However, the coverage level of MDL 6,000 (USD 445) is very low and a significant proportion of individual depositors are not fully covered.
10. Transitioning from a blanket guarantee to a limited coverage DIS	N/A	
11. Funding	LC	The DGF utilizes an ex-ante funding model with the ability to charge ex-post assessments if required. A flat rate premium is charged on insured deposits and collected quarterly. Although the existing fund size (i.e. 6.9 percent of insured deposits) appears adequate there is no methodology to support the target fund reserve ratio. Emergency back-up funding can be obtained from special premium assessments on banks and if that is not sufficient than borrowing from the MOF. But, borrowing from the MOF is not assured and requires Parliamentary approval.
12. Public awareness	LC	The DGF has responsibility for promoting public awareness and utilizes member banks to inform the public about the terms and conditions of insurance. Nevertheless, there is no review of the effectiveness of public awareness activities on a regular basis and contingency planning is limited.
13. Legal protection	NC	There is no legal protection for the DGF or those working on its behalf. Some conflict of interest codes are in place but they are not comprehensive.
14. Dealing with parties at fault in a bank failure	C	Relevant authorities in Moldova (e.g. the public prosecutor) are provided with the power to seek legal redress against those parties at fault in a bank failure.
15. Early detection and timely intervention and resolution	MNC	The DGF is part of the safety-net framework that provides for the early detection and intervention in the affairs of troubled banks. However, deficiencies in the supervisory/regulatory system as identified in the BCP assessment (e.g., forbearance, lack of transparency in bank ownership structures, and recent court ordered reversals of supervisory actions) hamper the effectiveness of the framework.

16. Effective resolution processes	LC	The DGF's resolution responsibilities are insured depositor reimbursement and the provision of financial assistance on a least cost basis. The NBM is provided with the ability to undertake open-bank assistance, purchase and assumption transactions and bank administration. However, there is uncertainty as to whether the NBM has the legal authority to establish a bridge bank or other special legal entity for resolution purposes.
17. Reimbursing depositors	MNC	The DGF is capable of giving depositors access to their insured funds as early as 5 days from the date of license revocation and completing reimbursements for the majority of insured depositors within 30 days. Reimbursement speed is constrained by a lack of early access to detailed depositor information by the DGF for verification purposes. The ability to provide partial or interim payments is also not provided for in law.
18. Recoveries	MNC	The DGF shares in the proceeds of recoveries from the estates of failed banks. However, the DGF has a lower status as a creditor than other depositors and unsecured creditors (e.g. uninsured household deposits and receivables of banks which granted credits to the insolvent bank) and recovery rates are extremely low.
<i>Aggregate:</i> Compliant (C) – 4, Largely Compliant (LC) – 8, Materially Non-Compliant (MNC) – 4, Non-Compliant (NC) – 1, Not Applicable (NA) – 1		

Table 2. Recommended Action Plan to Improve Compliance with the BCBS-IADI Core Principles

Reference Principle	Recommended Action
1. Public policy objectives	Contributing to financial stability should be more clearly specified as a public policy objective in the DGF Laws. A process to review the extent to which the DGF is fulfilling its objectives should be introduced.
2. Mitigating moral hazard	Deficiencies in the supervisory and regulatory system identified in the BCP need to be addressed.
5. Governance	Consideration should be given to increasing the operating resources of the DGF to enhance its capacity for financial analysis, training and faster payouts. A strategic plan should be developed to assist in corporate planning.
6. Relationships with other safety-net participants	The Law on NBM should be amended to include a statement that the sharing of information between the DGF and NBM is not a violation of bank secrecy provisions.
7. Cross-border issues	The DGF Law should be amended to allow for the development of MOUs with deposit insurers in other countries.
9. Coverage	The coverage limit should be increased to better protect depositors and contribute to financial stability. Extending coverage to small and medium-sized enterprises should be considered.
11. Funding	The DGF should be provided with assured access to emergency liquidity back-up funding by: (1) providing in MOF legislation the DGF with a line-of-credit from the MOF with a pre-defined limit; and (2) amending the DGF and NBM laws to include the NBM as an additional source of back-up funding for the DGF. A target fund methodology should be developed and the impact on fund adequacy of possible increases to coverage limits taken into account.
12. Public awareness	Regular contingency planning and evaluations of the effectiveness of public awareness arrangements should be introduced.
13. Legal protection	The DGF Law should be amended to provide the DGF and those working on its behalf comprehensive legal protection. Comprehensive codes of conduct/ethics should be established.
15. Early detection and timely intervention and resolution	Deficiencies in the supervisory/regulatory system as identified in the BCP assessment (e.g. insufficient operational independence, forbearance, transparency in bank ownership structures and court ordered reversals of corrective actions) need to be addressed.

16. Effective resolution processes	Although the NBM has the ability to undertake open-bank assistance and other non-payout resolutions, the resolution framework could be enhanced by clarifying in the Law on Financial Institutions the authority of the NBM to undertake bridge bank resolutions.
17. Reimbursing depositors	Clarify the DGF Law to give the DGF greater access to detailed depositor information earlier for verification purposes to hasten reimbursement speeds. The ability to conduct advance, interim or partial payments should be introduced for situations where there may be extended delays in reimbursements.
18. Recoveries	The creditor status of the DGF should be elevated by amending the Law on Financial Institutions so that the DGF is at least equal with other depositors. Consideration should be given to providing insured depositor preference to the DGF to bolster its recoveries and help facilitate more effective resolutions.

Authorities' Response to the Assessment

The response of the Deposit Guarantee Fund in Banking System:

The Deposit Guarantee Fund in Banking System considers that the Report on the Assessment of the Deposit Insurance System in Moldova against the BCBS-IADI Core Principles for Effective Deposit Insurance Systems has properly elucidated the situation of the guarantee system in the Republic of Moldova and supports the necessity of implementing the recommendations mentioned in the Action Plan, and believes that these recommendations will help to improve the deposit guarantee system, as a participant in maintaining the financial stability.

The response of the Ministry of Finance:

With regard to the paragraph 19 vi) from this report, we would like to state the following. Providing a line-of-credit to the Deposit Guarantee Fund from the MoF is in contradiction with Law on budgetary system and budgetary process, as well as the Law on public finance and fiscal responsibility, approved by Parliament in second reading in July, 2013. According to the law provision, it is prohibited to provide loans from budget to the individuals and the legal persons. The provisions of the Law on public finance and fiscal responsibility were discussed with IMF, and IMF has no objection in this regards. So, we consider that MOF, in crisis situations, needs to issue government securities to capitalize the DGF.

II. Detailed Compliance Assessment

20. The assessment of compliance of each principle is made based on the following four-grade scale: **compliant**, **largely compliant**, **materially noncompliant**, and **noncompliant**. A “not applicable” grading can be used under certain circumstances.

- **Compliant** – A deposit insurance system will be considered compliant with a Core Principle when the essential criteria applicable for this country are met without any significant deficiencies.
- **Largely Compliant** – A deposit insurance system will be considered largely compliant with a Core Principle whenever only minor shortcomings are observed which do not raise any concerns about the authority’s ability and clear intent to achieve full compliance with the Principle within a prescribed period of time.
- **Materially Non-Compliant** – A deposit insurance system will be considered materially non-compliant with a Core Principle whenever there are severe shortcomings, despite the existence of formal rules, regulations and procedures, and there is evidence that the deposit insurance system has clearly not been effective, that practical implementation is weak, or that the shortcomings are sufficient to raise doubts about the authority’s ability to achieve compliance.
- **Non-Compliant** – A deposit insurance system will be considered non-compliant with a Core Principle whenever there has been no substantive implementation of the Principle, several essential criteria are not complied with or execution is manifestly ineffective.

21. In addition, a Core Principle will be considered not applicable when, in the view of the assessor, the Principle does not apply given the structural, legal and institutional features of a country.

Table 3. Detailed Assessment of Compliance with the BCBS-IADI Core Principles

Principle 1. Public policy objectives	
The first step in adopting a deposit insurance system or reforming an existing system is to specify appropriate public policy objectives that it is expected to achieve. These objectives should be formally specified and well integrated into the design of the deposit insurance system. The principal objectives for deposit insurance systems are to contribute to the stability of the financial system and protect depositors.	
Overall Assessment	Largely Compliant
Comments	The public policy objective of the DGF is to protect small depositors from loss on their insured deposits and in so doing contribute to financial stability. This is disclosed through the DGF Law and the DGF Annual Report. There is no formal process to review the extent to which the DGF is meeting its policy objectives on a regular basis.
EC 1.	The public policy objectives of the deposit insurance system are clearly defined and formally specified, for example, through legislation or documents accompanying legislation. ¹¹
Description	The public policy objective contained in the DGF Law is to “insure deposits of individuals held in licensed banks are protected from loss” (see DGF Law, Article 1) and in so doing contribute to financial stability.
Comments	Mention of contributing to financial stability as a public policy objective in the DGF Law, Annual Report and other documents should be made more explicitly.
EC 2.	The public policy objectives of the deposit insurance system are publically disclosed.
Description	The public policy objectives of the deposit insurance system are disclosed through its legislation, on the DGF website and in its Annual Report.
Comments	

¹¹ The public policy objectives of the deposit insurance system refer to the objectives or goals the system is expected to achieve. The mandate of the deposit insurer refers to the set of official instructions or statement of purpose describing its roles and responsibilities. There is no single mandate or set of mandates suitable for all deposit insurers. Existing deposit insurers have mandates ranging from narrow, so-called “paybox” systems to those with broader powers or responsibilities, such as preventive action and loss or risk-minimization/management, with a variety of combinations in between.

EC 3.	There is a review of the extent to which a deposit insurance system is meeting its public policy objectives on a regular basis (e.g., between two to five years or on a more frequent basis as deemed necessary). This review takes into consideration the views of stakeholders.
Description	There is no process to regularly review and assess the extent to which the DGF is meeting the policy objectives on a regular basis, although specific aspects of the deposit insurance system (e.g. coverage) are reviewed periodically.
Comments	A regular review process should be introduced by the Administrative Council to review the extent to which the DGF is meeting its public policy objectives.

Principle 2. Mitigating moral hazard	
Moral hazard should be mitigated by ensuring that the deposit insurance system contains appropriate design features and through other elements of the financial system safety net (see Core Principles for Effective Deposit Insurance Systems “Preconditions” paragraph 16).	
Overall Assessment	Largely Compliant
Comments	The DGF has been provided with design features to mitigate moral hazard such as a relatively low coverage limit. However, the ability of the supervisory and regulatory system to mitigate moral hazard is limited by a number of deficiencies as identified in the BCP assessment.
EC 1.	The design of the deposit insurance system recognises the existence of moral hazard and mitigates it as much as possible in-line with public policy objectives. Specific design features that mitigate the risk of moral hazard may include: limited deposit insurance coverage and scope; where appropriate, deposit insurance premiums that are assessed on a differential or risk-adjusted basis; and, minimising the risk of loss through timely intervention and resolution by the deposit insurer or other participants in the safety net with such powers.
Description	Deposit insurance coverage is limited and a supervisory, early warning, intervention and resolution regime is in existence.
Comments	
EC2	The financial safety net creates and supports appropriate incentives to mitigate moral hazard. These may include: the promotion of good corporate governance and sound risk management of individual banks, effective market discipline and frameworks for, and enforcement of, strong prudential regulation, supervision and laws and regulations.
Description	A framework for and enforcement of prudential regulation and supervision is in place and supported by the legal framework (e.g. Law on Financial Institutions, NBM Law, NCFM Law). Corporate governance and risk management practices for banks are supported by the supervisory, regulatory and resolution regime.
Comments	Nevertheless, the ability of the supervisory and regulatory system to mitigate moral hazard is limited by various deficiencies in the supervisory and regulatory framework as revealed by the BCP assessment (e.g., lack of operational independence on the part of the NBM, supervisory forbearance, lack of transparency in bank ownership structures, and recent court ordered reversals of supervisory actions).

Principle 3. Mandate	
It is critical that the mandate selected for a deposit insurer is clearly and formally specified and that there be consistency between the stated public policy objectives and the powers and responsibilities given to the deposit insurer.	
Overall Assessment	Compliant
Comments	The DGF has a relatively narrow “paybox” mandate focused on depositor reimbursement with some additional powers to provide financial assistance on a least-cost basis. The mandate is clearly and formally specified in legislation and is consistent with its understood public policy objectives and assigned powers.
EC 1.	The deposit insurer has a mandate that is clearly defined and formally specified, for example, through legislation or documents accompanying legislation. The mandate clarifies the role and responsibilities of the deposit insurer within the financial safety net.
Description	The DGF’s mandate is that of a narrow “paybox-plus” responsible for reimbursement of insured depositor’s funds in bank failures. The DGF reimburses depositors of a failed bank through an agent bank selected by its Administrative Council on a tender basis (see DGF Law Article 19.1). In addition to depositor reimbursement, the DGF is also empowered to provide financial assistance to facilitate bank resolution provided such assistance is at a lesser cost than a liquidation and payout (Article 19.2). The DGF’s mandate is specified in the DGF Law (see CP4, EC3 for more details).
Comments	
EC 2.	The mandate is consistent with the stated public policy objectives and the powers, roles and responsibilities given to the deposit insurer.
Description	The existing mandate is consistent with the understood public policy objectives and legal powers accorded to the deposit insurer.
Comment	

Principle 4. Powers	A deposit insurer should have all powers necessary to fulfill its mandate and these should be formally specified. All deposit insurers require the power to finance reimbursements, enter into contracts, set internal operating budgets and procedures, and access timely and accurate information to ensure that they can meet their obligations to depositors promptly.
Overall Assessment	Compliant
Comments	The DGF has the basic powers necessary to fulfill its mandate and these are specified in law. However, additional powers to access depositor information directly from member banks would assist in earlier verification of bank data and promote faster depositor reimbursements.
EC 1.	The powers (legal authority) of the deposit insurance system are clearly defined and formally specified in law or regulation (including approved self-regulation in the context of private or public deposit insurance systems).
Description	The DGF's powers are clearly defined and formally specified in the DGF Law (see EC3 for a more detailed description).
Comment	
EC 2.	The powers of the deposit insurer are aligned to its mandate and public policy objectives.
Description	The powers of the DGF as defined in the DGF Law are aligned to its mandate as a paybox-plus and its public policy objectives (see EC3).
Comment	
EC 3.	<p>The deposit insurer has the following minimum powers:</p> <ul style="list-style-type: none"> (a) compel member banks to comply with their obligations to the deposit insurer, or request that the supervisor or another safety-net participant do so on behalf of the deposit insurer; (b) have the legal authority and capability to reimburse depositors; (c) enter into contracts (e.g., agreements/transactions to obtain goods and services/insurance); (d) set internal operating budgets and internal policies and procedures (e.g., in areas such as human resources and information technology);

	<ul style="list-style-type: none"> (e) access timely and accurate information to promptly meet their obligations to depositors; (f) share information with other safety-net participants; (g) engage in information sharing and coordination agreements with deposit insurers in other jurisdictions (subject to confidentiality when required); and (h) engage in contingency planning.
Description	The DGF Law provides the DGF with the legal authority to draft and adopt regulations for its member banks; allows the DGF to debit directly a bank that fails to pay the premium, plus charge a 1.0 percent penalty (Article 15). The DGF has legal authority to reimburse insured depositors (Article 19.1), provide financial assistance for bank resolution (Article 19.2). As a public entity, the DGF may enter into contracts to obtain necessary goods and services. The DGF may set its own budget (Article 9) and operating policies and procedures. The DGF has the power to share information with other domestic safety-net participants and can also request information from the supervisory authority (Article 18).
Comments	Additional powers to access detailed depositor information directly from member banks (both in the DGF Law and the Law on Financial Institutions) would assist in earlier verification of bank data and promote faster reimbursements. Presently, the DGF must rely mainly on information provided by the liquidator, which is appointed by and accountable to the NBM.
EC 4.	In support of the deposit insurance system, the other participants in the financial safety net are provided with all powers necessary to fulfill their mandates (see Preconditions).
Description	The BCP assessment and review of the crisis preparedness and management framework indicate that other participants (e.g. the NBM, NCFM) are provided with adequate powers to fulfill their mandates.
Comments	

Principle 5. Governance The deposit insurer should be operationally independent, transparent, accountable and insulated from undue political and industry influence.	
Overall Assessment	Largely Compliant
Comments	The DGF is well managed and its overall governance framework effective. However, its operating budget is limited providing little room to enhance operational capacity and for expanding training and development opportunities for staff. In addition, there is no development of a strategic plan or approval process for such a plan.
EC 1.	The deposit insurer is able to use the powers and means assigned to it without undue influence from external parties. There is in practice no significant evidence of government or industry interference in the operational independence of the deposit insurer and its ability to obtain and deploy the resources needed to carry out its mandate.
Description	The DGF is a separate legal entity under public administration. It is governed by an Administrative Council which has 5 members (DGF Law Article 24). The members are appointed by the Parliament for seven year terms. Candidates are proposed by the MOJ, MOF, MOE, the NBM and the MBA. The head of management of the DGF is an Executive Director who is not a member of the Council. The terms of appointments to the Council are staggered.
Comments	
EC 2.	The operational funding of the deposit insurer is provided in a manner that does not undermine its autonomy or independence and permits it to fulfil its mandate. Examples include: <ul style="list-style-type: none"> (a) Salary scales that allow it to attract and retain qualified staff; (b) The ability to hire outside experts to deal with special situations, subject to appropriate confidentiality restrictions; (c) A training budget and programme that provides appropriate training opportunities for staff; (d) A budget for computers and other equipment sufficient to equip its staff with tools needed to fulfil its mandate; and (e) A travel budget that allows appropriate on-site work.

Description	The DGF has 5 employees (an Executive Director, Chief Accountant, Legal Counsel and 1 staff member involved in financial analysis and information sharing and coordination, and 1 office manager). The DGF's operational funding is paid for by its member banks through premium contributions and approved by the Administrative Council. The DGF's salary budget appears sufficient to attract and retain competent staff. It may contract / outsource experts to perform specific ad-hoc duties. The DGF's training budget is limited and employees utilize NBM and other training opportunities when available.
Comments	The small size of the DGF's operating budget creates challenges for the DGF in fulfilling its mandate. Increasing budgetary resources would provide additional capacity for financial analysis, training, IT and for enhancing payout systems.
EC 3.	The governing statute, internal policies of the deposit insurer or other relevant laws or policies specify: <ul style="list-style-type: none"> (a) the governing body and management are fit and proper persons and have the requisite knowledge or experience; (b) members of the governing body (with the exception of ex-officio appointees) and the head of the deposit insurer are subject to limitations on their term of appointment; and (c) members of the governing body can be removed from office during their term only for reasons specified or defined in law or rules of professional conduct, and not without cause.
Description	Articles 25 and 26 of the DGF Law set forth that Council members should not be managers of any bank, nor have any qualified holdings in any bank, not be officers of the MBA, and not be government officials (except the NBM's representative, who is currently the director of supervision). Members of the Council must be "fit-and-proper" persons and have the requisite knowledge and experience in financial services, economics or the law. Council members can only be removed for cause (Article 27).
Comments	
EC 4.	The members of the governing body (e.g., directors or officers) and management of the deposit insurer are held accountable to a higher authority, whether public or private, through a transparent framework for the discharge of the system's duties in relation to its objectives and mandate.
Description	The Council members are appointed by the Parliament (see Article 24). The Executive Director is appointed by the Council. The DGF submits its Annual Report to

	Parliament where it is reviewed by the Financial Committee.
Comments	
EC 5.	The deposit insurer operates in a transparent and responsible manner. It discloses and publishes on a regular basis appropriate information on its activities, governance practices, structure and financial results.
Description	The DGF's Annual Report is provided to the Parliament and its financial statements and accompanying auditor's opinion are published and made available to the public. This includes the DGF's balance of cash, total contributions from member banks and other figures. Compliance with the DGF's Bylaws are mandatory for member banks and are published.
Comments	
EC 6.	The deposit insurer is structured such that the potential for conflicts of interest for or between members of the governing body and management is minimised and that they are subjected to appropriate codes of conduct/ethics.
Description	Eligibility criteria established by the DGF Law do minimize the potential for conflicts of interest (Article 26). In addition, the DGF Law disallows Council members to use information they receive as part of their duties for personal purposes or disclose to third parties.
Comments	Although a number of provisions are in place to minimize potential conflicts more comprehensive codes of conduct/ethics should be introduced (see CP13).
EC 7.	The deposit insurer takes into consideration the views of stakeholders.
Description	The views of key stakeholders are taken into consideration when proposing major changes to the system.
Comments	
EC 8.	Where decision making is delegated by the governing body of the deposit insurer to its employees, the governing body has appropriate procedures to oversee the exercise of delegation.
Description	The Administrative Council has established procedures to delegate authority and oversee management (Article 31).
Comments	

EC 9.	The deposit insurer is subjected to regular external audits with reports provided to the authority to which it is accountable.
Description	The DGF hires an external auditor to review its financial statements and make an opinion, which is presented to the Council.
Comments	
EC 10.	The deposit insurer has a governing body approved strategic plan in place. ¹²
Description	There is no written strategic plan for the DGF.
Comment	A strategic plan should be developed and incorporated into the Annual Report.
EC 11.	Regular board meetings are held (e.g., on a quarterly basis or more frequently as deemed necessary).
Description	Administrative Council meetings are held monthly.
Comment	
AC 1.	The deposit insurer adheres to best practices in corporate governance, such as: <ul style="list-style-type: none"> (a) Regular assessments of the extent to which the governing body is meeting its objectives are carried out. Systems and practices are in place to facilitate assessments of its effectiveness; and (b) The governing body has a well-defined charter that outlines the specific powers reserved for the board and those delegated to management.
Description	
Comments	

¹² The term “strategic plan” refers to a document which sets out an organization’s goals and how it plans to achieve them.

Principle 6. Relationships with other safety-net participants	
A framework should be in place for the close coordination and information sharing, on a routine basis as well as in relation to particular banks, among the deposit insurer and other financial system safety-net participants. Such information should be accurate and timely (subject to confidentiality when required). Information-sharing and coordination arrangements should be formalised.	
Overall Assessment	Largely Compliant
Comments	Information sharing and coordination agreements have been developed between the DGF and the MOF, NBM and NCFM in law and through MOUs. The DGF is included in contingency planning exercises conducted through a National Committee for Financial Stability (NCFS). However, provisions on bank secrecy in the Law on NBM can inhibit timely information sharing between the DGF and NBM.
EC 1.	A framework for timely information sharing and the coordination of actions among the deposit insurer and other safety-net participants, on a routine basis as well as in relation to particular banks, is explicit and formalised through legislation, regulation, memoranda of understanding, legal agreements or a combination of these instruments.
Description	Legal provisions are in place (e.g. DGF Law, Article 18) requiring the DGF and NBM to cooperate and regularly exchange necessary information to exercise their powers. In addition, an MOU has been in place since 2011 on maintaining financial stability between the DGF and members of the MOF, the NBM, and NCFM. It specifies the obligations of each party in the case of a systemic crisis and the information that each party shares with the other parties. The DGF is obligated to provide the members with information on the amount of guaranteed deposits and the size of the DGF fund.
Comments	
EC 2.	Planning and operations of safety-net participants, both individually and together, not only cover past and ongoing circumstances but also consider plausible future scenarios.
Description	The NCFS is the primary mechanism through which the DGF conducts contingency planning exercises.
Comments	
EC 3.	All deposit insurers are provided with information on a timely basis to be able to reimburse depositors' claims promptly including information on the amount of insured deposits held by individual depositors.

Description	The DGF receives adequate information to reimburse depositors in accordance with its legal obligations. It can request information from member banks but does not have authority to examine or verify the information on-site.
Comments	
EC 4.	Rules regarding confidentiality of information apply to all safety-net participants and the exchange of information among them.
Description	Although information sharing and coordination arrangements are in place, the NBM Law (Article 36) does not exempt the DGF from bank secrecy requirements. ¹³ Therefore information sharing, particularly on specific banks, can be limited in practice.
Comments	The Law on Financial Institutions should be amended to include a statement that the sharing of information between the DGF and NBM is not a violation of bank secrecy provisions.
EC 5.	The safety-net participants make information on banks that are in financial difficulty or are expected to be in financial difficulty available to the deposit insurer in advance and, where confidentiality requirements prevent this, or where the information is not available from other safety-net participants, the deposit insurer has the power to collect information directly from such banks.
Description	According to Article 18.3 of the DGF Law, the NBM shall bring promptly to the attention of the DGF Law its opinion regarding the likelihood of the revocation of a bank's license and initiation of liquidation proceedings. The NBM submits quarterly to the DGF information related to the total regulatory capital (TRC) and the profit (loss) amount for each bank.
Comments	
AC 1.	A deposit insurer with a broader mandate, such as "loss-" or "risk-minimisation", has access to timely and accurate information so that it can assess the financial condition of individual banks, as well as the banking industry. These deposit insurers may also

¹³ According to the provisions of Article 36, the employees of the NBM are obliged to preserve the professional secrecy over any information that represents banking secret (any information related to the person, goods, activity, business, clients' accounts, transactions with clients, etc.) of which they are informed while executing their obligations, these being used only with the aim and during the execution of obligations regarding the NBM attributions. The information that constitutes professional secret can be disclosed or provided in the cases stipulated on article 36, para (4) of the Law on NBM, including within the agreements of collaboration with other public authorities.

	need access to information regarding the value of the bank's assets and the expected time frame for the liquidation process, given that the value of a bank's assets depends, in part, on the time necessary to liquidate them.
Description	
Comments	

Principle 7. Cross-border issues

Provided confidentiality is ensured, all relevant information should be exchanged between deposit insurers in different jurisdictions and possibly between deposit insurers and other foreign safety-net participants when appropriate. In circumstances where more than one deposit insurer will be responsible for coverage, it is important to determine which deposit insurer or insurers will be responsible for the reimbursement process. The deposit insurance already provided by the home country system should be recognised in the determination of levies and premiums.

Overall Assessment **Largely Compliant**

Comments The DGF's member banks are primarily domestic and foreign banks covered under the deposit insurance system are established as foreign bank subsidiaries. Although the DGF's foreign bank members represent a significant portion of banking system deposits, the DGF does not have the legal authority to develop MOUs with deposit insurers in other countries to share deposit insurance information and experiences.

EC 1. Appropriate cross-border bilateral/multilateral agreements are in place in circumstances where, due to the presence of cross-border banking operations, coverage for deposits in foreign branches is provided by the deposit insurer in another jurisdiction or by a combination of deposit insurers in different jurisdictions. For example, where the home country system provides coverage for the branches of its domestic bank, banks in the host countries and/or the host country system provides supplementary coverage for foreign bank branches.

- a) The agreements involve appropriate home and host deposit insurers as well as other appropriate financial safety-net participants when appropriate, including in circumstances where one deposit insurer will be solely responsible for coverage.
- b) The agreements provide for ongoing close coordination and information sharing between home/host deposit insurers and possibly other safety net participants, as well as in relation to particular banks when necessary.
- c) The agreements specify which deposit insurer or insurers will be responsible for reimbursement as well as premium assessment, cost sharing, and the deposit insurance public awareness issues raised by cross-border banking.

Description There are no banks for which more than one deposit insurer is responsible for coverage in Moldova.

Comments	
EC 2.	Depositors in the jurisdictions affected by cross-border banking arrangements are provided with clear and easily understandable information on the existence and identification of the deposit insurance system legally responsible for reimbursement and the limits and scope of coverage. Information on the deposit insurance system's source of funding and claims procedures and reimbursement options is made available to affected depositors (e.g., such as on the deposit insurer's website, through printed materials or similar means).
Description	Although the DGF's foreign bank members represent a significant portion of banking system deposits, the DGF does not have the legal authority to develop MOUs with deposit insurers in other countries to share deposit insurance information and experiences.
Comments	
AC 1.	Where a deposit insurer perceives a real risk that it may be required to protect depositors in another jurisdiction, its contingency planning allows for cross-border arrangements or agreements. For example, it has an agreement with the deposit insurer in that jurisdiction to provide for insured depositor reimbursements.
Description	
Comments	

Principle 8. Compulsory membership	
Membership in the deposit insurance system should be compulsory for all financial institutions accepting deposits from those deemed most in need of protection (e.g., retail and small business depositors) to avoid adverse selection.	
Overall Assessment	Compliant
Comments	Membership in the DGF is compulsory for all domestic banks and foreign bank subsidiaries.
EC 1.	Membership in a deposit insurance system is compulsory for all financial institutions accepting deposits from those deemed most in need of protection (e.g., retail or individual depositors and small business depositors).
Description	The deposit insurance system only applies to banks and is compulsory (DGF Law, Article 2.4). Non-bank deposit taking institutions are not members of the DGF. Presently, all 14 commercial banks in Moldova are members of the DGF. Savings Credit Associations (SCAs) which represent approximately 1.0 percent of financial system assets are not members of the DGF. Under recently enacted legislation, the SCAs will become members of a separate compensation scheme under NCFM management.
Comments	
EC 2.	Policymakers determine whether eligible banks will be given membership as a part of the licensing process or upon application to the deposit insurer.
Description	The DGF Law requires that all member banks have a bank licence from the NBM. Membership in the DGF is granted automatically upon a bank receiving a licence from the NBM. Once a licence is granted, the DGF informs the bank about its obligations to the DGF (Article 2.1).
Comments	
EC 3.	Criteria for membership that detail the conditions, process and time frame for attaining membership are explicitly stated and transparent.
Description	Membership criteria in the DGF is contained in the DGF Law; no other eligibility criteria are set besides a valid license from the bank regulator. A bank cannot be excluded from the deposit insurance system except in case of the withdrawal of its license by the NBM.
Comments	

EC 4.	If the deposit insurer does not control membership (i.e., cannot refuse membership), the law or administrative procedures describe a clear time frame in which the deposit insurer is consulted about or informed in advance of “newly licensed” banks.
Description	The DGF must be informed within 7 days about prospective DGF members receiving a bank license (Article18.2).
Comments	
EC 5.	When deposit insurance membership is terminated by the deposit insurer, arrangements are in place that provide for coordination in withdrawing the bank’s operating license by the relevant authority. If relevant, an appropriate general notice is given to depositors (e.g., on the deposit insurer’s website) to inform them that any new deposits issued will not receive deposit protection.
Description	The DGF cannot terminate deposit insurance.
Comments	
EC 6.	All financial institutions accepting deposits are subject to strong prudential regulation and supervision and are financially viable when they become members of a deposit insurance system.
Description	DGF member banks are regulated by the NBM and SCAs are regulated by the NCFM.
Comments	

Principle 9. Coverage	Policymakers should define clearly in law, prudential regulations or by-laws what is an insurable deposit. The level of coverage should be limited but credible and be capable of being quickly determined. It should cover adequately the large majority of depositors to meet the public policy objectives of the system and be internally consistent with other deposit insurance system design features.
Overall Assessment	Materially Non-Compliant
Comments	Coverage is defined in law, credible and limited but does not adequately protect individual depositors and contribute meaningfully to financial stability. The coverage limit of MDL 6,000 (USD 445) is very low and a significant proportion of individual depositors are not fully covered. A consultation process with the banks and other stakeholders is underway to consider raising the coverage level.
EC 1.	Insured deposits are clearly and publicly defined. This comprises the level and scope of coverage. If certain depositors are ineligible for deposit protection, the criteria are clearly defined.
Description	<p>Insured deposits are clearly and publicly defined in the DGF Law (Articles 3, 4, 5 and 19). Individual deposits (in domestic and foreign currency) for residents and non-residents are covered up to the limit of MDL 6,000 (USD 445) per depositor per institution. The following deposits are not covered according to the DGF Law:</p> <ul style="list-style-type: none"> i) deposits of bank administrators; ii) deposits of shareholders holding more than 5% of bank's capital; iii) deposits of spouses and tier I and II relatives of the above mentioned persons; iv) deposits declared illegal by a Court decision; v) deposits of persons holding positions similar to those in i) and ii), and in affiliated enterprises and dependent societies; vi) deposits of the physical persons who have received from the same bank preferential interest rates or other financial benefits under concessionary terms; vii) deposits of the physical persons in the bank "Banca de Economii" as of January, 2nd, 1992 (both operating and renewed as of July 29, 1994) taking as a basis their balances as of January 2, 1992 which are already guaranteed by the state according to the Law on indexation of deposits of citizens in the Savings Bank; viii) bearer promissory notes; ix) all instruments that fall under the notion of the regulated capital of bank; and x) deposits judged unlawful by a court decision.

Comments	
EC 2.	The definition of “insured deposit” reflects the public policy objectives of protecting depositors and promoting public confidence and financial stability (e.g., protect small transaction accounts).
Description	The definition of insured deposits reflects the public policy objectives of protecting depositors.
Comments	Consideration should be given to extending coverage to small and medium-sized enterprises (SMEs) which may include socially vulnerable persons who should be protected. There is a trend in deposit insurance coverage to extend protection to SMEs and in the case of the European Union, to all enterprises.
EC 3.	The level of coverage is limited but credible (e.g., the level of coverage is high enough to maintain confidence, but limited to maintain market discipline). The level of coverage is consistent with the deposit insurer’s public policy objectives.
Description	As of December 31, 2013, the deposit insurance limit of MDL 6,000 covered fully 63 percent of total individual depositor accounts. This represented 8.2 percent of the total value of insured deposits.
Comments	<p>The coverage level limit leaves a significant proportion of depositors uncovered and does not contribute meaningfully to support financial stability. Consideration should be given to raising the coverage level to ensure that a higher proportion of individual depositors are fully covered while ensuring that the majority of the value of total deposits remains exposed to market discipline.</p> <p>It should be noted that the DGF asked its member banks and other stakeholders in June 2013 for their views on raising the coverage level to MDL 15,000. A number of banks responded by proposing an increase to MDL 9,000 -- but only after the special obligations tax imposed for financial stability (as a result of the liquidation of Investprivatbank S.A. reached a target level of MDL 100 million. This is expected to occur by the end of 2015.</p> <p>In terms of the impact of raising the coverage level limit, the DGF estimates that an increase from MDL 6,000 to 15,000 would increase the proportion of individual depositors fully covered from 63.0 to 76.0 percent. The proportion of the total value of deposits covered would increase from 8.2 percent to 16.0 percent.</p>
EC 4.	Depositors have sufficient information readily available to determine the amount of coverage for their individual deposits.

Description	Information on the terms and conditions of coverage are provided through the DGF member banks.
Comments	
EC 5.	The coverage limit applies equally to all banks in a deposit insurance system.
Description	Coverage limits apply equally to all banks in the deposit insurance system.
Comments	
EC 6.	The deposit insurance system does not incorporate co-insurance, where depositors absorb some portion of the loss under the coverage limit in the event of bank failure. ¹⁴
Description	Co-insurance is not provided.
Comments	
EC 7.	Deposit insurance coverage is reviewed periodically to ensure that it can meet the public policy objectives of the deposit insurance system.
Description	The DGF Law (Article 6.3) gives the Board of Directors authority to periodically review and adjust the level of coverage “to match the available financial resources accumulated by the Fund” the level of premiums – and thus the financial resources that can be accumulated by the Fund - is fixed by law.
Comments	
AC 1.	If set-off is utilized by the deposit insurance system, it is consistent with the prevailing legal framework.
Description	If a bank holds a past-due claim against the depositor, the obligation of this bank to the depositor decreases by the amount of the debt of the depositor, expired and not paid, to the given bank.
Comments	

¹⁴ Although the use of co-insurance can encourage depositors to monitor bank risk taking, it presents a number of serious problems. In order to provide effective market discipline it assumes that depositors will have access to the necessary financial information and that most retail/individual depositors can accurately assess risk. And, even when depositors are in a position to make such determinations, co-insurance provides strong incentives for depositors to run on a bank to avoid even a small loss of their funds. Nevertheless, there may be limited exceptions where co-insurance may be appropriate (e.g., for use with certain investment products, for deposit amounts above a very high threshold level).

AC 2.	In the event of a merger of separate banks that are members of the deposit insurance system, depositors of the merged banks enjoy separate coverage (up to the maximum coverage limit) for each of the banks for a limited but publicly stated period in which case the merging banks must be held responsible for notification of affected depositors, including the date at which time the separate coverage will expire.
Description	In the event of a merger, deposits are merged immediately and do not enjoy separate coverage for a transition period.
Comments	

Principle 10. Transitioning from a blanket guarantee to a limited coverage deposit insurance system	
When a country decides to transition from a blanket guarantee to a limited coverage deposit insurance system, or to change a given blanket guarantee, the transition should be as rapid as a country's circumstances permit. ¹⁵ Blanket guarantees can have a number of adverse effects if retained too long, notably moral hazard. Policymakers should pay particular attention to public attitudes and expectations during the transition period.	
Overall Assessment	N/A
Comments	
EC 1.	A situational analysis of the economic environment as it affects the banking system is conducted before a country begins a transition from a blanket guarantee to limited coverage.
Description	N/A
Comments	
EC 2.	The situational analysis assesses structure and soundness of the banking system including an evaluation of the condition of banks' capital, liquidity, credit quality, risk management policies and practices, and the extent of any problems; and an evaluation of the number, type and characteristics of banks.
Description	N/A
Comments	
EC 3.	The situational analysis assesses the strength of prudential regulation and supervision, the effectiveness of the legal framework, and the soundness of the accounting and disclosure regimes.
Description	N/A
Comments	

¹⁵ A "blanket guarantee" is a declaration by authorities that in addition to the protection provided by limited coverage deposit insurance or other arrangements, certain deposits and perhaps other financial instruments will be protected. A wide range of factors need to be considered when introducing blanket guarantees, including decisions on the scope of the guarantee (e.g. the type of institutions, products and term maturities covered) and whether the banks utilizing the guarantees will be required to contribute in some manner to the costs of providing the guarantees.

EC 4.	The pace of the transition to limited coverage is consistent with the state of the banking industry, prudential regulation and supervision, legal framework and accounting and disclosure regimes.
Description	N/A
Comments	
EC 5.	Policymakers are aware of the tradeoff between the length of time it takes for the transition to the limited coverage system and the degree of moral hazard in the system, and have planned the transition accordingly.
Description	N/A
Comments	
EC 6.	Policymakers are aware of and anticipate the reaction of the public to a reduction in coverage levels. Policymakers develop effective communication strategies to mitigate adverse public reaction to the transition.
Description	N/A
Comments	
EC 7.	Where there is a high level of capital mobility, and/or a regional integration policy, the decision to lower coverage levels (and/or scope) considers the effects of different countries' protection levels and related policies.
Description	N/A
Comments	
EC 8.	The new limited-coverage deposit insurance system has access to adequate funding during and after the transition. Policymakers consider the capacity of the banking system to fund a limited-coverage deposit insurance scheme. If the banking system is unable to fund the cost of the blanket guarantee, government funding may be needed.
Description	N/A
Comments	

<p>Principle 11. Funding</p> <p>A deposit insurance system should have available all funding mechanisms necessary to ensure the prompt reimbursement of depositors' claims including a means of obtaining supplementary back-up funding for liquidity purposes when required. Primary responsibility for paying the cost of deposit insurance should be borne by banks since they and their clients directly benefit from having an effective deposit insurance system.</p> <p>For deposit insurance systems (whether ex-ante, ex-post or hybrid) utilising risk-adjusted differential premium systems, the criteria used in the risk-adjusted differential premium system should be transparent to all participants. As well, all necessary resources should be in place to administer the risk-adjusted differential premium system appropriately.</p>	
Overall Assessment	Largely Compliant
Comments	The DGF utilizes an ex-ante funding model with the ability to charge ex-post assessments if required. A flat-rate premium is charged at the rate of 0.25 percent of insured deposits and assessed quarterly. The ex-ante fund represents 6.9 percent of insured (covered) deposits and is sufficient to deal with the simultaneous failure of the 6 smallest banks and one medium-sized bank. A target reserve fund ratio of 7.0 percent is established in the DGF Law but with no supporting rationale or methodology. Emergency liquidity back-up funding can be obtained from special premium assessments on banks or borrowing from the MOF. But, funding from the MOF is not assured and must be approved by Parliament.
EC 1.	Funding arrangements for the deposit insurance system are provided on an ex-ante or an ex-post basis or some (hybrid) combination of these and are clearly defined and established in law or regulation.
Description	<p>Funding is ex-ante and clearly defined in the DGF Law (Articles 9-12). Premiums are applied as a flat-rate, fixed in the law at a level of 0.25 percent of insured deposits and assessed and charged quarterly. In addition to premium revenue, fund contributions can also include:</p> <ul style="list-style-type: none"> i) initial contributions from banks (upon receiving membership the bank must pay a one-off contribution of 0.1 percent of its initial capital); ii) proceeds from liquidations and investment income; iii) special contributions from banks (ex-post assessments); and iv) other revenue proceeds (e.g. donations, budgets subsidies and aid). <p>The ex-ante fund as of September 30, 2013 was MDL 165.9 million (USD 12.2 million) representing 6.9 percent of insured deposits. In addition to the DGF fund, the banks are providing the government with a special obligations tax imposed for financial stability (as a result of the liquidation of Investprivatbank S.A.). The banks must</p>

	continue contributing this tax until the designated target level of MDL 100 million is reached. This is expected to be reached by the end of 2015.
Comments	
EC 2.	Funding arrangements for the deposit insurance system ensure the prompt reimbursement of depositors' claims and include a pre-arranged and assured source(s) of back-up funding for liquidity purposes. Such sources may include a funding agreement with the central bank, a line of credit with the government treasury, or another type of public fund or market borrowing. If market borrowing is used by the deposit insurer it should not be the sole source of back-up funding. The deposit insurer should not be overly dependent on a line of credit from any single private source.
Description	The current level of funding is 6.9 percent of total insured (covered) deposits. If additional funds are needed the DGF can make special assessments against the banks. The assessments are capped at an amount up to two times the amount of the regular quarterly premiums. Under Article 16.2 of the DGF Law, the DGF can borrow emergency back-up liquidity funds from the MOF and/or banks for additional funding. However, the MOF does not have any legal obligation to provide such funding and would need Parliamentary approval.
Comments	Although the current funding level appears sufficient to deal with the failure of a number of small banks, emergency funding from the MOF is not assured. Moreover, the impact on fund adequacy of possible increases to the coverage limit should be reviewed also and taken into consideration by the DGF. To provide greater assurance on emergency liquidity support consideration should be given to: (1) providing (in MOF legislation) the DGF with a line-of-credit from the MOF with a pre-defined limit; and (2) amending the DGF and NBM laws to include the NBM as an additional source of emergency liquidity back-up funding for the DGF.
EC 3.	Primary responsibility for funding the deposit insurance system is borne by member banks and is enforceable by the deposit insurer.
Description	Member banks are responsible for funding the deposit insurance system (see response to EC1).
Comments	
EC 4.	If an ex-ante deposit insurance fund is established the size of the fund (e.g., the fund reserve ratio) is defined on the basis of clear, consistent and well-developed criteria that aim at meeting the public policy objectives. If an ex-post funding arrangement is used the main source of funding is credible and readily available.

Description	<p>The ex-ante fund as of September 30, 2013 stood at MDL 165.9 million or 7.11 percent of insured (covered) deposits. The target fund size is fixed in the DGF Law at 7.0 percent of insured deposits (Article 14.1). No methodology is provided to support this target fund ratio.</p> <p>The existing fund size is sufficient to fully cover the cumulative insured deposits of the 5 smallest member banks. The largest individual bank whose insured deposits could be fully covered is Mobiasbanca S.A. – Groupe Societe Generale S.A. (with insured deposits of MDL 133.9 million). In addition, the DGF Law states that once a level of 7.0 percent is reached the DGF may, upon the discretion of the Administrative Council (Article 14.1), stop collecting premiums. The 7.0 percent target in the DGF Law is not supported by any methodology. The DGF has no plans to stop collecting premiums as a result of reaching this target ratio.</p>
Comments	<p>A methodology for determining an appropriate target fund reserve ratio should be introduced and a new ratio established.¹⁶ If coverage limits are raised it will be even more important to take this into consideration in setting fund targets.</p>
EC 5.	<p>The deposit insurance fund has sound investment policies and procedures, internal controls and disclosure and reporting systems. These are approved by the deposit insurer’s governing body and subjected to regular review by an independent party. Investment policies emphasize the need to ensure the preservation of fund capital and liquidity.</p>
Description	<p>The deposit insurance fund has investment policies and procedures, internal controls and disclosure and reporting systems. The investment policy stresses protection of principle and liquidity and monies must be invested in securities issued by the government (Article 9) and NBM. The deposit insurance fund is presently invested primarily in government treasury bills.</p>
Comments	<p>Although only a small portion of insured deposits are held in foreign currencies, limited hedging mechanisms are in place to deal with the associated currency risk on these instruments.</p>
EC 6.	<p>For deposit insurers that use risk-adjusted differential premium systems:</p> <ul style="list-style-type: none"> (a) the system for calculating premiums is transparent to all participants; (b) the ratings and rankings resulting from the system pertaining to individual member banks are kept confidential; and

¹⁶ For guidance on deciding on an appropriate deposit insurance fund methodology see: International Association of Deposit Insurers, Guidance on Funding Deposit Insurance Systems, Basel, 2009.

	(c) policymakers ensure that the deposit insurer has the necessary authority, resources and information in place to carry out its responsibilities with regard to the operation of such systems.
Description	N/A
Comments	
EC 7.	<p>In so far as the funds of the deposit insurer may be used by other members of the safety net for the purposes of depositor protection and/or bank resolution, those circumstances are clearly stated and public and known to member banks. The deposit insurer has adequate information to:</p> <ul style="list-style-type: none"> (a) understand the use of the funds; (b) seek reimbursement for the estate of the failed bank or participate in recoveries from the bank; and (c) restrict the resolution or depositor reimbursement amount to the costs the deposit insurer would otherwise have incurred without such intervention or resolution.
Description	<p>During the Investprivatbank S.A. failure in 2011 all depositors were protected in the failure resolution. The DGF provided MDL 48.09 million with respect to insured (covered or guaranteed) depositors and the remaining depositors were protected through the transfer of deposits to Banca de Economii S.A. (BEM). The DGF was consulted on the use of its funds and its costs were restricted to those if a liquidation/payout net of recoveries.</p> <p>The cost of protecting the uninsured depositors was borne by the government through supporting loans and guarantees to BEM totaling MDL 352 million and by the industry through the imposition of a special MDL 100 million obligation tax on banks.</p>
Comments	

Principle 12. Public awareness	
In order for a deposit insurance system to be effective it is essential that the public be informed on an ongoing basis about the benefits and limitations of the deposit insurance system.	
Overall Assessment	Largely Compliant
Comments	The DGF has responsibility for promoting public awareness and does so through member banks with appropriate regulation from the DGF. The DGF's public awareness program includes a contingency planning process but this does not involve other safety-net participants. There is no regular review of the effectiveness of public awareness activities.
EC 1.	The deposit insurer is responsible for promoting public awareness of the deposit insurance system and how the system works, including its benefits and limitations, on an on-going basis.
Description	The DGF has responsibility under its legislation for promoting public awareness but relies on its member banks (see DGF Law, Article 37.1) to promote public awareness about the deposit insurance system. Member banks are obliged to inform depositors about the terms and conditions of deposit insurance. Banks are required to provide information on deposit insurance and the information must be displayed in all branches of banks in an accessible form for depositors. In its public awareness programme, the DGF establishes the layout of mandatory information and norms of presentation of information about the DGF by banks (e.g. branch signage, brochures etc).
Comments	
EC 2.	The objectives of the public awareness programme are clearly defined and consistent with the public policy objectives and mandate of the deposit insurance system.
Description	The DGF has a limited public awareness program and objectives are to provide basic information on the terms and conditions of coverage to depositors.
Comments	A more formalized public awareness programme establishing clear objectives and a strategy to achieve such objectives should be introduced. Having a clear programme plan would also assist in developing public awareness strategies to educate depositors on potential increases in coverage limits.
EC 3.	The public awareness programme or activities conveys information about the following: (a) which financial instruments are covered by deposit insurance and which are not

	<p>(e.g., whether the system covers foreign deposits);</p> <p>(b) which financial institutions offer insured deposits and how they can be identified;</p> <p>(c) deposit insurance coverage limits and the potential for losses on deposits in excess of those limits; and</p> <p>(d) the reimbursement process – how, when and where depositors may file claims and receive reimbursements in the event of a bank failure.</p>
Description	The DGF website and brochures provided to the member banks provide details on the types of deposits and depositors covered, insurance limits, financial institutions covered, and the reimbursement process. Deposit products are stamped with indications they are covered by deposit insurance.
Comments	
EC 4.	There is an effective contingency planning process for public awareness and communications that addresses plausible future scenarios and that involves the cooperation and coordination of other safety-net participants as appropriate.
Description	Contingency planning is conducted by staff but it does not involve other safety net participants on a regular basis.
Comments	A public awareness contingency planning process to deal with individual bank failures and the possibility of systemic failures should be developed in conjunction with the NBM and other safety-net participants.
EC 5.	The deposit insurer works closely with member banks and other safety-net participants to ensure consistency in the information provided and to maximise awareness on an ongoing basis.
Description	Arrangements are in place with member banks to ensure consistency of information provided to depositors by member banks (e.g. protocols and information on DGF coverage).
Comments	
EC 6.	The deposit insurer receives or conducts a regular evaluation of the effectiveness of its public awareness program or activities.
Description	No formal evaluation of public awareness effectiveness has been commenced by the Fund.

Comments	A process to review on a regular and objective basis the public's awareness of deposit insurance and the terms and conditions of coverage should be introduced. The results of the process could be incorporated in the DGF's strategic planning processes.
AC 1.	The public awareness programme is tailored to the needs of clearly defined target audiences and utilizes a variety of communication tools. The desired level of visibility and awareness among the target audiences is a primary factor in determining the budget for the public awareness programme.
Description	N/A
Comments	

<p>Principle 13. Legal Protection</p> <p>The deposit insurer and individuals working for the deposit insurer should be protected against lawsuits for their decisions and actions taken in “good faith” while discharging their mandates. However, individuals must be required to follow appropriate conflict-of-interest rules and codes of conduct to ensure they remain accountable. Legal protection should be defined in legislation and administrative procedures, and under appropriate circumstances, cover legal costs for those indemnified.</p>	
Overall Assessment	Non-Compliant
Comments	There is no legal protection for the DGF or those working on its behalf for their decisions and actions taken in good faith while discharging their mandate. Although some codes of conduct/ethics are in place (e.g. DGF staff are prohibited from using information received in the course of work for personal use or to disclose it to third parties) these are not comprehensive.
EC 1.	The deposit insurer and individuals working for the deposit insurer are protected against lawsuits for their decisions and actions taken in “good faith” while discharging their mandates.
Description	There is no legal protection against lawsuits for the deposit insurer or individuals working for the deposit insurer.
Comments	Comprehensive legal protection arrangements should be introduced for the DGF and those working on its behalf in the DGF Law.
EC 2.	Individuals are required to follow appropriate conflict-of-interest rules and codes of conduct to ensure they remain accountable.
Description	Although DGF employees are prohibited from using information received in the course of work for personal use or to disclose it to third parties, there are no comprehensive conflict-of-interest or codes of conduct applied to the DGF staff.
Comments	Comprehensive codes of conduct/ethics should be developed for the DGF.
EC 3.	Legal protection is defined in legislation and administrative procedures, and under appropriate circumstances, cover legal costs for those indemnified.
Description	No such provisions exist.
Comments	Legal protection should be introduced in legislation and administrative procedures, and under appropriate circumstances, cover legal costs for those indemnified.

AC 1.	Legal protections do not prevent depositors or other individual claimants, or member banks from making legitimate challenges to the acts or omissions of the deposit insurer in public or administrative review (e.g. civil action) procedures.
Description	Depositors and other persons can challenge the DGF under the Law on Administrative Contracts (793/10.02.2000) for its acts or omissions.
Comments	

<p>Principle 14. Dealing with parties at fault in a bank failure A deposit insurer, or other relevant authority, should be provided with the power to seek legal redress against those parties at fault in a bank failure.</p>	
Overall Assessment	Compliant
Comments	Relevant authorities in Moldova are provided with the power to seek legal redress against those parties at fault in a bank failure.
EC 1.	The conduct of parties responsible for or who contributed to the failure of a bank (e.g., officers, directors, managers, auditors, asset appraisers and related parties of the failed bank) are subject to investigation by the deposit insurer or other relevant national authority. The investigation of the conduct of such parties may be carried out by one or more of the following: the deposit insurer, supervisor or regulatory authority, criminal or investigative authorities, or a professional or disciplinary body, as applicable.
Description	Parties responsible for or who contributed to the failure of a bank in Moldova are subject to investigation by the public prosecutor in Moldova.
Comments	
EC 2.	If identified as culpable for the failure of a bank, such parties are subject to sanction and/or redress. Sanction or redress may include personal or professional disciplinary measures (including fines or penalties), criminal prosecution, and civil proceedings for damages.
Description	Parties found at fault following an investigation are subject to fines, penalties and criminal prosecution.
Comments	

<p>Principle 15. Early detection and timely intervention and resolution</p> <p>The deposit insurer should be part of a framework within the financial system safety net that provides for the early detection and timely intervention and resolution of troubled banks. The determination and recognition of when a bank is or is expected to be in serious financial difficulty should be made early and on the basis of well-defined criteria by safety-net participants with the operational independence and power to act.</p>	
Overall Assessment	Materially Non-Compliant
Comments	The DGF is part of the safety-net framework that provides for the early detection and intervention in the affairs of troubled banks. However, certain deficiencies exist in the supervisory/regulatory system as identified in the BCP assessment (e.g., insufficient operational independence, forbearance, lack of transparency in bank ownership structures, and recent court ordered reversals of supervisory actions) which impede the overall effectiveness of the early detection and intervention system.
EC 1.	The deposit insurer is part of a framework within the financial system safety net that provides for the early detection and timely intervention and resolution of troubled banks (failure resolution framework).
Description	The DGF is integrated into the early detection and intervention framework. The NBM submits quarterly information to the DGF related to the total regulatory capital (TRC) and profit/loss amounts for each DGF member bank. The DGF submits on a quarterly basis to the NBM, information regarding the total number of individual depositors and the total absolute amount of their deposits (including the sum that is covered by the fund insurance) for each bank, as well as the DGF fund's size.
Comments	
EC 2.	The failure resolution framework is established by law or regulation, and is effective at the early detection and timely intervention and resolution of troubled banks. The failure resolution framework is insulated against legal actions that aim at the reversal of early and timely decisions related to corrective procedures, interventions and resolutions of troubled banks.
Description	The early warning, intervention and failure resolution framework is the responsibility of the NBM. It is described in Article 44 and chapters V1 and V2 of the Law on Financial Institutions. The NBM has established procedures regarding the on-site and off-site monitoring and supervision of DGF member banks. It collects daily, monthly, quarterly and half-yearly information on banks. A CAMELS rating system is utilized to assess banks and an early warning system utilizes this and on-site information to identify high risk banks. A graduated intervention regime is applied to address designated high risk banks. High risk banks (e.g. CAMELS ratings 4 or 5) are transferred to a special supervision unit which applies corrective actions to the

	<p>designated banks. These corrective actions may include developing plans for:</p> <ul style="list-style-type: none"> i) the elimination of all violations and deficiencies noted at the on-site inspections; ii) capital increases; iii) the recovery of non-performing loans; and iv) improve the quality of the loan portfolio. <p>Compliance with the intervention regime is verified both on and off-site. The NBM may apply additional remedial measures and sanctions, according to the provisions of the Article 38 from the Law on Financial Institutions.</p>
Comments	<p>The BCP assessment identified a number of deficiencies in the framework to address. Primary among these are: (1) the opacity of shareholding structures, supported by the courts, which is inhibiting the NBM from carrying out its supervisory control function effectively; (2) weaknesses in the NBM’s intervention and enforcement powers, and in the securities registry, have facilitated “raider” attacks on some banks, including the largest. Moldova AgroindBank and Victoriabank; (3) supervisory forbearance is a persistent concern and may exacerbate fragilities in individual banks; and (4) challenges in ensuring the operational independence of the NBM.¹⁷</p> <p>Moreover, the failure resolution framework is not effectively insulated against legal actions that aim at the reversal of early and timely decisions related to corrective procedures, interventions and resolutions of troubled banks. For example, recent events such as the Moldova Constitutional Court ruling that certain provisions prohibiting the suspension by the courts of some NBM decisions are unconstitutional. As a consequence of this judgment, any court can suspend decisions of the NBM, except—and importantly—those on liquidation of banks and revocation of licenses, until the end of the court process. Subsequently, Parliament has passed a law attempting to preserve NBM powers while aligning to the ruling by the Constitutional Court. However, certain issues remain raising questions about the effectiveness of the framework.</p>
EC 3.	The safety-net participants have the operational independence and power to perform their respective roles in the failure resolution framework and a clearly defined early

¹⁷ For example, the condition for dismissing the Governor and other Board members are unclear. The NBM law contains a provision that leaves the door open to potential political interference, even though in practice no such cases have been reported. NBM board members and employees, including staff appointed as bank’s liquidator, do not enjoy enough protection against lawsuits while discharging their duties in good faith.

	intervention mechanism exists (including resolution tools) to ensure that appropriate action is taken (to allow the orderly resolution of a troubled bank) by the responsible party without delay.
Description	The NBM and NCFM have a degree of operational independence and power to perform their respective roles in the failure resolution framework and a clearly defined early intervention mechanism exists (including resolution tools). However, as indicated in the BCP assessment the condition for dismissing the NBM Governor and other Board members are unclear. The NBM law contains a provision that leaves the door open to potential political interference, even though in practice no such cases have been reported. NBM board members and employees, including staff appointed as bank's liquidator, do not enjoy enough protection against lawsuits while discharging their duties in good faith.
Comments	In addition to the independence issues identified above, questions on the ability of the Courts to prevent or delay resolution decisions or actions raises additional doubts over the independence of the resolution authorities.
EC 4.	<p>The failure resolution framework includes a set of criteria that are used to identify banks that are or are expected to be in serious financial difficulty and are used as a basis to initiate some form of early intervention or corrective action to reduce the likelihood that a resolution would be necessary. Such action should minimize losses to the deposit insurance fund.</p> <p>(a) The criteria are clearly defined in law or regulation and are well understood by banks and their stakeholders; and</p> <p>(b) The criteria will be country specific and may reflect concerns about a bank's capital, liquidity, and asset quality, among other factors.</p>
Description	See response to EC2.
Comments	
AC 1.	A mechanism exists to review decisions taken with respect to the early detection and timely intervention and resolution of troubled banks.
Description	There is no evidence that such a formal mechanism is in place.
Comments	

<p>Principle 16. Effective resolution processes</p> <p>Effective failure-resolution processes should: facilitate the ability of the deposit insurer to meet its obligations including reimbursement of depositors promptly and accurately and on an equitable basis; minimise resolution costs and disruption of markets; maximise recoveries on assets; and, reinforce discipline through legal actions in cases of negligence or other wrongdoings. In addition, the deposit insurer or other relevant financial system safety-net participant should have the authority to establish a flexible mechanism to help preserve critical banking functions by facilitating the acquisition by an appropriate body of the assets and the assumption of the liabilities of a failed bank (e.g., providing depositors with continuous access to their funds and maintaining clearing and settlement activities).</p>	
<p>Overall Assessment Largely Compliant</p>	
Comments	<p>The NBM is the primary resolution authority for banks in Moldova. The DGF's resolution responsibilities are relatively narrow and include undertaking depositor reimbursement and the provision of financial support for purchase and assumption transactions based on a least-cost test. Decision-making on the use of the DGF resolution tools are made in conjunction with the NBM. The NBM has the ability to undertake bank administration and other non-payout resolutions.</p> <p>Although the mandate of NBM allows for the resolution of banks of all sizes, certain gaps are present (e.g. uncertainty as to whether the NBM has the legal authority to establish a bridge bank or other legal entity for resolution purposes and lack of ability to write-down/convert debt to equity) which hinder the effectiveness of the resolution regime and its ability to deal with systemic bank failures, in particular.</p>
EC 1.	<p>The overall national legal framework ensures the effective and timely functioning of the failure resolution framework, permitting the orderly liquidation of the bank, the payout or transfer of insured deposits and the intervention by a receiver to carry out the resolution functions.</p>
Description	<p>The NBM is responsible for all resolution and liquidation processes for banks. The reimbursement of insured depositors is the specific responsibility of the DGF. Banks can also be self-liquidated (Law on Financial Institutions, Article 38.15) when the shareholders decide to terminate the bank's operations (voluntary liquidation). A bank is considered "failed", and the NBM shall withdraw the bank's license and initiate the liquidation of the bank, if it meets at least one of the following criteria:</p> <ul style="list-style-type: none"> i) the bank is unable to execute the payment requests of the creditors regarding the outstanding monetary obligations (default); ii) the bank's assets no longer cover its obligations (over-indebtedness); and iii) the bank's capital is less than one third of the regulated capital.

Comments	
EC 2.	The mandate of the deposit insurer or other safety-net participants allows for the effective resolution of banks of all sizes.
Description	The NBM prepares a quarterly study that identifies systemically important banks. Systemic banks are requested to draw up and submit to the NBM contingency recovery and resolution plans during crisis situations. The plans specify actions with respect to the basic elements of financial stability: capital; liquidity; profitability and asset quality management.
Comments	
EC 3.	Bank resolution and depositor protection procedures are not limited to depositor reimbursement. The deposit insurer or other safety-net participant has effective resolution tools designed to help preserve critical bank functions, to achieve a transfer of accounts or assets/businesses and/or maintain continuity of banking services.
Description	<p>The Law on Financial Institutions and the DGF Law provide for: depositor reimbursements; sale of assets, including bank receivables; transfer of deposits; netting; and bank reorganization (in case of special administration). The DGF is also entitled to provide financial support to a purchasing or assuming bank (DGF Law, Article 19. 2) where the related costs are equal to or below the estimated cost of a liquidation and reimbursement.</p> <p>The Law on Financial Institutions provides the NBM with the authority to (see provisions V1-VI2) to introduce a special supervision and administration regime. The goals of the special supervision and administration regime are to: protect depositors; preserve asset values; eliminate deficiencies in the administration of the bank and in administration of its patrimony; and the collection of debts.</p>
Comments	Although the mandate of NBM allows for the resolution of banks of all sizes and the NBM has resolution tools such as a special administration regime, certain gaps are present (e.g. uncertainty as to whether the NBM has the legal authority to establish a bridge bank or any other legal entity for resolution purposes, such as asset management vehicles, and an inability to write-down/convert debt to equity) which hinder the effectiveness of the resolution regime and its ability to deal with systemic bank failures, in particular.
EC 4.	Where no single authority is responsible for all resolution processes, the mandate, roles and responsibilities of each safety-net participant is clearly defined and formally specified.

Description	The NBM is the primary resolution authority for banks. The reimbursement of insured depositors is the specific responsibility of the DGF. The mandates, roles and responsibilities of the NBM and DGF are clearly defined and formally specified.
Comment	
EC 5.	One or more of the resolution procedures allows the flexibility for resolution at a lesser cost than otherwise likely on a depositor reimbursement in a liquidation.
Description	The DGF can provide funds to facilitate the purchase and assumption of a failed bank if the estimated cost of the transaction would be equal to or less than the cost of a liquidation and reimbursement (i.e. the payment of insured deposits and related administrative and staff costs, see DGF Law, Article 19.2).
Comments	
EC 6.	A clear and well-sustained methodology is available to the deposit insurer or other safety-net participant to provide for the transfer of insured deposits to stronger banks.
Description	See response to EC5.
Comments	
EC 7.	Resolution procedures clearly ensure that bank shareholders take first losses.
Description	Resolution procedures require bank shareholders to take first losses and Article 38 of the Law on Financial Institutions sets out the creditor hierarchy in insolvency.
Comments	

<p>Principle 17. Reimbursing depositors</p> <p>The deposit insurance system should give depositors prompt access to their insured funds. Therefore, the deposit insurer should be notified or informed sufficiently in advance of the conditions under which a reimbursement may be required and be provided with access to depositor information in advance. Depositors should have a legal right to reimbursement up to the coverage limit and should know when and under what conditions the deposit insurer will start the payment process, the time frame over which payments will take place, whether any advance or interim payments will be made as well as the applicable coverage limits.</p>	
Overall Assessment	Materially Non-Compliant
Comments	The DGF is capable of giving depositors access to their funds as early as 5 days from the date of license revocation and reimbursements for the majority of depositors within 30 days. Affected depositors are informed about the reimbursement process and compensated through agent banks. However, reimbursement speed is hampered by a lack of early access by the DGF to detailed depositor information prior to the official announcement of a bank failure and the DGF's ability to verify such data on-site. In addition, the DGF is not provided with the power to make advance or interim payments in situations where extended delays can occur.
EC 1.	The deposit insurer is able to reimburse depositors promptly after the deposit insurance system is triggered by law, contract or the relevant authority.
Description	Article 20.3 of the DGF Law states that after revoking the bank license (the triggering event); the NBM appointed liquidator must provide the DGF with the list of depositors within 5 days. After receiving the list of depositors, the DGF is given 7 days to begin the reimbursement process. This information must then be provided to the agent bank for which the funds are provided to affected depositors. Depositors must visit the agent bank to receive their funds. In exceptional circumstances and with the approval of the government, the DGF can extend the timeframe by up to 30 days.
Comments	During the reimbursement process for the failure of Universalbank S.A. in 2012, 54 percent of depositors were reimbursed within 17 days of bank closure and 90 percent within 30 days.
EC 2.	<p>The time frame for accomplishing the reimbursement process is prompt and clearly stated to meet the public policy objectives of protecting depositors and promoting public confidence and financial stability of the deposit insurance system. The time frame is made public.</p> <p>(a) Depositors are provided information after the failure on when and under what conditions the deposit insurer will start the reimbursement process and</p>

	<p>when the process is expected to be completed;</p> <p>(b) Information on coverage limits, scope of coverage and whether advance or interim payments will be made is provided; and</p> <p>c) If there is an interest-bearing account, the deposit insurer shall reimburse depositors for interest as provided by contract, law or regulation up until at least the date the deposit insurance obligation is triggered.</p>
Description	<p>See response to EC 1. In case of the resolution of a bank, the DGF informs depositors, through public announcements in at least two newspapers of general circulation. Through notices affixed in all the branches of the failed bank and in media, depositors are informed about the terms and conditions of coverage and the timing of payouts and any other relevant information. Interest is paid up to the date of the revocation of the bank license.</p>
Comments	
EC 3.	<p>In order to promptly reimburse depositors, the deposit insurer has:</p> <p>(a) Access to necessary data, including deposit account records, to prepare for reimbursing depositors as soon as the supervisor is aware of a likelihood of failure.</p> <p>(b) The power to review in advance by itself (or by request from the supervisory authority) the way depositor records are kept by banks to ensure the reliability of records, to reduce the time needed for calculation and verification of depositors' claims;</p> <p>(c) A range of payment methods for reimbursing depositors;</p> <p>(d) Access to adequate and credible sources of funding (e.g. reserve fund, Ministry of Finance, central bank) to meet its obligations under the established time frames.</p>
Description	<p>The DGF relies on the liquidator's data (e.g. final balance for each depositor) provided within 5 days after the withdrawal of the banks license. The DGF is provided with advance notice by the NBM prior to the revocation of the banks licence. The DGF is not provided with the ability to review in advance depositor information at banks. A range of payment methods (e.g. cash basis, money transfer, or in other forms either by the Fund directly or through an agent bank). The DGF has an ex-ante fund and access to back-up emergency liquidity assistance from the MOF or its member banks.</p>
Comments	<p>The DGF does not have early access to detailed deposit records before a bank failure in order to verify the information. The generation procedure for the depositor list could be accelerated if the deposit insurer is authorized to inspect the accuracy of</p>

	the list prior to the official announcement of a bank failure. Such processes are in place in neighbouring countries such as Kazakhstan, Romania, Russia and the Ukraine. Consideration should be given to allowing DGF staff to accompany NBM examiners on on-site examinations (but only for deposit-related activities such as premium audits, IT tests etc.).
EC 4.	The deposit insurer has the capacity to carry out the reimbursement process in a timely manner, including: <ul style="list-style-type: none"> a) Adequate information technology; b) Adequate personnel (in-house or contractor).
Description	The DGF has sufficient human and IT resources available to conduct reimbursements according to the standards required in the DGF Law.
Comments	Additional human and IT resources, in conjunction with the ability to secure earlier access to depositor records for verification, would reduce the reimbursement period further.
EC 5.	In situations where there may be extended delays in reimbursements, the deposit insurer can make advance, interim or emergency partial payments.
Description	The authority to make partial payments is not provided under the DGF Law.
Comments	Given the potential for delays in the reimbursement process the DGF should establish an ability to make advance, interim or emergency partial payments.
AC 1.	The deposit insurer has contingency plans as well as regularly scheduled tests of its systems.
Description	The DGF undertakes simulation exercises for high risk member banks.
Comments	
AC 2.	The reimbursement process is audited by an independent auditor or authority.
Description	An internal audit of the reimbursement process is conducted.
Comments	

Principle 18. Recoveries	
The deposit insurer should share in the proceeds of recoveries from the estate of the failed bank. The management of the assets of the failed bank and the recovery process (by the deposit insurer or other party carrying out this role) should be guided by commercial considerations and their economic merits.	
Overall Assessment	Materially Non-Compliant
Comments	The DGF shares in the proceeds of recoveries from the estates of failed banks. However, the DGF's relatively low status in the creditor hierarchy (e.g. below many other unsecured creditors) results in extremely low recovery rates.
EC 1.	If the deposit insurer plays a role in the recovery process, its role is clearly defined in law or regulation and the deposit insurer maximises recoveries to the extent that it can from the failed bank on a commercial or economic basis.
Description	The DGF shares in the recoveries from failed banks, but has a very limited role in the implementation of the recovery process. Liquidations are conducted by a liquidator appointed by the NBM (see DGF Law, Article 38).
Comments	
EC 2.	The deposit insurer shares in the proceeds of the recoveries arising from the failure of its member banks. The deposit insurer is clearly recognized as a creditor of the failed bank for the reimbursement of losses and costs it incurs; and receives recoveries from the estate of the failed bank directly.
Description	The DGF shares in the proceeds of recoveries and is recognised as a creditor and receives proceeds from the estates of failed banks.
Comments	
EC 3.	The deposit insurer has at least the same or comparable creditor rights or status as a depositor in the conduct of the estate of the failed bank, and has access to information to make and pursue its recovery claim against the estate and to exercise the appropriate degree of influence on the conduct of the estate.
Description	The order of claims in the event of bankruptcy (Article 38.11 of the Law on Financial Institutions) are: <ul style="list-style-type: none"> i) credits extended to the bank by the NBM until the appointment of the liquidator; ii) the unpaid amounts on household deposits after the performance of payments according to Law no. 575-XV from 2003 on the guarantee of household

	<p>deposits within the banking system, in the limit established by the NBM;</p> <p>iii) credits extended to the bank by other banks until the appointment of the liquidator;</p> <p>iv) credits extended to the bank after the appointment of the liquidator;</p> <p>v) the debts of the DGF in the amounts paid as compensation for guaranteed deposits;</p> <p>vi) the unpaid sums on household deposits, remained after the performance of payments according to letter ii);</p> <p>vii) deposits of businesses and of individual enterprises;</p> <p>viii) the payments to the national public budget, settled from contributors, which were not transferred on the respective accounts of the budgetary system; and</p> <p>ix) other debts.</p>
Comments	<p>Although the DGF is a recognized creditor and shares in the proceeds of recoveries under the law, it has a lower ranking than other unsecured creditors. This significantly reduces potential proceeds from the estates of failed banks. To date, the DGF has never received any recovery income from failed banks. The DGF should be given at least equal status as other depositors and unsecured creditors (e.g. household deposits and receivables of the banks which granted credits to the insolvent bank). Consideration should be given to providing insured depositor preference to the DGF to help bolster its recoveries and facilitate more effective resolutions using resolution tools such as bridge banks.</p>
EC 4.	<p>If, in addition to creditor status, the deposit insurer is the receiver/liquidator/conservator of the failed bank or of only some assets of the failed bank, then:</p> <p>a) the role played by the deposit insurer for asset management and recovery is clearly defined in law or regulation; and</p> <p>b) its asset management and recovery approaches are guided by such factors as: the quality of the assets, market conditions, expert advice, and any legal requirements.</p>
Description	
Comments	
EC 5.	<p>In determining the asset management and recovery approaches, the interests of all creditors are given appropriate weight and decisions on asset disposal are made using concepts such as net present value to balance the competing goals of securing maximum value and early disposal.</p>
Description	
Comments	

AC 1.	The deposit insurer is entitled or authorized to be a member of the committee of creditors to follow the liquidation process of the failed bank as it is usually subrogated to the rights of the insured depositors.
Description	N/A
Comments	