

Box 2. Financial Sector Restructuring: Further Measures

Measures to facilitate the restructuring process (by the first review)

- A temporary restructuring body is planned, with specialized and fully dedicated staff to oversee the restructuring process. In the meantime, a restructuring committee has been established to perform this function.
- Procedures will be established to act quickly against insolvent or severely undercapitalized banks and finance companies.
- Criteria, rules, procedures, and tax treatment will be established for improved loan recovery, purchase and assumption deals, mergers and takeovers, and for valuation and transfer of nonperforming assets.
- Arrangements will be made for the efficient management of institutions and assets that end up under public sector control. This will include the establishment of a company for loan recovery and asset management. A strategy will be developed for their reprivatization.
- PLMO operations will be examined at the first review to ensure overall consistency with the government's policy not to use public funds to aid corporate or household borrowers.

Measures to improve internal governance

- Improvements will be made in accounting, loan classification, and loan loss provisioning rules and practices to get better information for owners, supervisors, and the market.
- Mergers, purchases, and takeovers of finance companies and banks by fit and proper foreign owners will be encouraged, and licensing rules will be strengthened.
- Banking and finance company laws will be amended to better define and increase the responsibilities of board members, managers, and external auditors.

Measures to increase role of market forces

- A self-financed deposit insurance scheme with limited coverage of deposits will be introduced.
- Strict criteria will be applied to improve the accuracy of data, and disclosure requirements will be expanded in coverage.
- Once the financial system is restructured, and the government protection is lifted, limitations on deposit rates, asset growth, and foreign borrowing will be abolished.

Measures to strengthen official oversight

- New operational procedures will be introduced with graduated corrective actions for undercapitalized, severely undercapitalized, and insolvent institutions, as well as for borrowers from the FIDF.
- The laws and regulations for commercial banks and finance companies will be amended *inter alia* to explicitly require the supervisory authority to write down institutions' capital to reflect lower asset values, to obligatorily intervene in institutions with capital and reserves falling below 2 percent of risk-weighted assets; and to protect control committee members and control officers from law suits.
- The effectiveness of prudential supervision will be enhanced by strengthening staff resources and training efforts, by increasing the focus on loan quality, internal control, and risk management in onsite examinations, as well as by developing capacity for offsite analysis and procedures for strictly enforcing corrective actions.