Consultation questionnaire

Attn:

- CEO, Market Operator A (A)
- CEO, Market Operator B (B)
- CEO, A Market Operator shareholder (investment firm) M (X)
- CEO, B Market Operator shareholder (investment firm) N (Y)
- CEO, Market Operator potential shareholder (investment firm) P (V)
- CEO, Market Operator potential investor (institutional) R (W)

Romanian Government/World Bank impact assessment exercise

Dear Sir,

The Romanian Government is participating in a series of World Bank-funded projects that are designed to improve the quality of various internal governmental processes. One of the projects aims to strengthen our ability to use the disciplines of impact assessment (IA) in order to improve the way in which we make policy. IA does this by requiring policy makers to use evidence and economic analysis to justify and explain their proposals. Consultation with stakeholders is a key part of the IA process because it promotes public accountability and provides stakeholders with the opportunity to contribute to the evidence base that should underpin the policy making process.

As part of this project the central bank, securities commission etc are participating in an IA training exercise that involves us undertaking a retrospective IA on an existing piece of legislation. In this case we are looking at regulation X and are writing to you in your capacity as one of the key stakeholders affected by this piece of legislation. We have attached to this letter a questionnaire and we would be most grateful if you could arrange for its completion.

The questionnaire is designed to provide us with evidence relating to a) the nature of the problem that the regulation is seeking to address and b) the costs and benefits of the regulation and of two alternative policy options that were not but in theory could have been chosen instead (this recognizes the fact that in a "live" IA exercise we would be expected to consider different policy responses to the same policy problem). Once the evidence has been gathered we will complete a final IA report setting out in a clear and transparent fashion what the problem was and why the regulatory response was the best means for addressing the problem.

Clearly, since this is a theoretical consultation exercise being undertaken over a shortened period of time we would not expect you to be able to devote a large amount of resource to this exercise. Nevertheless, we will be following this up with a face-to-face meeting to quality check all stakeholder responses and enhance our understanding of your answers. And, since we do intend to consult with stakeholders in the future, we regard this as a useful exercise for you too, so are looking forward to hearing from you. We very much value your cooperation.

If you have any questions regarding this exercise please contact ......on tel:

Yours sincerely

ANNEX A: Impact assessment questionnaire

This questionnaire is part of an IA simulation exercise being carried out by functions of the Romanian government in concert with the World Bank and external IA experts from the UK and Ireland. Its purpose is to provide us with information about a problem to which a regulatory solution was found and information on the costs and benefits of the regulatory solution and of two alternative options that could in principle have been chosen instead.

Section 1: What is the problem?

In this section we consider what the rationale for a particular regulatory intervention might have been.

We are looking at regulation X – insert detail about this regulation.

In our view, the problem being addressed by this regulation is........I think the template I commented on has suitable material to insert here. I think the problem could be expressed in terms of the market left alone not providing sufficient capital to ensure basic provision of market information etc without which the exchange can't function so its therefore all about market confidence. Restrictive ownership rules exacerbate the problem by preventing fresh capital from entering the market. Etc...

Question: do you agree with us that the problem is as described above? Please explain your answer, including evidence (or suggesting the type of evidence that would be relevant) where at all possible.

Section 2: What are the possible policy solutions.

In this section we identify 3 possible policy solutions to the problem identified in section 1 above. Clearly other options could have been considered.

Option 1. This is the option that was chosen in practice. A mandatory equity level of € 5M is imposed on market operators which must be reached by the end of 2008. Also, if the Market Operator's instruments of incorporation do not provide otherwise, it will no longer be mandatory to have majority voting rights being held by intermediaries that have access to trading on the relevant market/markets.

Option 2. ("do nothing").Under this option, there is no regulation at all and the market is left on its own.

Option 3. Under this option, changes to the regulation in force on Regulated Markets and Multilateral Trading facilities would allow Market Operators to gradually reach a lower mandatory equity level of € 2M, but in a shorter time, by the end of 2007. Also, it would no longer be mandatory to have majority voting rights being held by intermediaries that have access to trading on the relevant market/markets, if instruments of incorporation allow it.

Considering each of these options, please prepare answers to the following questions, to be later discussed during a meeting with our representative. For each answer, please provide a qualitative and, if possible, a quantitative assessment with a monetary value attached.

1. What are your estimated compliance costs? (i.e. the costs incurred by your company in order to comply with the proposed regulation, in the case of Option 1, 2 or 3) (for example, the costs of setting up a new structure for the administrative organisation and internal control, new computer programs or systems or following training courses). It may be appropriate to consider as compliance costs only costs which are above what corresponds to best (or existing) practice in the market.

Note In assessing your compliance costs, please remember you have to consider such distinctions as:

- **Fixed costs** are costs which do not vary with output. In the long run, all costs can be considered variable;
- **Variable costs** are costs which vary directly with the output. Variable costs are associated with productive work, and naturally rise and fall with business activity.

* * *

- **Set-up (or one-off) costs** are costs which are incurred at the beginning of a project only;
- **On-going costs** are costs which are incurred again and again during a project or an investment. Usually set-up costs are very large in comparison to ongoing-costs each time the latter occur.

2. How would each of the three options described above influence the products offered, in terms of:
   - quantity?
   - quality?
   - variety?

3. What are the benefits of each of the three regulatory options for your organization?

Note Benefits may be assessed using one of the following techniques:

- **Comparison to a relevant historical case**: In many cases, an incident or series of incidents over time will be part of the reason to regulate. In order to make an estimate of the expected benefits, the losses in a number of historical cases can be used as an indicator for how much of the loss could have been prevented through the proposed regulation;
- **Evaluation by a proxy**: This approach uses observable variables which are linked to the unobservable variable - e.g. when there exists a known correlation structure - or focuses on simulations of the unobservable variable;
- **Use of a break-even approach**: The third possible approach is what can be called the break-even approach. This approach consists of calculating the amount of benefit needed - for example a reduction in loss needed - to cover the costs incurred, which are quantifiable. With this approach, the loss prevention is separated into the risk of loss and the extent of loss which allows one to capture the impact on the market. The potential loss for each market participant and the risk that a market participant will actually suffer loss are then estimated. It will then be possible to determine by how much the loss, risk of loss or a combination of these elements needs to be reduced in order to cover the costs of regulations and supervision. For this break-even assumption, one can examine whether this would be a realistic expectation. The impact of incidents can often be estimated with the help of event studies. The significance of the impact of incidents can be calculated and an estimate of the extent can be given. In the break-even approach, one can calculate by how much the risk of an incident must be reduced in order to cover the costs.

CBA template – they've already had examples of what this could look like and this is an example and not necessarily the right design

OPTION 1: Euro 5m by 2008; no mandatory voting rights		
Quantitative costs	One-off compliance costs	Ongoing compliance costs per year
Qualitative costs (please describe the nature of the costs you think you would incur – this cold be footnoted)	One-off	Ongoing
Market impacts	On the quality, quantity and variety of goods or services	Competition
	For example, will (or in this HAS) the option increased trading volumes? Resulted in product innovation – remembering that these effects are judged against what would have happened in the absence of any regulation	For example, do you think the proposal will encourage new investment in the exchange or in rival exchanges and increase competition etc???
Benefits (please describe what you consider the main benefits of option 1, quantifying if possible)		

Option 2: no intervention at all		