

Romania RIA Knowledge Transfer and Capacity Building Program



COMISIA DE SUPRAVEGHERE A ASIGURĂRILOR



anpc

Autoritatea Națională pentru
Protecția Consumatorilor



PHASE II

APPLYING RIA TO AN EXISTING REGULATION

Step I

Consolidation of international RIA knowledge

And

Launch of RIA on identified domestic regulation

Bucharest, 4 June 2007

Venue:
National Bank of Romania

Minutes

List of Participants

# National Bank of Romania	# National Securities Commission
1 Ms. Oana Mesea	
2 Ms. Antoaneta Alexe	
3 Ms. Andra Pineta	
4 Mr. Dorel Onetiu	10 Ms. Camelia Oprea
5 Mr. Gabriel Valvoi	11 Mr. Albert Schreiber
Ministry of Economy and Finance	General Secretariat of Government (GSG)
6 Ms. Mihaela Nedelcu	12 Mr. Dragos Negoita
7 Mr. Emanuel Constantin	13 Mr. Ionut Pavel
Insurance Supervision Commission	National Authority for Consumer Protection
8 Ms. Beatrice Verdes	14 Mr. Mihai Meiu
9 Mr. Bogdan Ion	15 Ms. Laura Radut

List of Instructors

Main speakers and facilitators:
Mr. Stephen Dickinson, Senior Regulator - British Financial Services Authority
Mr. John Pyne, Senior Regulator, Irish Financial Services Authority
Chair of the whole session:
Ms. Ramona Bratu, SPI Director of Bank Products and Services
Organizational Unit;
Ms. Ramona Bratu, SPI Director of Bank Products and Services
Ms. Oana Nedeleescu, SPI Director of Analytics and Policy
Mr. Riccardo Brogi, Convergence Program, RIA Program Director

- Consolidation of international RIA knowledge -

Introductory remarks

The session was opened by the SPI Technical Secretariat (SPI), who acknowledged the broad participation of financial market authorities represented by attendants, praised the active role they undertook for Phase II, by either sharing their experience or by proposing cases for exercising RIA, and made a brief description of the program of the Phase II.

Presentation: Impact Assessment Guidelines prepared by CEBS, CESR and CEIOPS (by Convergence)

Convergence has given a concise illustration of the IA Guidelines jointly produced by CEBS-CESR-CEIOPS (hereinafter the Guidelines) and recently posted on the CEBS' website for consultation.

The Guidelines could be used as template of RIA Program Phase II (consisting in executing RIA on existing domestic regulations proposed by participants) for the two following reasons:

i - they represent the latest effort at EU level to systematize the IA process consistently in pace with already established EU practice and to strike the balance between not overloading the reader with information and providing sufficient practical detail and advice in the execution of IA work successfully;

ii - at the completion of IA work, participants will be able to contribute the consultation process launched by CEBS (more info can be found at www.c-eps.org/press/24052007.htm) and send their comments by 24th August 2007 through the SPI Secretariat.

The two RIA experts acting as workshop facilitators (Mr. Dickinson and Mr. Pyne) were members of the small CESR group in charge of drafting the Guidelines.

Convergence went through the main parts of the Guidelines, as follows:

- Step 1: Identification of the problem;
- Step 2: Development of main policy options;
- Step 3: Definition of policy objectives;
- Step 4: Analysis of impacts (from the consumers and regulated firms perspective respectively);
- What do to for consultation;
- How to prepare IA report;
- Keeping policy under review;
- Standard working tools.

Participants' views:

- Representatives from MEF outlined that they use a similar standard when running IA, but in a simplified form;
- ANPC Director pointed out that from consumers' perspective, "do nothing" should not be considered as an option itself and also said that ANPC is aware that although "do something" implies incurring costs, it is important to analyze how they are split among different stakeholders affected.

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RIA case study presentation: An application by the Irish Financial Regulator to the consumer protection code (by Mr. John Pyne – Irish FSA)

In his first part, Mr. Pyne presented the context in which the Irish Financial Regulator is set: what the strategic approach is, regulated institutions and the strength of their mandate for protecting and informing consumers. Irish FSA is half financed by the central bank and half by regulated firms.

Then Mr. Pyne went into details of the consumer protection code, outlining that main goal was to help consumers to make informed choices

through education and codes of practice in a fair financial services market and that this goal would have been achieved, among other things, by ensuring that financial services providers act in a fair and transparent manner.

As the work on the consumer protection code was proceeding, in the meantime in January 2004 the government issued a “Better Regulating White Paper” containing the commitment to the introduction of RIA. This brought about the execution of IA on the Code.

Mr. Pyne outlined the structure of the Code (i.e. principles based, containing general principles, common rules applicable to all services, some sector specific rules and how advertising is conceived) and then illustrated its underpinning rationale which comprises asymmetric information, long-term nature of financial contracts and financial services susceptibility to fraud, malpractice and misrepresentation.

The policy options considered were the following:

- i - do nothing;
- ii - self regulation;
- iii - statutory regulation.

Pros and cons of each policy option were illustrated and then attention was drawn to costs and benefits pertaining to consumers and financial industry respectively. In this regard, Mr. Pyne highlighted how difficult is to quantify benefits, so that they usually tend to use a qualitative approach in benefits identification and assessment.

Mr. Pyne also outlined the main categories of costs, which categories faced them and cost definition:

- Direct costs to industry: costs borne in the first instance by the Financial Regulator, of designing, monitoring and enforcing the Code;
- Compliance costs to industry: costs to regulated firms of performing activities required by the Code;
- Costs to consumers: they were not deemed quantifiable nonetheless the following two categories were identified:
 - the possibility that a Code will deter potential market participants from entering the market and/or cause current participants to leave the market, with follow-

on consequences for the level of competition in the market;

- The possibility that the Code will engender product harmonization across product providers, leading to a reduction in choice.

Mr. Pyne then focused on implementation timeframe by saying that a new regulation should be introduced as soon as necessary but on the other hand the shorter the timeframe is the greater implementation costs are to industry.

Presentation ended with a view on competition assessment.

Participants' views:

- ANPC Director was positively impressed by the presentation and the way in which Authorities address the consumer perspective in the financial services area. He also talked about the “Youngest Consumer”, a nationwide contest that ANPC is going to organize.

What participants have learnt from the presentation:

- How a financial regulator can be strongly committed to consumer protection and information;
- With regard to the consultation process:
 - i - which questions were asked;
 - ii - how the consultation was structured (dialogue with Consultative Industry and Consumer Panels).
- Which policy options were concretely considered and on which reasoning each of them was scrutinized;
- Types of costs incurred/benefits gained by consumers and industry.

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RIA case study presentation: Soft commissions and bundled brokerage arrangements (by Mr. Stephen Dickinson – British FSA)

Mr. Dickinson gave a preliminary introduction about the Bank of England and Financial Services Authority. British FSA is wholly financed by regulated firms.

Then Mr. Dickinson started going through the presentation by highlighting the 2 main differences in comparison with the previous case study: a) focus on wholesale rather than retail market; b) voluntary measure instead of a compulsory one.

Main attention was paid to the following items:

- Where the problem lies;
- Importance of identifying market and regulatory failures;
- Cost-Benefit Analysis (CBA) run on each of the 3 options considered and explanation of how direct and compliance costs were identified and quantified.

Drawing from his working experience Mr. Dickinson outlined that it is crucial to think properly about the problem and that it would be advisable that the transition/implementation period be between 6 months and 1 year, namely when a new (self-)regulation is going to be enacted, it had better give the regulated recipients no less than half/one year to adapt to and comply with the new framework in a smooth manner.

Participants' views:

- ANPC Director asked why in this case FSA opted for a voluntary measure instead of a compulsory one. Mr. Dickinson explained that although in retail market voluntary codes might not be the best solution, in a wholesale market that is much smaller in terms of the number of practitioners and well represented by an industry association, a voluntary solution could be easy to be implemented, monitored and enforced.

What participants have learnt from the presentation:

- How problem identification and market failure analysis have been carried out;
- How the consultation process was managed over time and with which outputs;
- How quantitative CBA has been applied to the 3 options under consideration.

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Romanian experience with RIA (by representatives from General Secretariat of Government - GSG - and by representatives from Ministry of Economy and Finance - MEF)

The GSG participants started the presentation by outlining the main facts on how Romanian government is engaged in RIA to date. The Public Policy Unit was established in late 2003 to elaborate and implement public policies.

Among other tasks, this Unit was vested with procedures for monitoring and evaluating policies at central level. Preliminary Impact Assessment is undertaken to policy documents and a more extensive IA is applied to regulatory documents. Currently, the procedure to elaborate both regulatory documents and policy documents is under review.

Also, GSG is implementing IA tools like CBA as well as creating mechanisms to improve monitoring and evaluation. In the near future, they would like to develop sectorial IAs like social issues and to push forward IA on economic and financial domain.

GSG is currently dealing with IA on administrative burden with assistance from a Dutch consultant firm.

The implementation calendar for this better regulation initiative also envisages the possibility in the future to get EU funds.

After GSG presentation, MEF colleagues took the floor and presented the following four concrete regulatory cases to which MEF applied IA:

- Guarantee Funds;
- Duty free;
- Gambling taxation;
- Public debt.

They pointed out that the approach used is similar to that discussed previously even though the analysis is not so much deep and detailed. A relevant problem that they told is that of gathering quantitative information which if limited can add little value to the IA exercise.

After this presentation a discussion between participants and instructors has taken place. The main points surfaced:

- Identification indicators: especially quantitative ones so that a quantitative observation and monitoring is possible;
- Quantitative and qualitative analysis: a participant asked if quantitative analysis is more important than qualitative. Instructors highlighted that the important aspect is to comply with the IA process properly; qualitative and quantitative tools come after and have to be used on a case by case basis also complementary;
- Lack of available data: how to consult with industry associations, how to explore alternative ways to get quantitative data and figure out, when appropriate, proxy parameters that could be used in place of data that are missing and difficult to be obtained;
- Regulatory authority and IA process: a participant said that as Romanian cultural habit regulators know what is best so that they do not need consultation and go through the IA process as shown by FSAs and the Guidelines. Instructors noticed how important for the design of a better regulation is undertaking an IA as openly as possible.

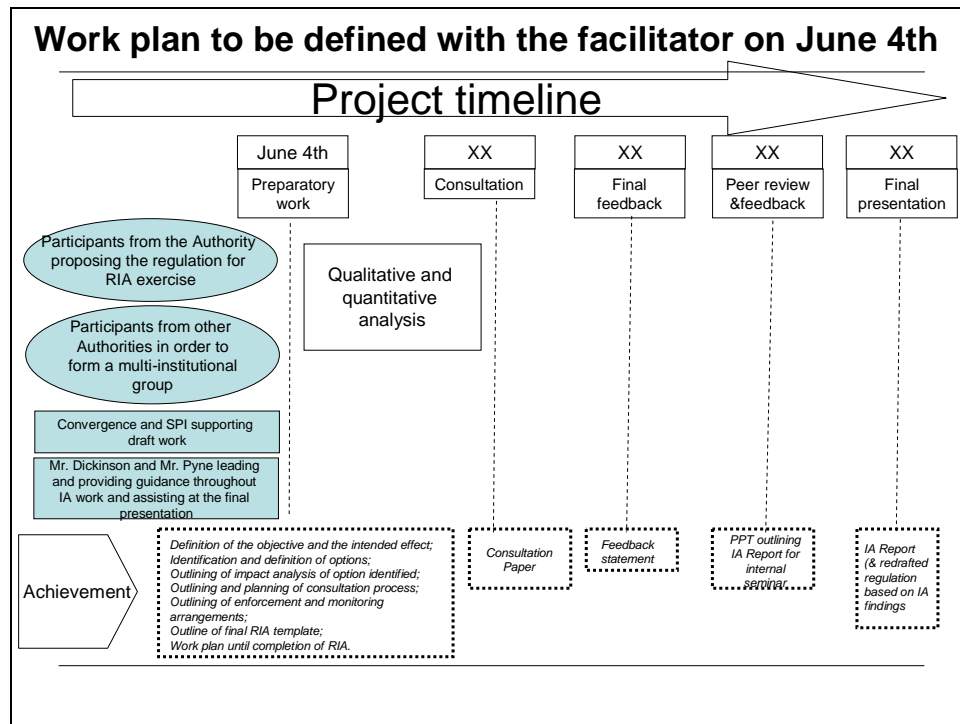
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- Launch of RIA on identified domestic regulation -

Convergence illustrated the work plan, both for the initial class work and for the remaining steps, of the RIA exercise applied to proposed regulations. The work plan is as follows:



SPI Secretariat acknowledged that the following 2 regulations had been proposed respectively by NBR and National Securities Commission.

Name of Regulation proposed	Proponent Authority
Regulation no. 3/2007 on restriction of the credit risk on credits granted to individuals	National Bank of Romania
Regulation no. 14/2006 modifying Regulation no. 2/2006 on regulated markets and alternative trading systems	National Securities Commission

According to the following 2 multi-institutional groups were formed accordingly:

Regulation: Regulation no. 3/2007 on restriction of the credit risk on credits granted to individuals	
Group composition	
Participants	Authority
Mr. Gabriel Valvoi - reference person	NBR
Ms. Oana Mesea	NBR
Mr. Dorel Onetiu	NBR
Mr. Emanuel Constantin	MEF
Ms. Beatrice Verdes	ISC
Ms. Camelia Oprea	NSC
Mr. Dragos Negoita	GSG
Mr. Laura Radut	NACP
Facilitator: Mr. John Pyne	

Regulation: Regulation no. 14/2006 modifying Regulation no. 2/2006 on regulated markets and alternative trading systems	
Group composition	
Participants	Authority
Mr. Albert Schreiber - reference person	NSC
Ms. Antonaneata Alexe	NBR
Ms. Andra Pineta	NBR
Ms. Mihaela Nedelcu	MEF
Mr. Bogdan Ion	ISC
Mr. Ionut Pavel	GSG
Facilitator: Mr. Stephen Dickinson	

The 2 groups, separately, discussed and filled out the IA template that had been circulated and built on the Guidelines illustrated in the morning.

At the end of this initial live RIA execution, the two facilitators observed that IA will allow Romanian regulators to undertake a more detailed and precise problem identification and market/regulatory failure analysis than that one that they perceived was performed with regard to the 2 regulations under discussion.

Next immediate steps:

Unanimity was reached on the next immediate steps which are the following:

- a) by Friday 8 June, the reference persons of the 2 groups gathered a more detailed and advanced version of the PPT template and send it to Convergence and SPI Secretariat;
- b) SPI Secretariat and/or Convergence will forward the 2 PPT to Mr. Dickinson and Mr. Pyne;
- c) Facilitators will review the templates and send them back to Convergence/SPI Secretariat with suggestions and instructions in order for the 2 groups to carry out the consultation process;
- d) Convergence/SPI Secretariat will forward the PPTs to the 2 reference persons.

Tentative time line for the remainder of Phase II:

Step		1	2	3	4	5
Action	Item	<p>Identification of regulation, tasks assignment, RIA work action plan and RIA template outline</p>	<p>Consultation process, information gathering and elaboration Phase</p>	<p>Drafting of RIA paper</p>	<p>Internal peer review</p>	<p>RIA paper presentation</p>
	Description	<p>Instructors and participants will identify the regulations. Instructors will lead a brainstorming on how to approach the RIA on the assigned regulation. Definition of RIA steps action plan and timeline. A RIA-preparatory paper will be drafted (e.g. what needs to be measured, which data are needed, how to deal with information gathering and consultation process, how to shape final findings).</p>	<p>Groups will be engaged in the tasks encompassing information gathering based on the approach outlined with facilitators and will perform calculations accordingly</p>	<p>Based on the consultation carried out, data gathered an calculations elaborated, each group will draft the RIA Paper pertaining to the assigned regulation. SPI Romania staff will be available to support draft work.</p>	<p>Each RIA group will present the preliminary findings of (drawn from draft RIA paper) to Economic Department colleagues as well as to the team involved in drafting the selected regulation. Director of RIA program will participate in the presentation</p>	<p>Based also on the feedback received from internal peer review, each group will finalize the RIA paper and will present it, assisted by its respective instructor. The outcome will consist in a RIA accompanying a redraft of the regulation analysed based on RIA findings.</p>
Nature of Activity		Class work	Desk work	Desk work	Internal seminar	Seminar
Tentative date		June 4th	June 13-22	June 25-29	June 25-29	July 9-13

End of the Session:

SPI Secretariat wrapped up the whole working day and closed the session.