Convergence Romania Financial Sector Modernization

Special Projects Initiative Public-Private Steering Committee

SPI Project SPI Project on Loan loss provisioning in view of IFRS application
Project Working Group Meeting
April 13th, 2007
9:00-11:30
National Bank of Romania

Participants:

Project Management Group
Veronica Raducanescu, Director, Regulation and Licensing Department, National Bank of Romania, Project Owner (PO) and Hosting Chairperson
Oana Balanescu, Division Chief, Regulation and Licensing Department, National Bank of Romania, Project Manager (PM)

Project Working Group
George Popescu, National Bank of Romania
Cristian Stefan, National Bank of Romania

SPI Project Technical Anchor
Javier de la Cruz

Other Participants
Irina Lupa, National Bank of Romania
Oana Mesea, National Bank of Romania
Valentina Vlad, National Bank of Romania

SPI Secretariat (Oana Nedelescu, SPI Director for Analytics and Policy)

MINUTES

I. Clarifications on the calculation of generic provisions

The NBR project working group members have requested additional clarifications from the project technical anchor regarding the methodology for calculating the generic provisions according to Spanish regulations.

The technical anchor has prepared a detailed presentation of the methodology for calculating the statistical provisions (attached), as well as some practical examples of calculating the provisions according to the Spanish rules and a possible approach for Romania (also attached).

The examples referred to the simplified (“standard”) approach, applicable in cases where banks’ models fail to comply with supervisory requirements or banks are unable to develop their own models. Therefore, this approach is prescriptive, the regulation stating clearly the coefficients that are to be applied in order to determine the generic provisions.

Thus, according to the Spanish regulations, the coefficients assigned for the generic and the statistical provisions depend of the classification of risks (no significant risk, low risk, medium-low risk, medium risk, medium-high risk, high risk – see attachments).

The technical anchor outlined that the setting up of these coefficients, although it does not need to be based on a large amount of information, has to be a sensible reflection of the business and economic realities. Therefore, the NBR has to make an estimation of when the losses are going to occur depending on the type of business and of customers (i.e. in the case of consumer credits the defaults tend to occur at the end of the loan, while in the case of mortgage loans the defaults occur more frequently at the beginning of the loan life).

Therefore, for better understanding the business realities, it would be important that the NBR seeks the banks’ views when calibrating the coefficients for the generic and statistical provisions.

Likewise, the technical anchor stressed that the NBR has to design its own classification of assets. This classification include any kind of instruments where there is a credit risk (provided that the assets are considered at amortized cost) and has to reflect the core of the business.

The qualitative criteria for a sound determination of the coefficients for provisioning by banks themselves are, without being limited to:

- policies, systems and procedures approved by the Board and reviewed by internal and external audit;
- policies and procedures for credit granting, monitoring and recovery;
- type of information required to customers (corporate & retail);
- policies and evaluation of collateral;
- systems for loan and debtor classification;
- systems for credit losses estimation;
- pricing policies.

II. Further steps

The NBR experts will start working on drafting the set of principles for the new regulation based on the work plan agreed at the meeting held on April 12, 2007. The project technical anchor will provide his support to the project working group.