

# Convergence Romania Financial Sector Modernization

Special Projects Initiative Public-Private Steering Committee



## SPI Monthly Activity Report February 2007

### Project Highlights:

*(Monthly New Item)*

**Regulatory-making process:** *Law on Safety*

**Consensus-building underway:** *Credit Positive Information Sharing, Amendment of AML Law*

**Close to analytical completion:** *Electronic processing of debit instruments*

**Good progress:** *Ombudsman, Provisioning in view of IFRS*

**Lagging behind:** *Rural lending, Lending databases*

### SPI Project Working Groups Activities

- ***Amendment of law on goods safeguard:*** Following the SPI Committee submission of the law amendments proposals to the Ministry of Administration and Internal Affairs, *the task of PWG can be considered completed.* The SPI Secretariat will support the SPI Committee in follow up actions with the competent authorities on how the proposals are to be enforced.
- ***Expansion of positive information sharing:*** The SPI Secretariat sent to BCR and BRD documentation that could support the two banks in making a decision on whether to contribute positive credit information to the credit bureau, including the document prepared by the project working group (PWG) for the SPI Committee. BCR and BRD decided to come jointly to a decision on the matter. A recent public statement by the BCR Risk Management VP on the need to monitor retail lending risks suggests that the largest bank is carefully considering the benefit from full credit bureau services. *The commitment of the two banks to start sharing positive credit information would mark the successful achievement of the project objective.* The SPI Secretariat will support the RBA in organizing the upcoming conference with the National Authority for Supervision of Personal Data Protection.
- ***Amendment of AML law:*** The PWG (composed of representatives of banks, NBR, AML Office and MOPF) has finalized the law amendment proposals, supported by a RIA outlining their implications for banks and consumers. The legislative proposals were submitted to and approved by the RBA Board. There is one outstanding issue on the definition of external transfers on which the AML Office opinion differs from the one expressed by the other stakeholders represented in the PWG. The SPI Secretariat will prepare a note to support the discussion that the Project Owner will have with the AML Office management for withdrawing the proposal. Following a final consensus on this issue, *the PWG will endorse the final law amendment proposal that will be submitted by the Project Owner for consideration of the relevant decision-making authorities, marking the completion of the project.*
- ***Electronic processing of debit instruments:*** The RBA Board and the NBR have endorsed the report sent by the Project Owner, which sets out a coordinated approach in implementing the electronic solution for DIs processing (costs and risks of the electronic processing infrastructure, implementation risks, regulatory requirements, and next steps in project design and implementation). The PWG has focused on the finalization of the law on checks amendment proposals. The implementation of the electronic processing of debit instruments depends on the quick enactment of the relevant laws and regulations. *The project will be completed once stakeholders approve a final recommendation, including technical and functional specifications and necessary regulatory amendments*
- ***Ombudsman:*** The PWG has defined two possible options for the establishment of an Ombudsman scheme in Romania: a private, voluntary and independent scheme and a public, compulsory and independent public scheme. The PWG will prepare a detailed description of the organizational,

functional and financing features of the two options, and will prepare a recommendation on the necessary actions needed to be undertaken in order for the Ombudsman scheme to become operational in a useful time frame. The report of the PWG will be presented to the RBA General Assembly in March 2007. *The endorsement of the Ombudsman scheme, together with its concrete implementation plan, by the relevant stakeholders will mark the successful completion of the project.*

- **Provisioning in view of IFRS:** The PWG members have gathered relevant international experience on provisioning in view of IFRS and Basel II implementation from the mother entities. Likewise, the SPI Secretariat prepared a document outlining the ECB and BCBS guidelines and the similarities and difference between IFRS and Basel II approaches. The PWG would like to deepen its understanding of relevant international experience in order to start updating the prudential principles for provisioning. With the support of Convergence, a technical anchor (from the Italian Banking Association) and a peer reviewer (from the World Bank) with extensive experience on the matter were mobilized to support the PWG in agreeing on a set of principles that meet supervisory objectives and reflect IFRS and Basel II standards. *Based on these contributions and upon extensive consultations, the PWG will prepare a set of principles commonly agreed by NBR-banks-MOPF on a feasible update of the prudential requirements.*
- **Rural lending:** The PWG members have prepared their contributions as follows: the Rural Credit Guarantee Fund has prepared a note on the legal and institutional requirements for the establishment of the Deposit Certificates Guarantee Fund; the NBR has prepared a note on the secondary regulations; the SPI Secretariat has prepared a document outlining the responsibilities resulting from the current legal framework in setting up the institutional and operational framework for warrants-backed lending. No contributions have been received from banks and the Ministry of Agriculture. With the support of Convergence, a technical anchor with extensive experience on the matter has been identified. *The PWG will prepare a set of specific rules and regulations, as well as technical and organizational implementation steps needed to remove the existing roadblocks to the development of the agricultural warrants-backed lending.*
- **Lending databases:** The PWG is currently defining the informational requirements for the mortgage loan servicing and loss given default databases based on the documentation received from the Italian Banking Association (project technical anchor) and the experience of parent entities. At the same time, the SPI Secretariat is exploring with database providers the existing off-the-shelf solutions for the two databases. *Upon gathering the relevant information, the PWG will write a set of recommendations on the practical steps that banks will need to take to set up the databases.*
- **Law on bank guarantees:** Currently, the RBA working group together with NBR is writing the draft law, which will be further analyzed by all relevant stakeholders. In order to gather relevant information, letters have been sent to Chamber of Commerce and Ministry of Justice. Likewise, with the support of Convergence, a bank survey questionnaire has been prepared in order to support the necessity of the law. *The finalized law will be submitted for consideration to relevant authorities.*
- **Consumer education:** The SPI Secretariat prepared a background document on the international practices in promoting consumer financial education, outlining the roles played by various stakeholders (central banks and financial supervisors, banking associations, financial institutions, consumer protection authorities, etc.). As the PWG set up was completed, the project strategy meeting will be held shortly. *The PWG will prepare a strategy for a nation-wide financial literacy campaign, including specific guidelines for relevant stakeholders (authorities and financial institutions) to promote customers' financial education.*
- **Stress testing:** The SPI Secretariat is currently exploring technical assistance opportunities with Bank of Italy in order to support the NBR in refining its current framework for stress testing. *A set of guidelines of best practices for stress testing by banks and the independent validation of the NBR model will mark the achievement of the project objective.*

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