

Convergence Romania Financial Sector Modernization

Special Projects Initiative Public-Private Steering Committee



SPI Monthly Activity Report January 2007

Project Highlights:

Regulatory-making process: Law on Safety

Consensus-building underway: Credit Positive Information Sharing

Close to analytical completion: Amendment of AML Law

Good progress: Electronic processing of debit instruments, Provisioning in view of IFRS

Lagging behind: Lending databases

I. SPI Project Working Groups Activities

I.1. Status of Active Projects

- **Amendment of law on goods safeguard:** The SPI Committee forwarded the law amendments proposals prepared by the PWG to the Ministry of Administration and Internal Affairs. *With this action, 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 Committee (Messrs. Georgescu and Ghetea) called upon the management of BCR and BRD to contribute positive credit information to the credit bureau. The RBA President reiterated this position in the quarterly meeting of the banking community with the NBR Governor. This public-private moral suasion prompted the immediate request by both banks of additional information to prepare for a management decision. *The endorsement of positive credit information sharing by the two largest banks would mark the successful achievement of the project objective.* To help clarify the data protection implications of credit bureau operations, the SPI Secretariat invited NASPDP to join the existing SPI Project Working Group to reach a final determination on this matter in consultation with relevant stakeholders.
- **Amendment of AML law:** All stakeholders involved (NBR, AML Office and the MOPF) have sent their opinions on the law amendments proposed by banks. A PWG meeting gathering all relevant stakeholders will be held shortly to agree on the final law amendments proposals. Convergence and the SPI Secretariat are undertaking a RIA with the support of the banking community to assist the PWG deliberations regarding the different regulatory options, including impact on the banking system clients. *The project will be completed when the Project Owner submits a finalized law amendment proposal for consideration of the relevant decision-making authorities.*
- **Electronic processing of debit instruments:** The Project Owner has requested NBR and RBA views about the implementation plan for DIs processing, before moving the project to its next operational stage. *The project will be completed once stakeholders approve a final recommendation, including technical and functional specifications and necessary regulatory amendments.*
- **Ombudsman:** The PWG, under the acting leadership of the RBA President, outlined the necessary actions needed to be undertaken in order to present a proposal for a feasible bank Ombudsman scheme to the RBA General Assembly (March 2007), based on the useful technical documents prepared by Convergence. *The endorsement of the Ombudsman scheme, together with its concrete implementation plan, by the relevant stakeholders will mark the successful completion of the project.*
- **Lending databases:** Based on the recommendations received from the experts of the Italian Banking Association on the occasion of the Technical Workshop held in December 2006, the PWG decided that the project should start by raising awareness on the benefits of setting up the two databases and by exploring the relevant experience of parent entities of banks. *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.*

- **Stress testing:** The project strategy was reshaped in order to better reflect the needs of the stakeholders. In this regard, the project will entail two components: one to address the specific technical assistance needs of the NBR and the other one, developed closely with the banking community, to facilitate a knowledge transfer from NBR to banks. *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.*

1.2. Successful Launch of the Following Projects

- **Provisioning in view of IFRS:** The kick-off meeting was extremely informative and the project working group composed of representatives of banks, NBR, and MOPF agreed on a concrete action plan for the project. The PWG members are currently preparing their individual contributions, based on the international experience with provisioning in view of IFRS and Basel II. *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 outlined the principles that should guide the project working group in designing the solutions and a concrete action plan for the further work. *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.*
- **Law on bank guarantees:** The project strategy meeting outlined the main steps forward. Currently, an RBA working group together with NBR is writing the draft law, which will be further analyzed by all relevant stakeholders. *The finalized law will be submitted for consideration to relevant authorities.*
- **Consumer education:** The proposed terms of reference were endorsed by the Project Owner. A project working group 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.*

II. Other SPI Activities

II.1. Regulatory Impact Assessment (RIA) Workshop

- Convergence delivered on January 15-16, 2007 a RIA workshop in order to develop awareness among SPI PWGs about the economic relevance of each project and help PWG members use RIA tool to assess regulatory options. Convergence is currently preparing a proposal for a program aimed at providing National Bank of Romania and Ministry of Public Finance with support for building internal RIA capabilities (to be presented to NBR and MOPF in mid February).

II.2. Technical Assistance opportunities

- SPI Secretariat, with the support of Convergence, is currently seeking to facilitate the receipt of technical assistance by NBR from a sister central bank (possibly Bank of Italy) on the SPI projects under NBR management (stress testing, IFRS, LGD, and rating agencies projects).

III. SPI on the hot spot

➤ Quarterly meeting NBR Governor-banks management

Three of the six issues raised by Mr. Ghetea with the banks management in his opening remarks at the Quarterly meeting between the NBR and banks management (held on January 23, 2007) referred to SPI projects. Namely, the President of RBA outlined the importance that banks start sharing positive information and made reference to the recent SPI Committee correspondence; he asked for full engagement of the banks in the 15 SPI projects as it would be very important to finish the projects and see tangible results in the bank's balance sheets / PL statements; he announced that the RBA General Assembly will analyze the proposal that RBA starts contributing to SPI costs.

➤ Interview with Financial Week

The SPI Secretariat was recently asked to provide information on the SPI activities to the news magazine Financial Week.

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