

# Convergence Romania Financial Sector Modernization

Special Projects Initiative Public-Private Steering Committee



## SPI Monthly Activity Report March 2007

<b>Project Highlights:</b>	<b><u>11 Project Working Group Meetings</u></b>	<i>(Monthly New Item)</i>
<i>Regulatory-making process:</i>	<i>Law on Safety</i>	
<i>Consensus-building underway:</i>	<i>Credit Positive Information Sharing, AML Law, <u>Ombudsman</u></i>	
<i>Close to analytical completion:</i>	<i>Electronic processing of debit instruments</i>	
<i>Good progress:</i>	<i><u>Rural lending</u>, Provisioning in view of IFRS</i>	
<i>Lagging behind:</i>	<i>Bank Guarantees, Lending databases</i>	

### SPI Project Working Groups Activities

#### Regulatory-making process

- ***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 is supporting the SPI Committee in following up with the Ministry of Administration and Internal Affairs on the enactment of the proposal.

#### Consensus-building underway

- ***Credit positive information sharing:*** In line with the recent Governor Isarescu's public stance that banks dispose of a complete image of the individual borrowers' indebtedness and with the discussions held in the RBA General Assembly, the two largest banks are reportedly considering reporting positive credit information. The SPI Secretariat sent them documentation prepared by the Credit Bureau that will support the two banks in implementing the positive credit information reporting. *The commitment of the two banks to start sharing positive credit information, if confirmed, would mark the successful achievement of the project objective.* The SPI Secretariat is also supporting the RBA in organizing the upcoming conference with the National Authority for Supervision of Personal Data Protection.
- ***Amendment of AML law:*** The law amendment proposal prepared by the PWG was approved by the RBA Board. The project management group held discussions with the AML Office management on the outstanding issue regarding the definition of external transfers. Once final consensus is reached on this issue, *the PWG will endorse the final law amendment proposal, which will be sent for approval to NBR and MoPF. Upon SPI Committee approval, the final law amendment proposal will be submitted for consideration of the relevant decision-making authorities, marking the completion of the project.*
- ***Ombudsman:*** The RBA General Assembly has endorsed the PWG recommendation for the establishment of the Bank Mediator scheme in Romania as an independent, private, voluntary institution. This option has been submitted for the consideration of the NBR and the National Authority for Consumer Protection. *The SPI Committee endorsement of the Ombudsman scheme will mark the successful completion of the project.* As a second phase of the project, the PWG will proceed with its implementation arrangements in view of a November 2007 launch.

#### Close to analytical completion

- ***Electronic processing of debit instruments:*** The PWG has finalized the amendment proposals of the law on checks and law on drafts and promissory notes. They are currently revised by an independent law firm. Ministry of Justice staff will participate in the finalization of the law amendment proposals. Following final NBR approval, the law amendment proposals together with a final recommendation including technical and functional specifications will be submitted to the SPI Committee, *marking project completion.*

## Good progress

- **Rural lending:** With the support of Convergence, an expert has been mobilized to support the PWG activities. The technical anchor and the SPI Secretariat held extensive consultations with all relevant stakeholders (banks, Ministry of Agriculture, depositaries, grain producers, RCGF, etc.) in order to assess the current deadlock in utilizing warrants–deposits certificates. The findings from the discussions as well as preliminary recommendations on possible approaches (public or private) have been discussed with the PWG. *Based on the final report of the technical anchor, the PWG will outline the regulatory and/or the technical and organizational implementation steps needed to remove the existing roadblocks to the development of the agricultural warrants-backed lending.*
- **Provisioning in view of IFRS:** In order to support the PWG group in deepening its understanding of relevant international experience, the RBA, the NBR, and Convergence are organizing a one day *Workshop on the International Experience with Provisioning in View of IFRS and Basel II Implementation* on April 11, 2007. Likewise, with the support of Convergence, a technical anchor (ex regulator, Bank of Spain) and a peer reviewer (from the Italian Banking Association) were mobilized to support the PWG in designing 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.*

## Lagging behind

- **Lending databases:** Given the limited feedback received from the PWG, the SPI Secretariat has prepared a proposed “rescue” strategy. Upon receiving the endorsement of the project management group, the SPI Secretariat, together with a revitalized PWG, will outline a strategy for achieving the project objective in a useful time frame, to be approved by the SPI Committee at its third meeting.
- **Law on bank guarantees:** The RBA working group together with NBR has assembled a set of definitions for the draft law. The SPI Secretariat has outlined the actions necessary for speeding up the PWG work, including the possibility of appointing a local independent expert (financed by Convergence) to prepare the draft law.

## Others

- **Consumer education:** A project strategy meeting to discuss the background document on the international practices in promoting consumer financial education prepared by the SPI Secretariat, the project strategy, and the PWG contributions will take place on April 5. *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, with the support of Convergence, followed up with Bank of Italy and NBR on a transfer of knowledge in the area of stress testing for households and companies between the two central banks. *A set of guidelines of best practices for stress testing by banks will mark the achievement of the project objective.*

## Other Developments

- Based on the Škreb Report (an assessment of the SPI Program by the former Governor of the Croatian National Bank), SPI Committee members have asked Convergence to prepare a proposal to anchor the SPI Program in the Romanian Banking Institute as from January 2008.

## Highlights of expected April activities

- Analytical activities in the Rural lending and the IFRS Provisioning projects will advance well;
- Lending databases and the Law on bank guarantees projects will be put on track again;
- Design of the SPI Program website;
- April 27: Third SPI Committee meeting.

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