

Convergence Romania Financial Sector Modernization

Special Projects Initiative Public-Private Steering Committee



SPI Secretariat Activity Report

January - April 2007

SPI Program Development Highlights

23 Project Working Group Meetings

Legislative Stage

Law on Safety

Finalized Projects

Positive Credit Information Sharing

Debit Instruments Electronic Processing

Amendments of the Anti Money Laundering Law

Ombudsman

Well Advancing Projects

Rural Lending

Provisioning in View of IFRS Implementation

Consumer Education

Rescue Strategies

Lending Databases

Stress Testing

Bank Letters of Guarantee Law

A. SPI Projects

1. Supporting enactment of SPI projects proposals

- **Amendment of law on goods safeguard:** 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.

2. Bringing projects to closure

- **Credit positive information sharing:** The SPI Secretariat provided to the two largest banks documentation aimed at supporting them in making this strategic decision, which took into account both risk management and business considerations. The supporting documents outlined the benefits, risks and technical implementation steps of positive credit information sharing. Likewise, the SPI Secretariat

had frequent discussions with BCR and BRD second-tier management in order to outline the benefits of positive credit information and clarify the project objective. The SPI Secretariat has also supported the RBA in organizing a joint conference with NASPDP, which should help clarify the remaining outstanding issues included in the authority's draft regulation.

- ***Electronic processing of debit instruments:*** The SPI Secretariat prepared a decision note for the main stakeholders (NBR and RBA Board) in order to secure their consensus and commitment on the project action plan before moving to the operational stage. On the analytical side, the SPI Secretariat together with Convergence undertook a regulatory impact assessment for banks and consumers, aimed at strengthening the evidence for regulatory actions. Also, the SPI Secretariat supported the PWG in finalizing the law amendment proposals by supporting the dialogue among stakeholders for reaching the compromise solution.
- ***Amendment of AML law:*** The SPI Secretariat has provided the PWG with international experience benchmarks for amending the law. Also, the SPI Secretariat outlined a structured approach by tabling the current and proposed law provisions with their supporting arguments, backed by a regulatory impact assessment for banks and consumers undertaken together with Convergence, and the opinion requested from the peer reviewer. The SPI Secretariat ensured a transparent dialogue of all stakeholders in finalizing the proposed law amendments. The SPI Secretariat tabled a compromise solution by making a risk-based delimitation between EU and selected OECD countries and the other countries and also by proposing to set a higher reporting threshold for resident-to-non-resident transactions.
- ***Ombudsman:*** The SPI Secretariat has triggered the discussions around the project by preparing a proposal for a simplified Ombudsman scheme based on the recommendation made by Convergence. The SPI Secretariat has structured the main issues related to the establishment of the Ombudsman (organization, participation, operating principles, financing, etc.) in order to enable the PWG to outline the possible options, based on the background study prepared by Convergence. Likewise, in order to provide support to the PWG for converging to a common point of view, the SPI Secretariat has asked the opinion of the peer reviewer and outlined the self-regulatory option proposal. The SPI Secretariat has prepared a detailed implementation plan which has been approved by the project working group.

3. Supporting and structuring ongoing projects

- ***Rural lending:*** The SPI Secretariat has prepared an analysis of the current regulatory framework in order to enable the PWG to identify the roadblocks to the development of warrants deposit certificates (WDC) backed lending. The SPI Secretariat has also facilitated the transfer of knowledge among the various stakeholders by preparing and sharing a comprehensive set of current regulations so they could reach a common understanding. The SPI Secretariat together with Convergence assessed the project status and proposed measures to revive it, such as the appointment of a technical anchor and improving the operational profile of the PWG. The Convergence-appointed expert 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. SPI Secretariat has outlined a proposal for private stakeholder actions that could accelerate the development of the warrants-deposit certificates (WDC) backed lending and proposed an action plan based on a structured approach in order to enable a restructured PWG to achieve the project objective.
- ***Provisioning in view of IFRS:*** The SPI Secretariat prepared a document outlining the ECB and BCBS guidelines and the similarities and difference between IFRS and Basel II approaches in order to enable the PWG outline the main issues that should be tackled by the new regulation. Likewise, the SPI Secretariat has supported the PWG deepen its understanding of international practiced by designing and running a survey with mother entities; by mobilizing, with the support of Convergence, two experienced international experts (as technical anchors and peer reviewer); and by organizing a Workshop on the International Experience with Provisioning in View of IFRS and Basel II Implementation on April 11, 2007. The workshop enjoyed the participation of more than eighty bankers and NBR representatives

and included presentation of eight international speakers who outlined both international supervisory practices and market solutions (methodologies and practical tools, including IT) for provisioning in view of IFRS and Basel II implementation. Also, the SPI Secretariat together with the technical anchor supported the PWG in outlining a feasible solution for the update of the current provisioning rules and proposed a concrete action plan for achieving the project objective.

- **Law on bank guarantees:** The SPI Secretariat has outlined the actions necessary for speeding up the PWG work, including the possibility of appointing a local independent expert and a foreign peer reviewer to prepare the draft law and to have a more structured approach, based on a concrete action plan. If the plan proposed by the SPI Secretariat is followed, the PWG should be in position to submit the final law proposal to the SPI Committee for its endorsement by end of June 2007.
- **Stress testing:** The SPI Secretariat proposed the reshaping of the collaboration between banks and NBR to address the specific technical needs of the NBR in the area of stress testing for households on the one hand and to develop a knowledge transfer component where the central bank could support the banking community in improving its knowledge of stress testing on the other hand. With the support of Convergence, the SPI Secretariat mobilized Bank of Italy to provide the necessary technical assistance to the NBR for improving its stress testing methodology for households and firms.
- **Lending databases:** The SPI Secretariat has activated the project through a technical workshop on the International Experience with Lending Databases, with the participation of the Italian Banking Association. The SPI Secretariat has continued to explore possible off-the-shelf database solutions as well as to define a possible LGD database information requirements and architecture. In lack of any feedback from the PWG, the SPI Secretariat has prepared a proposed “rescue” strategy in order to have a more active engagement of the local stakeholders, given the high importance of this project for the Romanian banks. If the strategy proposed by the SPI Secretariat will be endorsed by the stakeholders, a restructured project working group (with enlarged bank participation and a more diversified profile) will be in a position to outline a concrete action plan so as to meet the project objective by June 2007.

4. Launching projects

- **Consumer education:** The SPI Secretariat prepared a background document on the international experience with consumer financial education. The document outlines that, in practice, there are a variety of initiatives undertaken by both public and private organizations to provide financial education to consumers. The project strategy meeting discussed the background document prepared by the SPI Secretariat and outlined a feasible strategy for promoting financial education in Romania.

B. SPI Stakeholders

1. Actions undertaken with the authorities

- stimulated the direct intervention and contributions of authorities in order to ensure a balanced approach in designing the PWG solutions (Debit Instruments, AML, Ombudsman, Rural Lending, Security Law, Consumer Education);
- raised awareness on the authorities’ positions vis-à-vis specific issues relevant for the consultation process among stakeholders (Positive Credit Information Sharing, LGD Database);
- supported the authorities to take leadership on projects in order to coagulate the banking community opinions (Bank Letters of Guarantee);
- supported the NBR by mobilizing international expertise (Spanish, Italian, Polish, German, etc.) in updating the current provisioning regulations to be in line with IFRS and Basel II standards and in reviewing the methodology for stress testing for companies and firms (with the support of Bank of Italy);

- launched a regulatory impact assessment knowledge transfer program with NBR and MEF aimed at strengthening the evidence-based regulatory design skills which are part of the EU “better regulation” approach;
- outlined the effects of some projects on ensuring and monitoring financial stability (Positive Information Sharing, Lending Databases).

2. Actions undertaken with banks

- provided evidence for promoting the banking sector perspective on the need to have a more efficient payment infrastructure, a rationalized AML reporting system, an Ombudsman institution, the need for setting up industry-wide lending databases (through regulatory impact assessments and/or international benchmarking);
- took actions to ensure that in identifying the solution, the PWG is aware of the diversity of opinions within the banking community (Positive Information Sharing, Debit Instruments);
- enabled consensus reaching within the banking community by proposing compromise solutions (Debit Instruments, Ombudsman);
- facilitated international knowledge and expertise sharing by providing TAN’s or PR’s opinions on debated issues (AML, Ombudsman, Lending Databases, Rural Lending, IFRS);
- facilitated the finding of feasible solutions such as a possible off-the-shelf solution and a possible database architecture for the Lending Database project;
- supported the improvement of the banks’ image (by promoting Ombudsman and Consumer Education projects);
- outlined market-based alternative solutions that could lead to the project objective achievement (Rural Lending, Ombudsman, Positive Information Sharing);
- outlined the benefits of a transfer of knowledge from the NBR to banks in the area of stress testing;
- facilitated the transfer of regulatory impact assessment knowledge so that banks can use this tool in supporting the proposed legal and institutional changes.

3. Actions undertaken with consumers

- prevented shift of responsibilities from banks to consumers of financial services (Debit Instruments);
- assessed impact of regulatory changes on consumers in order to ensure that proposed solutions generate benefits to the consumers (AML, Debit Instruments);
- provided international experience on consumer education (Consumer Education);
- supported the establishment of the Bank Ombudsman as a solution for a prompt, unbiased, accessible, and free resolution of complaints that customers have been unable to resolve satisfactorily with their banks;
- improved the access to credit for potential borrowers who have a good history of debt repayment (Positive Credit Information);
- supported potential reduction in costs of bank products and services from the consumer point of view (reduced fees and commission – AML, Debit Instruments, Positive Information Sharing, Security Law, Law on Bank Guarantees) and the improvement in the quality of bank products and services (Ombudsman, Debit Instruments).

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