

Convergence Romania Financial Sector Modernization Special Projects Public-Private Initiative Steering Committee



Credit Rating Agencies Development

<http://www.spi-romania.eu/program-2007/rating-agency-development/>

SPI Committee Meeting July 25, 2007

Project Objective:

Prepare a set of draft regulations (and associated documentation) that will spell out the institutional, financial and organizational conditions under which local rating agencies could be licensed to carry out rating activities for listed companies. This documentation will include considerations on implementation constraints and criticalities, in order to allow for the further development of these rating agencies into local ECAIs, in conformity with the Basel II/CRD requirements.

Project Working Group Activities

PWG members: 6

PWG meetings: 1

Public stakeholders

- National Securities Commission;
- National Bank of Romania.

Private stakeholders

- Banks (2);
- Credit rating agencies (2)

Project Main Steps

June 8, 2007: Project strategy meeting outlining a feasible objective for the project, which will be focused on developing local credit rating agencies allowed to carry out rating activities for listed companies as a intermediate step for the development of ECAIs;
June 2007: NBR representative sends a document outlining the requirements for setting up ECAIs; SPI Secretariat holds discussions with NBR Regulation Department in order to receive feedback on the approach for the ECAIs regulation; SPI Secretariat asks the support of IFC for identifying a suitable technical anchor for the project; NSC draft regulation is sent to PWG members for their review and comments.

Summary of Impact Assessment:

Government: RON 7 mil. as tax revenues
Companies: RON 143 mil. in increased lending
Banks: RON 46 mil. as additional interest income

For more information, please contact:

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SPI Project on Credit Rating Agencies Development

Project Team

Project Management Group

Project Owner (PO): -

Project Manager (PM): Doina Ionescu, Banc Post

Project Working Group

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SPI Project on Credit Rating Agencies Development

Project Status Report

Prepared by the SPI Secretariat
Oana Nedelescu, SPI Director of Analytics and Policy

I. Actions undertaken

The project strategy meeting was held on June 8, 2007, with the participation of NSC, NBR, banks and credit rating agencies representatives. While the initial project objective was to explore the development of local External Credit Assessment Institutions (ECAIs), the practical difficulties of setting up Basel II eligible rating agencies suggested that a **more feasible approach would be to encourage the creation of domestic rating agencies** able to carry out rating activities for listed companies, with the potential of further building their capacity to become ECAIs over time.

Therefore, the project objective was modified to *“prepare a set of draft regulations (and associated documentation) that will spell out the institutional, financial and organizational conditions under which local rating agencies could be licensed to carry out rating activities for listed companies. This documentation will include considerations on implementation constraints and criticalities, in order to allow for the further development of these rating agencies into local ECAIs, in conformity with the Basel II/CRD requirements”*.

The PWG has outlined the distinct nature of the two sets of regulations pertaining to credit rating agencies, which will have to be correlated:

- a) NSC regulation for allowing credit rating agencies to carry out rating activities for companies listed on the stock exchanges – this regulation (promoting a “soft” assessment) has been drafted and it is currently undertaking a public consultation process;
- b) NBR-NSC regulation stating the ECAI evaluation procedure – this regulation is currently being drafted by the NBR in the application of the NBR-NSC Regulation no. 14/19/2006, which has been drafted and is currently undergoing a NBR internal review.

So far, the PWG has started the revision of the NSC regulation in order to outline the implementation constraints. Also, the NBR will shortly send for PWG information the draft ECAIs regulation, which will allow a correlation of the two regulations (the NSC regulation will have to be less demanding than the ECAIs-Basel II related one).

The NBR PWG representative also sent a document outlining the methodological and organizational requirement for ECAIs, which would represent an important reference for

local credit rating agencies in further building their capacity for undertaking Basel II-recognized rating activities.

The SPI Secretariat asked the support of IFC for identifying a suitable technical anchor for the project.

II. Project next steps

The following steps are envisaged for the project:

PWG feedback on the NSC regulation and its implementation constraints:

Credit rating agencies, banks – will provide their feedback on the NSC draft regulation as well as on the perceived difficulties in complying with its requirements (by end July);

NBR – will provide input of the NSC draft regulation, outlining the envisaged Basel II/CRD requirements regarding the eligibility criteria for ECAIs (by mid August);

TAN input on the international experience with credit rating agencies development:

TAN - will make a presentation to the PWG on the international experience with credit rating agencies development, outlining institutional building constraints and ways to overcome them (by mid September);

NSC finalization of draft regulation

Based on the input received from PWG and TAN, NSC will finalize the draft regulation (by end September);

PWG finalization of document on implementation constraints and criticalities:

The PWG will finalize the considerations on implementation constraints and criticalities, in order to allow for the further development of rating agencies into local ECAIs, in conformity with the Basel II/CRD requirements (by end September).

III. Proposed SPI Committee decision

The SPI Committee takes note that the SPI project, focusing on analyzing the conditions for credit rating agencies development, addresses an important gap in Romania's financial sector.

It encourages a closer cooperation between the NBR and NSC representatives on the one hand and the market participants on the other hand, in order to ensure that the proposed regulatory solutions will be favourable to the development of credit rating agencies.