

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



SPI Committee July 25, 2007 Meeting

2008 Program Build-up Principles and Project Selection and Approval Process

Financial sector modernization

“Financial modernization refers to the process of financial innovation and organisational improvements in the financial system that reduces asymmetric information, increases the completeness of markets, increases opportunities for agents to engage in financial transactions through (explicit or implicit) contracts, reduces transaction costs and increases competition.” – An ECB Executive Board Member

I. Eligible projects to be undertaken under SPI Committee aegis

In order to be undertaken under SPI Committee aegis, projects should observe the following three *eligibility criteria*:

- *Relevance for both authorities and market players*

SPI projects should have important public and private benefits in order to motivate authorities and market participants to join forces in their preparation.

The public good benefits refer to financial innovation and organizational improvements that reduce asymmetric information, complete the market framework, and increase opportunities for public and competition among market players.

Examples of public benefits:

- *potential reduction in costs to users of bank products and services;*
- *improved access to bank products and services;*
- *improved regulatory and enforcement environment;*
- *enhanced tools for monitoring financial stability.*

Examples of private benefits:

- *improvement of market infrastructure, accounting and reporting systems;*

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



- *diversification and growth of market opportunities;*
- *reduction of costs.*

- *Alignment with the strategic directions set by the EU Commission to build a single financial market*

SPI projects should contribute to the national and international efforts to build the single financial market.

The **objectives** of the Commission's financial services policy over the next 5 years are to:

- *consolidate dynamically towards an integrated, open, inclusive, competitive, and economically efficient EU financial market;*
- *remove the remaining economically significant barriers so financial services can be provided and capital can circulate freely throughout the EU at the lowest possible cost – with effective levels of prudential and conduct of business regulation, resulting in high levels of financial stability, consumer benefits and consumer protection;*
- *implement, enforce and continuously evaluate the existing legislation and to apply rigorously the better regulation agenda to future initiatives;*
- *enhance supervisory cooperation and convergence in the EU, deepen relations with other global financial marketplaces and strengthen European influence globally.*

- *Financial Intermediation Taxonomy*

SPI projects should envisage the following areas of interest:

- (a) new product development;
- (b) cost efficiencies; and
- (c) better industry-consumer relationships.

II. Proposal and selection process

A. SPI projects are proposed by stakeholders primarily, and residually by the SPI Secretariat based on the above mentioned criteria.

1. Stakeholders' proposals

SPI Secretariat initiates the consultation process with stakeholders by sending them a questionnaire on the initiatives suitable to be approached under SPI Committee aegis.

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



SPI Secretariat collects the proposals and starts mapping them in a descriptive matrix in order to perform a first assessment on the eligibility of the proposals as SPI projects.

In order to get details on the background of the eligible issues, the objectives of the projects, the possible implications, the possible involved parties and their contributions to the projects, SPI Secretariat conducts interviews with main players.

2. SPI Secretariat's proposals

SPI Secretariat performs analysis on the current status of the market as compared to FSAP (Financial Services Action Plan) in order to identify areas and specific issues where the SPI involvement could be needed and that were not proposed by the stakeholders.

SPI Secretariat performs the necessary research in order to acquire information on the context of the identified issues, on the European experience in solving the issues, on the interested parties and potential impact of the project.

B. SPI Secretariat performs a brief impact assessment for all the proposed projects.

C. SPI Secretariat structures the proposals in a matrix, by estimated completion time and by area of interest, detailing them on the following outline:

- Description-Background;
- Impact drivers (industry and public);
- General economics;
- SPI Committee involvement rationale;
- Objective;
- Proposed/expected contributions of the stakeholders and of SPI Secretariat.

SPI Secretariat justifies the non-inclusion of project proposals received from stakeholders in the final proposal for SPI Committee consideration.

III. Approval process

Based on the matrix, in its quarterly meetings, SPI Committee approves the projects to be undertaken under its aegis, having in view:

- suitability of the project for the public – private partnership;
- importance of the project proposals (in qualitative and quantitative terms);
- balanced distribution across the action lines.

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



SPI Committee establishes priorities, stakeholders' and SPI Secretariat' contributions and provides necessary guidance.

It is anticipated that the SPI Committee will approve the proposals to be completed in calendar 2008 in its November 2007 meeting.

IV. Raising awareness on the SPI projects

In order to raise the stakeholders awareness on the SPI projects, on their expected contributions in terms of specialists for the project working groups, data and information, and in order to avoid any eventual overlapping, SPI Secretariat takes the following actions:

- SPI Secretariat sends the projects matrix, under SPI Committee members' signatures, to stakeholders;
- Secretariat posts the approved SPI projects on the SPI Romania website.

Attached is the Proposed Program Build-Up Principles for 2008.

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



Attachment

SPI 2008 Program

Proposed Program Build-Up Principles

2008 proposed project identification channels

- NBR and RBA proposals
- NACP priorities
- MEF priorities (e.g., EU FSAP Directives Transposition Plan)
- Other regulatory authorities (via RIA Capacity Building Program)
- Evidence from EC Green Paper Consultations
- Banking products
 - EU funds financial products
 - Infrastructure and municipal finance needs
 - Energy efficiency
- Direct market participant consultations
- Reputational initiatives (e.g. corporate governance)
- Other

Target: SPI Secretariat to build a long list of some 30-40 potential projects

Timing: October 2007

2008 proposed project selection criteria

- Strong public good/private gain objectives
- Matching ECB criteria
- Aligned with European Commission Single Financial Market priorities
- Compatible with European Banking Federation objectives
- Preparation time: maximum 6 months
- Other

Intermediate Target: SPI Secretariat to prepare short list of some 20-25 promising projects

Final Target: SPI Committee to select 15 finalist plus 5 reserve projects

Timing: November 2007

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



Annex 1

Scoring the 2007 SPI Program

- ECB Criteria

Asymmetric information:	Positive credit information sharing
Completeness of markets:	Rural lending
Increased opportunities to engage in financial transactions:	Ombudsman, Consumer education, Law on Bank Guarantees
Reduced transaction costs:	AML Law, Law on Goods Safety, Debit Instruments, Lending Databases
Increased competition:	Positive credit information sharing, Lending Databases

-Convergence Program Criteria

Business Development:	3 projects
Industry Competitiveness:	7 projects
Consumer Protection:	2 projects