

# Romania RIA Knowledge Transfer and Capacity Building Program



COMISIA DE SUPRAVEGHERE A ASIGURĂRILOR



## CNVM-Proposed Regulation Working Group

Reference facilitator: Mr. Stephen Dickinson (UK FSA)

### Minutes of Meeting to prepare the document to be discussed over the consultation process within the RIA exercise on a selected regulation

#### REGULATION No. 14/2006 MODIFYING REGULATION No. 2/2006 ON REGULATED MARKETS AND ALTERNATIVE TRADING SYSTEMS

Bucharest, 27<sup>th</sup> June 2007

Venue:  
SPI Office

Time:  
From 14.30 pm to 16.40 pm.

Participants:

#### Representatives of the Multi-institutional WG:

Mr. Albert Schreiber - reference person  
(CNVM)

Ms. Atonaneta Alexe  
(NBR)

#### SPI Secretariat:

Ms. Oana Nedelescu

#### Convergence Program:

Mr. Riccardo Brogi

## MINUTES

### A. Context

The WG is in the process of undertaking an ex-post RIA under the guidance of Mr. Stephen Dickinson.

The regulation analyzed is the following: CNVM Regulation no. 14/2006 modifying CNVM Regulation no. 2/2006 on regulated markets and alternative trading systems.

To start this exercise the multi-institutional Working Group has filled a PPT template drawn from *Impact Assessment Guidelines* produced by CESR-CEBS-CEIOPS. By doing that, the WG has faced, for the first time, the sequential approach and reasoning that a regulator is expected to go through when considering a policy action. It has also prepared a consultation questionnaire. After review by and input from the facilitator, the WG is now in the position to launch the consultation process.

Following is an explanation of the steps taken to prepare for this activity.

**Step I:** The WG has filled the PPT template here attached in **Annex 1**.

The table of content of the PPT template was structured as follows:

- Problem identification (market/regulatory failure analysis);
- Development of main policy options;
- Definition of policy objectives;
- Analysis of impacts.

**Step II:** The facilitator has reviewed the PPT Template and has provided suggestions and remarks as they are represented here below:

#### Comments on RIA template prepared by Romania's National Securities Commission

##### Step I

##### i) market failure?

*The first sentence isn't really an example of market failure – what it is suggesting is that market confidence might be affected by a failure to implement the regulation but it doesn't justify why the regulation should be imposed in the first place.*

*The second sentence is fair enough – it is hard to assess these things in the absence of evidence. But this should be downplayed as it doesn't justify regulatory intervention.*

*The third sentence appears to represent a plausible source of market failure – ie that market confidence would be undermined by a shortage of investor information and that information can only be provided by the market operator.*

*But, there are two challenges that can be made here: firstly that the market operator is the only plausible source of market information (couldn't third party providers produce the relevant information?); and secondly that even if the market operator is the only possible information provider, why do they have to have a minimum capital requirement imposed on them? Couldn't the market operator generate the appropriate level of information some other way? These are questions for the consultation.*

*And it would be very helpful if the information in question could be described in some detail so we all know exactly what we're talking about.*

*Furthermore, is it really more than just information? Perhaps this section should focus on the question of whether or not an exchange has to be of a minimum size in order to function at all and that the capital requirement reflects that minimum level. But, ideally we would want evidence and the evidence suggests that the exchange was functioning with only 150,000 euro of capital. Or was this not a sustainable position? If not, why not?*

*But, there is a clear regulatory failure which is the restriction that prevents new investors from contributing new capital. This does act to prevent market growth.*

*The consultation should address the various questions raised above.*

*ii) market-led solution?*

*All I would say here is that the challenge to what is asserted is this: why did it need regulation to ensure that the market operator was adequately capitalised? The existing shareholders could have provided the necessary finance as and when it was required, or new investors might have come forward with the necessary funds. And of course the answer in part is that new investors were prevented from coming forward and the regulation removes that barrier.*

*iii) effects of intervention?*

*Yes, this is what should be considered.*

*All I would add is that it will be important to ask stakeholders exactly what has driven narrower spreads, increased liquidity, increase in new investors, increase in trading volumes, introduction of new instruments etc. Is it wholly due to the increase in capital held by the exchange or are other factors at work. Hard figures always help so spreads have narrowed from X to Y, volumes from A to B etc...so what are AB, X and Y for example?*

## Step 2

### i) do nothing option

*The response to this question should begin by abstracting from reality. Begin by simply imagining there is no capital limit prescribed anywhere and that the exchange exists with whatever capital resources it has. So what? Why is there a problem? As considered in the market failure analysis what is being asserted is that really not much would have happened, ie that the market would have continued to function but that perhaps it would not have had any ability to grow – both deeper (increased liquidity) and wider (new instruments) – and market confidence would have been constrained.*

*But that scenario assumes that the capital needed to grow could not be provided by the market but requires regulation instead. And so long as you can show that existing shareholders were not able to increase funding then the restriction on new investors getting involved does create a barrier to growth that justifies intervention.*

### ii) option chosen and iii) alternative options

*These are both good answers but there are other options: for example the capital level could have been required to be achieved in only one step either at 2m euro or at 5m euros by end-2007.*

## Step 3

### i) general ii) specific and iii) operational objectives

*No real comments here.*

## Step 4

### CBA of options

*Riccardo's latest template might help here.*

*It is not necessary to strive for detailed quantitative responses. What is needed is sufficient evidence that the benefits of the chosen option can reasonably be expected to outweigh the costs.*

*In terms of the do nothing option, high level CBA suggests that although there are no costs because the market operator does not have to find additional capital, the disbenefit of doing nothing is that the regulator fails to meet one or some of its statutory objectives (as listed in 3. i)*

*The chosen option should be considered alongside the alternatives identified (including the one-step options I mentioned above). Benefits should all be broadly similar in that the market's growth potential will be realised (and there is evidence of the scale of these benefits as in 1. iii) which the consultation process should attempt to identify as far as possible).*

*In terms of costs, stakeholders should be asked how the costs of raising capital are affected by a) the level of capital required and b) the speed with which a given level of capital has to be raised. Any differences identified will therefore help illustrate why for example the staged three step option is less costly (if indeed it is) than the two-stage option or one-stage option.*

Consultation process

*Step 1. Identify who you need to contact: the exchange, its shareholders, potential new shareholders, investors and their representatives*

*Step 2. Arrange meetings – given time it might be easiest to convene a single meeting for all, rather than a series of individual meetings.*

*Step 3. Circulate questions to which you are seeking answers in advance of the meetings. I have tried to identify the sorts of questions to be asked. The group could draft a questionnaire and forward for me to comment beforehand. The questionnaire should clearly identify its purpose and provide scope for quantitative and qualitative responses. I do not think it would be a problem if much of the material was qualitative.*

*Step 4. Hold meetings and complete questionnaire from perspective of each shareholder as best as possible. As this is an exercise it seems inappropriate to request too much detailed information.*

*If anyone cannot attend a meeting then they should be allowed to respond to the questionnaire by email followed by a phone call to clarify any unclear responses.*

**Step III:** the WG has drafted a consultation questionnaire addressed to the main stakeholders. The draft questionnaire prepared by the WG is attached as **Annex 2**.

**Step IV:** The facilitator has reviewed the document and made changes. Basically, the main contributions and suggestions were the following:

- Mr. Dickinson drafted a covering letter that should accompany the consultation questionnaire;
- Mr. Dickinson highlighted that the questionnaire should also have questions in connection with the market failure analysis;
- Mr. Dickinson outlined a tabular format for Cost-Benefit Analysis;

The questionnaire containing facilitator's contributions is attached in **Annex 3**.

## **B. Meeting of June 27**

The WG members attending the meeting acknowledged all the suggestions that the facilitator had proposed. The discussion consisted in reviewing and sharing each part of the draft questionnaire in view of its finalization for consultation purpose. As reference document, the brainstorming was based on a document containing suggestions prepared by Convergence and mainly based on facilitator's input (**Annex 4**).