

Management Meeting 1-2 April 2006 Tirana

HSP initiative

The main question to be asked for this initiative is: “**What would we like the HSP to do from his beginning?**”

We could think of a 2-stage strategy:

- 1st stage – to prepare the ground for the HSP;
- 2nd stage – when the HSP is on board.

As to the second stage, we should prepare a list of preliminary issues.

Among the issues put on the table was a European program aimed at helping Romanian farmers through both grants and bank loans. The HSP could study ways to speed up the process of disbursements.

The lending mortgage market could be another attractive topic (e.g. through the standardization of contractual documents). We could also think of indicators to monitor this market (for instance, market size; time to foreclose and collection value of the collateral).

So far, we have not been successful in getting issues from the Romanian Banking Association. From bilateral meetings with Romanian bankers the issues which came out are:

- RBA restructuring,
- FX lending (with regard to measures taken by the central bank to curb growth of FX bank loans while NBFI loans are not).
- AML reporting (it currently has been subject of many frequent changes. EU requirements could be applied),
- Basel II implementation (how banks can get organized in view of Basel II)
- How to ensure a level-playing field for NBFIIs,
- Consumer protection (raising awareness and financial education of customers with regard to banks and banking products/services).

We concluded that RBA governance should not be considered within the HSP mandate. The HSP has to deal with technical issues and is then expected to juggle the technical panel of experts.

Issue identification methodology is another strategic facet. The approach is to raise awareness of banking management to think to what extent P/L items are driven by regulations (The SUERF approach of ABI). Related to this point, we have suggested that ABI (Pietro Scabellone) be invited to give a 1-day preliminary Seminar, according to the following criteria:

- how does regulation affect demand and supply of financial products?
- Business cases performed by ABI (2/3 cases in the first part) and the entire view of interactions between regulation and banking P/L in the second part.

In order for the approach that regulation is deeply related to the banking business to be transplanted into a Country Banking Association it is also important to identify experts WHERE?? in several banking-related matters (legal, supervision, financial markets, payment systems, lending activities...). These experts should have a deep understanding of the regulatory impact on the banking system. This kind of expertise will be important to make the HSP work more effective.

TARGET: Within no later than a 1.5 month after the HSP starting date, there should be several proposals of new initiatives to be sent to the Steering Committee.

We have then realized that a fruitful approach for the HSP would be to start dealing with the existing pipeline of RBA activities. In this way the HSP can add value to the existing RBA work by increasing the implementation focus of the ongoing initiatives.

A possible approach to start rationalizing the existing RBA activities could be as follows:

- a) use the RIA method for each existing activity;
- b) identify the sponsor of each issue (since the sponsorship affects the probability of success of the intervention);
- c) keep in mind the timeline of actions (in order to choose issues whose timing is suitable to Convergence timing);
- d) keep in mind the reputational dividend through media.

A very rough RIA quantification on RBA outstanding activities could be carried out in order to get a better idea on how to prioritize RBA existing issues.

Building the professional practice around the HSP : how? Which could be 2 professional practices (i.e. most critical and most useful) to start with?

Proposal: Loan contracts (mortgages, consumer loans,) could be the first category to start with, with the objective of standardization in order to foster securitization. Moreover, getting a standardized form (with the support of Capaldo or another ABI expert) could also result in a more user-friendly contract/form for consumers.

FOLLOW UP:

- Phase 1

- a) Seminar given by ABI (Suerf approach) [attendants: deputy CFOs/CEOs. 3 indications from the banks of matters of eligible could be gathered];
- b) Operational assessment of the current activities [assess open issues of each commission]];
- c) To identify HSP working member candidate colleagues.
- d) Training HSP in ABI before starting in Romania.

- Phase 2

Prepare a short list of issues to be presented at the Steering Committee. These issues could be identified according to the following criteria:

- i) existing issues of importance to the RBA,
- ii) existing issues of interest to authorities,
- iii) new issues of interest to both RBA and authorities,
- iv) issues of interest to households.

HSP Recruitment

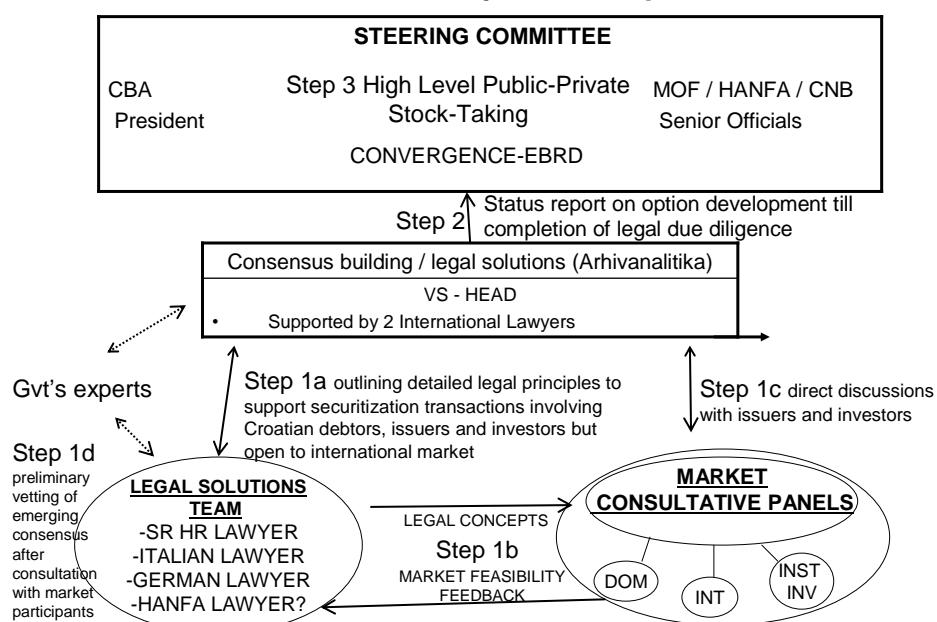
We screened all applications carefully. We established three groups: a) people who compete for the HSP position - the “very good category” (3 candidates); b) people who could be attractive as staff of the HSP - the “good category” (8 candidates); and c) others.

Securitization in Croatia

Irakli and Riccardo de-briefed on the status of the securitization initiative. In particular, Riccardo reported about the meeting between Velimir and ABI (Prof Maimeri and Mr Roccia). Since the approach at this stage seemed too characterized by domestic expertise and players, an intensive and long discussion followed on how best to set up the Croatian Securitization Project in such a manner which would be appropriate to Convergence and EBRD.

The final architecture that could be consistent with Convergence/EBRD involvement is represented below:

Croatian Securitization Project Development Structure



FOLLOW UP:

Luigi and Irakli would illustrate the revised and strengthened framework to Velimir during the VC scheduled on April 3rd.

Albanian Migrant Remittances

Riccardo de-briefed on the project of migrant remittances. He gave a broad picture of what has been presented to Bari Conference and what Prof Ferri and Mr Di Blasi are working on.

It was stressed that Convergence's purpose is to put this issue in the hands of the Country Banking Associations as soon as possible.

Irakli said that Piroska is leading an EBRD initiative on remittances in which Irakli himself is involved.

FOLLOW UP:

Ask Piroska her willingness to be involved somehow in the Convergence initiative. Riccardo will keep Irakli updated.

Romania DGF Transparency Project

Cimi illustrated his proposal on Public Disclosure of the Romanian Deposit Guarantee Fund. The proposal was composed of the following items: 'background', "who are the Beneficiaries of Transparency?", "Target Audience", "Type of information Disclosure and Characteristics of Information", "Communication Techniques" and "Project Proposal Stages".

It was emphasized how important is a process towards more voluntary disclosure led by the RBA.

Drawn from the FITD approach, a synthetic index could be built, comprising asset quality, cost/efficiency and risk quality.

In Basel II, Pillar 3 aims to encourage market discipline by developing a set of disclosure requirements which will allow market participants to assess key pieces of information on the scope of application, capital, risk exposures, risk assessment processes, and hence the capital adequacy of the institution. This background could be considered a starting point for increasing transparency within the RDGF set up.

We could first propose this initiative to the RBA, hoping that they agree in starting a disclosure process. As an alternative option, Cimi could give a keynote speech (a semi-academic discussion) about this issue (merits and limitations of public transparency). The speech could be delivered at the Romanian Banking Institute.

FOLLOW UP:

Cimi would send an e-mail to Mr Ghetea proposing him to enhance the banking disclosure on DGF indicators in order to foster public confidence towards the soundness of the banking industry. The e-mail has to attach a PPT file showing how the whole industry is assessed along to the FITD indicators that effectively offer a comprehensive picture about risk, efficiency, profitability and capital.

Riccardo would prepare the PPT to be enclosed to Cimi's Mail.

A research on transparency of DGF could be carried out on Italy and some other country.

Discussion of First Activity Report and Implications for the future

We went over the ongoing activities and tried to assess which of them could be reasonably accomplished within the next implementation reporting period.

We talked about:

- the Croatian securitization project (the maximum we can get is to transfer the draft law by the SC to the Ministry of Finance for the legislative process);
- DGF in Albania (if we deliver a comprehensive report meeting a very specific request for assistance formulated in a letter from Governor Fullani),
- Cross-border supervision: by July we make a concrete proposal to the BoA on how to simplify the supervisory reporting towards the HQ vs the Bank of Albania.

Partnerships and Resource Mobilization Activities

If Convergence is to be eventually successful, it will have to prove that its analytical activities can be self-sustainable. This means that it is important from this early stage to involve other partners and organize the work so that its value is clear to its users.

NFX could prove to be an important channel to mobilize banking experts – and not only from the Netherlands.

It will also be important to strengthen relationships with other Country Banking Associations (Germany, England, Greece, Austria) to tap into their financial market expertise.

FOLLOW UP:

At the next Convergence Group meeting in London, we decided that Mihai will speak about the HSP Initiative along the following items:

- 1) to introduce the HSP concept and explain to participants that, through the HSP, their issues of concern could reach the authorities members of the steering committee;
- 2) we need to get permanent contacts for Convergence/HSPs inside their banks at technical levels for advice/exchange of information and experts to participate in HSP projects;
- 3) to possibly establish a Fund, to be managed perhaps by NFX, for financing banking experts working on HSP