



LETTER TO SHORT-LISTED DEPUTY HEAD CANDIDATES

Mr
Street
City
COUNTRY

Dear Mr. . . . ,

I am delighted you have expressed interest in Convergence. As you will gather from the enclosed material, Convergence intends to play a catalytic role in promoting public-private cooperation for financial sector modernization in South-East Europe.

International standards and the EU *acquis* are very important architectural elements of a financial system, but the walls of a financial system are built with local material. It is this local material (made of myriad of micro-regulations) that needs to be carefully shaped by local players (authorities and market participants), so as to build a well-performing financial system. This public-private collaboration will flourish and will be beneficial to society, if it is evidence-based and responsibly-run. In turn, this requires a strong build-up of analytical capacities among market participants and an ability to look at issues from a public policy perspective. This is the “esprit” that led me to design and launch Convergence.

To help your assessment of Convergence’s potential impact and of your personal contribution to realizing it, I am enclosing a set of background documentation. You may wish to start with the recent *speeches by President Trichet* on the ECB’s role in promoting the creation of a single EU financial market and a *recent speech by outgoing Fed Vice Chairman Ferguson on the “middle way in regulations”*. They give interesting insights in how authorities are trying to harness market forces. Convergence’s work philosophy stems directly from this articulation of non-traditional roles of authorities in promoting market-based financial sector development. Then, we may browse *my speech in Armenia* on the vision for public-private dialogue in financial sector development. It draws largely on material summarized in the *study on the activities of the Italian Banking Association (ABI)*. It outlines a model of market-based analytical skills that have contributed to the modernization of the Italian financial system.

Of course, the practical issue is how best to position the small Convergence group of senior professionals to play this catalytic role in South-East Europe. First of all, it is important to know how effective banking associations organize their engagement with authorities. In ABI’s case, an important management tool to direct its activities is Regulatory Impact Assessment. The *Bucharest ppt presentation* highlights the RIA role – along with other management and organization features.

Aiming at promoting the build-up of market-based analytical skills, Convergence has launched the “Head of Special Projects” initiative, first in Romania and later also in Albania (now called “Special Projects Initiative” (SPI)). Enclosed you will find the *Albania HSP brochure*, together with a collection of several working documents outlined below describing the main elements of the Romania operation that is now in pre-launch stage. First of all, you will note we have promoted the *establishment of a public-private Steering Committee* (operating guidelines attached). This Committee is supported by *two SPI Directors* (individual and joint work program TORs and CVs attached). Two of our senior management group colleagues oversee their work (*Country Senior Advisor* in a consensus-building role and an *SPI Senior Advisor* in a technical role – TORs attached). To help leveraging additional resources, *we plan to raise specific funds in connection with SPI projects*. To promote collaboration with the local Banking Association, we agreed to a *Memorandum of Understanding* (attached). To help coordinate these activities in Romania and Albania, and to promote links to EU public and private institutions, I am discussing with a senior EU banker and academic *a regional advisory role*, described in the attached TOR. Convergence’s ultimate goal is to have SPI activities underway in its eight SEE countries of operation.

In Romania, where we have undertaken our first important analytical assignment, the Government has enacted in March a law amendment to increase the size of the deposit insurance fund while decreasing the annual premium charged to banks. The *attachment* is the final summary of our very extensive analytical engagement (five rounds of consultations with authorities and market participants), done in partnership with the Italian Deposit Insurance Fund. The *independent review* of our work done by the former Governor of the Croatian National Bank built further credibility to our analysis. This mix of analytics, consultations and peer reviews, which proved successful in building consensus for prompt regulatory action, should be part of our “modus operandi” going forward.

In Croatia, we have an ongoing involvement in orchestrating the first public-private partnership to prepare a securitization law (see *attached letters to and from the authorities*) in partnership with the EBRD. Besides an overall oversight role, Convergence funds the activities of an *independent legal panel*. We have also proposed to undertake a *Regulatory Impact Assessment* analysis. We would like to use this model in other countries for major market-building laws. Croatia is a next target for an SPI initiative.

Another interesting example of our work to build bridges at a regional level is the assignment currently undertaken by Peter Nicholl, the former Governor of the Central Bank of Bosnia and Herzegovina, with Bocconi University Prof. Franco Bruni on host supervisory issues. Attached is a *first paper summarizing their thoughts*. We feel that a pre-requisite for eventual improved home-host coordination is better host-host coordination, including through possible regulatory and reporting harmonization (the focus of our work).

Finally, to give you a glimpse into the nature of the operating activities of the Rome operations unit, I enclose a sample of *weekly activity reports*. While they reflect work done to-date by Riccardo Brogi, our regulatory economist, most of these tasks will be fulfilled in the future by a business secretary that is expected to join us in July. The Deputy Head will take direct responsibility for the operations unit activities. We will discuss how to apportion the other country and project responsibilities. To cap all these elements, I am also enclosing our *first semi-annual report*.

Going forward, I foresee a need to secure a permanent (even if on a part-time basis) support from capital market and legal and regulatory specialists. We will talk more about these profiles when we meet. Another area that we need to take a close look at is how best to tap into the perspectives and skills of international banks. Opening a safe transmission mechanism to deploy these skills into our countries of operations would be a major contribution to financial and economic convergence with a “capital” C. *My presentation* at a recent meeting of international banks hosted by the EBRD outlines elements of a possible long-term collaboration.

After you have digested this material, I would be grateful if you could organize your thinking around the following five areas that are of the greatest interest to me:

- How to build a pipeline of meaningful regulatory changes on a regional scale, working mainly with local industry-based teams;
- How to help authorities process the proposed regulatory changes efficiently;
- How to leverage existing international technical assistance programs;
- How to promote Convergence’s medium-term sustainability in its two complementary dimensions (the analytical and the consensus-building ones);
- How to contribute to transparency, responsibility and governance as pillars for sound financial sector development.

Sending in advance a written summary note would greatly help focus our discussion.

I thought that at this point you may wish to learn a little bit more about myself. Short of attaching my CV to this letter (which would be too unconventional), I will give you a snapshot of my career that has straddled private and public functions. In the 1980s I built JP Morgan’s investment banking capabilities in Italy. I then moved to the Boston Consulting Group to work on strategy issues with European banks. From there I was hired by a BCG client (an Italian merchant bank) as General Manager. In 1992, I joined the International Finance Corporation where I initiated, managed and exited several financial sector investments in high-risk situations in Africa. For more than two years, I then became President Wolfensohn’s co-Chief of Staff at the time of the Asia, Russia and Brazil crises. In 2000, I was appointed Executive Secretary of the World Bank’s Financial Sector Board, the body that oversees the Bank’s global financial sector activities, in addition to being the Vice President’s Senior Advisor (which remains my current official Bank title). After three years, I started preparing for Convergence, based on an acute appreciation that the traditional authorities-only Bank engagement focus was rapidly falling out of step with modern market realities.

I am truly happy that we will have the opportunity to discuss these issues at length soon. Convergence has the potential to promote more dynamic financial sector development – and to leave behind it, when its mandate is accomplished, an outstandingly networked financial sector think-tank in South-East Europe. The addition of a Deputy Head to our existing strong team will make an essential contribution towards this goal.

Sincerely,

Luigi Passamonti
Founder and Head