



ROMANIA

CONVERGENCE FINANCIAL SECTOR MODERNIZATION

Public-Private Special Projects Initiative



SPI Secretariat Semi-Annual Activity Report

January - June 2007

SPI Program Development Highlights

35 Project Working Group Meetings

7 Technical Seminars

1 Public Consultation on EC Green Paper on Retail Financial Services

Legislative Stage

Law on Safety
Debit Instruments Electronic Processing (2 laws)
Amendments of the Anti Money Laundering Law

Self-Regulatory Implementation Stage

Positive Credit Information Sharing
Ombudsman

Finalized Projects

Rural Lending
IFRS Provisioning

New Projects

MiFID Implementation
Credit Rating Agencies Development

Lagging Behind Projects

Consumer Education
Stress Testing
Lending Databases
Bank Letters of Guarantee Law

A. SPI Stakeholders Analysis

Authorities

- stimulated the direct intervention and contributions of authorities in order to ensure a balanced approach in designing the PWG solutions (Debit Instruments, AML, Ombudsman, Rural Lending, Security Law, Consumer Education);
- raised awareness on the authorities' positions vis-à-vis specific issues relevant for the consultation process among stakeholders (Positive Credit Information Sharing, LGD Database);
- supported the authorities to take leadership on projects in order to coagulate the banking community opinions (Bank Letters of Guarantee);
- supported the NBR by mobilizing international expertise (Spanish, Italian, Polish, German, etc.) in updating the current provisioning regulations to be in line with IFRS and Basel II standards and in reviewing the methodology for stress testing for companies and firms (with the support of Bank of Italy);
- outlined the effects of some projects on ensuring and monitoring financial stability (Positive Information Sharing, Lending Databases);
- raised awareness on the impact of certain regulations on the financial industry and the need for issuing additional regulations for effective implementation (MiFID Implementation);
- launched a regulatory impact assessment knowledge transfer program with NBR and MEF aimed at strengthening the evidence-based regulatory design skills, part of the EU "better regulation" approach;
- supported MEF review on the fiscal treatment of provisions based on evidence on the impact of the new regulations on the general budget (IFRS Provisioning);
- supported relevant authorities in conducting the public consultation with market players and consumers on the European Commission Green Paper on Retail Financial Services in the Single Market.

Banks

- provided evidence for promoting the banking sector perspective on the need to have a more efficient payment infrastructure, a rationalized AML reporting system, an Ombudsman institution, an industry-wide lending databases (through regulatory impact assessments and/or international benchmarking);
- took actions to ensure that, in identifying the solution, the PWG is aware of the diversity of opinions within the banking community (Positive Information Sharing, Debit Instruments);
- enabled consensus reaching by proposing compromise solutions (Debit Instruments, Ombudsman);
- facilitated international knowledge and expertise sharing by providing TAN's or PR's opinions on debated issues (AML, Ombudsman, Lending Databases, Rural Lending, IFRS);
- facilitated the finding of feasible solutions such as a possible off-the-shelf solution and a possible database architecture for the Lending Database project;
- supported improvement of the banks' image (by promoting Ombudsman and Consumer Education projects);
- outlined market-based alternative solutions that could lead to the project objective achievement (Rural Lending, Ombudsman, Positive Information Sharing);
- outlined the benefits of a transfer of knowledge from the NBR to banks in the area of stress testing;
- facilitated the transfer of regulatory impact assessment knowledge so that banks can benefit from this tool in supporting the proposed legal and institutional changes.

Consumers

- prevented shift of responsibilities from banks to consumers of financial services (Debit Instruments);
- assessed impact of regulatory changes on consumers in order to ensure that proposed solutions generate benefits to the consumers (AML, Debit Instruments);
- provided international experience on consumer education (Consumer Education);
- supported the establishment of the Bank Ombudsman as a solution for a prompt, unbiased, accessible, and free resolution of customer complaints;
- improved access to credit for potential good borrowers (Positive Credit Information);
- supported cost reduction of bank products and services from the consumer point of view (reduced fees and commission – AML, Debit Instruments, Positive Information Sharing, Security Law, Law on Bank Guarantees) and quality improvements (Ombudsman, Debit Instruments).

B. Accomplishments

1. Supporting preparation of law amendment proposals for enactment

➤ **Electronic processing of debit instruments**

Project objective: A document presenting the solution for electronic processing and clearing of debit instruments acceptable to all stakeholders together with the technical and functional specifications, as well as the proposals for amending the relevant legal and regulatory framework.

The SPI Secretariat assisted the PWG in finalizing the law amendment proposals and the secondary regulations by facilitating the dialogue among stakeholders for reaching the compromise solution. Also, the SPI Secretariat supported the law amendment enactment by preparing for MEF (the legislative initiator) all the necessary enactment documents: impact assessment analyses, EU directives compliance tables, etc. Earlier, the SPI Secretariat prepared a decision note for the main stakeholders (NBR and RBA Board) in order to secure their consensus and commitment on the project action plan before moving to the operational stage. On the analytical side, the SPI Secretariat together with Convergence undertook a regulatory impact assessment for banks and consumers, aimed at strengthening the evidence for regulatory actions. The SPI Secretariat will continue to support the SPI Committee in monitoring the progress with the law amendment proposals enactment.

➤ **Amendment of AML law**

Project objective: The AML law amendment proposal agreeable to all relevant stakeholders, supported by an economic assessment of the regulatory framework already in place and of the proposed changes.

The SPI Secretariat supported the law amendment enactment by preparing for MEF (the legislative initiator) all the necessary enactment documents: impact assessment analyses, EU directives compliance tables, etc. Also, the SPI Secretariat tabled a compromise solution by making a risk-based delimitation between EU and selected OECD countries and the other countries and also by proposing to set a higher reporting threshold for resident-to-non-resident transactions. The SPI Secretariat ensured a transparent dialogue of all stakeholders in finalizing the proposed law amendments. Earlier, the SPI Secretariat has provided the PWG with international experience benchmarks for amending the law. It outlined a structured approach by tabling the current and proposed law provisions with their supporting arguments, backed by a regulatory impact assessment for banks and consumers undertaken together with Convergence, and the opinion requested from the peer reviewer. The SPI Secretariat will continue to support the SPI Committee in monitoring the progress with the law amendment proposals enactment.

➤ **Amendment of law on goods safeguard**

Project objective: A law amendment proposal that would reduce the banks' administrative burden pertaining to goods and persons security, while keeping necessary security requirements.

The SPI Secretariat has facilitated a meeting to be held in July between the PWG representatives and the delegates of the ministry to get an update on the law enactment progress. This action followed the notification by MIAAR that the proposals of the PWG have been considered by the ministry in the drafting of the new law on the goods and persons security. Earlier, the SPI Secretariat supported the SPI Committee in following up with the Ministry of Internal Affairs and Administrative Reform (MIAAR) on the enactment progress of the proposed PWG law amendment proposals. The SPI Secretariat will continue to support the SPI Committee in monitoring the progress with the law amendment proposals enactment.

2. Supporting self-regulatory implementation

➤ **Credit positive information sharing**

Project objective: The achievement of a broad endorsement of positive credit information sharing based on a system of market based and / or regulatory incentives.

The SPI Secretariat is currently supporting the expanded project working group (in which both NASPDP and NACP participate) in continuing the discussions in order to strike a balance between the need to protect the consumer data and to dispose of adequate information for improving financial institutions' credit risk management. The dialogue regarding the outstanding issues from the proposed draft data privacy regulation has been opened on the occasion of the joint conference with NASPDP, organized with the support of the SPI Secretariat. On the expansion of positive credit information sharing side, the commitment of the two largest banks to share positive credit information marked the successful achievement of the project objective. As a result of the public-private moral suasion, BRD started disseminating positive credit information in June 2007 and BCR is taking steps to implement positive credit information as of September 2007. Earlier, the SPI Secretariat provided to the two largest banks documentation aimed at supporting them in making this strategic decision, which took into account both risk management and business considerations. The supporting documents outlined the benefits, risks and technical implementation steps of positive credit information sharing. Likewise, the SPI Secretariat had frequent discussions with BCR and BRD second-tier management in order to outline the benefits of positive credit information and clarify the project objective.

➤ **Ombudsman**

***Project objective:** A formal recommendation to the banking industry that a Banking Ombudsman is created in Romania, backed by evidence of benefits for banks and consumers in the experience of other countries*

Following the SPI Committee endorsement for the establishment of the Ombudsman scheme as an independent, private and voluntary scheme, which marked the successful achievement of the project objective, the SPI Secretariat supported the PWG with the implementation arrangements, by coordinating the PWG work on drafting the setting up documents (by-laws and terms of reference for the Bank Mediator). These actions have been undertaken in accordance with the detailed project implementation plan prepared by the SPI Secretariat and approved by the project working group. Earlier, the SPI Secretariat has triggered the discussions around the project by preparing a proposal for a simplified Ombudsman scheme based on the recommendation made by Convergence. The SPI Secretariat has also structured the main issues related to the establishment of the Ombudsman (organization, participation, operating principles, financing, etc.) in order to enable the PWG to outline the possible options, based on the background study prepared by Convergence. Likewise, in order to provide support to the PWG for converging to a common point of view, the SPI Secretariat has asked the opinion of the peer reviewer and outlined the self-regulatory option proposal. The SPI Secretariat will support the PWG in submitting the setting up documentation for the approval of the RBA General Assembly and other stakeholders involved (i.e. NBR, NACP).

3. Bringing projects to closure

➤ **Rural lending**

***Project objective:** A detailed study, outlining a set of specific recommendations for the “secondary” rules and regulations that will need to be enacted for a market in agricultural warrants-backed lending to develop (addressed to the banking industry and to the specific agencies and departments charged with the issuance of such rules).*

Based on the technical document that the SPI Secretariat has prepared drawing from the foreign expert report, the PWG developed a hybrid public-private solution for removing the current deadlock in utilizing warrants–deposits certificates. This solution has been presented to the Ministry of Agriculture, together with the regulations which will enable the implementation of the solution identified. The set of proposed regulations has been prepared under the coordination of the SPI Secretariat. Earlier, the SPI Secretariat has prepared an analysis of the current regulatory framework in order to enable the PWG to identify the roadblocks to the development of warrants deposit certificates (WDC) backed lending. The SPI Secretariat has also facilitated the transfer of knowledge among the various stakeholders by preparing and sharing a comprehensive set of current regulations so they could reach a common understanding. The SPI Secretariat together with Convergence assessed the project status and proposed measures to revive it, such as the appointment of a technical anchor and improving the operational

profile of the PWG. The Convergence-appointed expert and the SPI Secretariat held extensive consultations with all relevant stakeholders (banks, Ministry of Agriculture, depositaries, grain producers, RCGF, etc.) in order to assess the current deadlock in utilizing warrants–deposits certificates. SPI Secretariat has outlined a proposal for private stakeholder actions that could accelerate the development of the warrants-deposit certificates (WDC) backed lending and proposed an action plan based on a structured approach in order to enable a restructured PWG to achieve the project objective. The SPI Secretariat will continue to support the PWG in implementing the solution identified.

➤ **IFRS Provisioning**

***Project objective:** A summary document presenting a set of principles commonly agreed by stakeholders on a feasible update of the prudential requirements that would meet supervisory objectives and reflect the IFRS standards.*

The SPI Secretariat together with the technical anchor supported the PWG in outlining the principles for a feasible solution for the update of the current provisioning rules, thus marking the successful achievement of the project objective. The SPI Secretariat also outlined the need for a full impact assessment in order to support the MEF decision on the fiscal treatment for provisions following the enactment of the new regulations and mobilized a specialized PWG to conduct the RIA, with the support of Convergence. Earlier, the SPI Secretariat prepared a document outlining the ECB and BCBS guidelines and the similarities and difference between IFRS and Basel II approaches in order to enable the PWG outline the main issues that should be tackled by the new regulation. Likewise, the SPI Secretariat has supported the PWG deepen its understanding of international practiced by designing and running a survey with mother entities; by mobilizing, with the support of Convergence, two experienced international experts (as technical anchors and peer reviewer); and by organizing a Workshop on the International Experience with Provisioning in View of IFRS and Basel II Implementation on April 11, 2007. The workshop enjoyed the participation of more than eighty bankers and NBR representatives and included presentation of eight international speakers who outlined both international supervisory practices and market solutions (methodologies and practical tools, including IT) for provisioning in view of IFRS and Basel II implementation. The SPI Secretariat will continue to support the PWG in the implementation of the regulatory solution identified.

4. Launching new projects

➤ **Credit rating agencies development**

***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.*

The SPI Secretariat supported the PWG in reshaping the project objective. The SPI Secretariat gathered the opinions of the PWG regarding the draft NSC regulation, in order to outline the implementation constraints and criticalities. Also, the SPI Secretariat is in the process of identifying, with the support of IFC, a suitable project technical anchor to share the international experience with building domestic credit rating agencies. Based on the input received from the PWG and the technical anchor, the SPI Secretariat will support NSC in finalizing its draft regulation and will outline the implementation constraints and criticalities.

➤ **Implementation of MiFID**

***Project objective:** To identify the problems perceived in MiFID implementation and to find solutions for facilitating a smooth and rapid process.*

The SPI Secretariat has organized a workshop in July 2007, with the participation of relevant authorities and international experts in order to raise awareness on the MiFID implications and to foster dialogue between authorities and market players so as to create synergies for a rapid and a proper

implementation. Following the workshop, the SPI Secretariat prepared a proposal for an action plan outlining the necessary steps for ensuring a timely and effective implementation of MiFID, to be endorsed by the SPI Committee at its July meeting. The SPI Secretariat will support the PWG in implementing the action plan.

5. Supporting projects lagging behind

➤ Consumer education

Project objective: *A white paper on the benefits of financial education, including a public endorsement for a nation-wide financial literacy campaign.*

The SPI Secretariat gathered from the OECD Financial Education Program the international best practices in the area of promoting financial literacy in order to prepare the drafting the national strategy for consumer education. Also, the SPI Secretariat invited a specialized ONG to participate in the PWG and to explore synergies between the various initiatives for promoting consumer education. Earlier, the SPI Secretariat prepared a background document on the international experience with consumer financial education. The document outlined that, in practice, there are a variety of initiatives undertaken by both public and private organizations to provide financial education to consumers. The project strategy meeting discussed the background document prepared by the SPI Secretariat and outlined a feasible strategy for promoting financial education in Romania. Based on the international experience on the matter, and taking into account national specificities, the SPI Secretariat will prepare an outline of the national strategy for promoting consumer education, to be discussed and endorsed by the PWG.

➤ Stress testing

Project objective: *Improve the NBR methodology for stress testing for companies and households and create a framework for the NBR to share its knowledge in the area of stress testing for banks with credit institutions.*

The SPI Secretariat prepared a background paper on the role, formulation and international experience of stress testing in banks and asked for the NBR input on the central bank experience in banks' stress testing and the recommended guidelines for banks. Earlier, the SPI Secretariat proposed the reshaping of the collaboration between banks and NBR to address the specific technical needs of the NBR in the area of stress testing for households on the one hand and to develop a knowledge transfer component where the central bank could support the banking community in improving its knowledge of stress testing on the other hand. With the support of Convergence, the SPI Secretariat has also mobilized Bank of Italy to provide the necessary technical assistance to the NBR for improving its stress testing methodology for households and firms. Following the finalization of the background stress testing document, based on the NBR input, the paper will be disseminated and discussed with banks.

➤ Lending databases

Project objective: *A set of recommendations on the consensus-building, practical and technical steps that the banking system will need to take in order to make the loss given default (LGD) and mortgage loan servicing (MLS) databases an operational reality.*

Following the SPI Committee endorsement of the project rescue strategy, the SPI Secretariat requested that more banks and the NBR Supervision Department participate in the project. The project rescue strategy has been prepared by the SPI Secretariat as a result of the weak feedback received from the PWG, in order to have a more active engagement of the local stakeholders, given the high importance of this project for the Romanian banks. Earlier, The SPI Secretariat has activated the project through a technical workshop on the International Experience with Lending Databases, with the participation of the Italian Banking Association. Also, the SPI Secretariat has continued to explore possible off-the-shelf database solutions as well as to define a possible LGD database information requirements and architecture. The SPI Secretariat will organize a meeting with the expanded PWG to discuss and endorse the project action plan, which will be submitted to the SPI Committee for its consideration by mid September.

➤ **Law on bank guarantees**

Project objective: *The RBA law amendment proposal supported by a legal comparison of similar laws in other EU countries and RIA so as to facilitate the enactment of a domestic regulation on bank guarantees.*

The SPI Secretariat supported the RBA in identifying a local independent expert who is currently drafting the law proposal. This action is in line with the plan proposed by the SPI Secretariat for speeding up the PWG work, including the recommendation for appointing a local independent expert and a foreign peer reviewer to prepare the draft law and for having a more structured approach, based on a concrete action plan. The PWG should be in position to submit the final law proposal to the SPI Committee for its endorsement by end of 2007.

C. Other SPI Activities

➤ **EC Green Paper Consultations on the Retail Financial Services in the Single Market**

The SPI Secretariat conducted the public consultation on the EC Green Paper and compiled the Romanian stakeholders' position, which was sent to the European Commission on July 13, 2007. Earlier, the SPI Secretariat has organized the Round Table on the EC Green Paper on June 19, at the Info Europa Center. The participants (financial market authorities, market players, and consumer protection bodies) outlined that the Round Table represented "the first initiative aimed at gathering the feedback from all relevant Romanian stakeholders on the EC financial market policies and an indication of Romania's financial sector maturity". The event represented an important catalyst for the broad consultation process.

➤ **RIA Capacity Building Program with Authorities**

Following the RIA awareness raising seminars with PWG members held on January 15-16, Convergence launched, with the support of the SPI Secretariat, a "Regulatory Impact Assessment Capacity Building Program with the Authorities", aimed at supporting the financial market regulatory authorities to make evidence-driven policy choices, in line with the "better regulation" concept promoted by the European Commission. The RIA program gathers representatives of the NBR, NSC, Insurance Supervision Commission, Commission for Supervision of Private Pension Systems, MEF, NACP, and General Secretariat of the Government. So far, three technical seminars were held, where participants acquired hands on experience on performing RIA and got familiar with the RIA methodology and consultation process. At present, participants are in the process of completing two ex post impact assessments on two regulations issued by the NBR and NSC under the guidance of RIA experts from the UK and Irish FSA. The program will continue by introducing RIA in the official regulatory process and by building the necessary institutional capacities for carrying out RIA within regulatory authorities.

July 16, 2007

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