



2008 Project Proposals for SPI Committee Endorsement

	FINANCIAL SECTOR MODERNIZATION CRITERIA	European Central Bank				
		Asymmetric information	Completeness of the market	Increased opportunities to engage in financial transactions	Reduced transaction costs	Increased competition
Italian Banking Association	Business development			1. Improving leasing transactions	1. Developing scoring cards for individuals 2. Improving Auction Procedures for Immovable Collateral under Foreclosure	
	Industry competitiveness	1. The impact on the banking regulation of the IFRS implementation	1. Reviewing the Capital Adequacy Regulation		1.Reducing cash transactions	
	Industry reputation					
	Total		1	1	1	3

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II. Industry Competitiveness

- 2. The impact on the banking regulation of the IFRS implementation
- 3. Reducing cash transactions
- 4. Reviewing the Capital Adequacy Regulation

2008 Project Proposals for SPI Committee Endorsement

	I. Business Development			II. Industry Competitiveness	III. Industry Reputation
	<i>Improving Auction Procedures for Immovable Collateral under Foreclosure</i>	<i>Facilitating leasing transactions</i>	<i>Developing the credit scoring cards for individuals</i>		
	Estimated starting time June 2008	Estimated starting time October 2008	Estimated starting time December 2008		

Actionable SPI Committee Proposal	<p>Letters addressed to the Parliament and MoJ to raise awareness on the problems with the foreclosure procedures backed by a note on the international experience;</p> <p>Letter addressed to MoJ to acquire the mandate for improving Bailiff activity;</p> <p>A package addressed to MoJ with a draft law / draft regulation on the commonly accepted standards on buildings appraisal backed by a background study.</p>	<p>A proposed regulatory framework for leasing that will address the raised concerns.</p>	<p>A proposal to implement credit scoring cards.</p>		
SPI Albania Involvement Rationale	<p>SPI Committee would be the proper framework to ensure a public – private collaboration supporting the achievement of solutions acceptable for all parties.</p>	<p>SPI Committee would facilitate a balanced approach by addressing both business and prudential concerns.</p>	<p>The public-private framework would facilitate the build-up process and ensure the capacities for implementation.</p>		

<p>Description - background</p>	<p>Banks complaint that the foreclosure procedures are too long and cumbersome. In addition the process might be prone to subjectivity in the phase of the appraisal expert selection and building appraisal as there are no commonly accepted standards for the valuation of the real estate. Actually the process is rarely successfully completed. Banks are indirectly forced to take possession of the immovable when it is offered in a public auction and due to the ceiling in the fixed assets to total assets ratio, the immovable has to be sold in a short time and sometimes in unfavorable conditions.</p>	<p>Under the current legal framework, leasing companies are treated as regular commercial companies, not as non-banking financial institutions. Their activity is not properly regulated and supervised by a specific authority, albeit these companies are involved in business similar to lending operations. Banks suggest that:</p> <ul style="list-style-type: none"> - the leasing market, as a part of the financial market, should be regulated and supervision either BoA or AMF; - leasing companies should enjoy the same fiscal treatments as banks (with special attention to the VAT issue); <p>Despite the banking community availability to support financially the modernization of the Security Charges Office (Pledges Registry Office), little progress has been registered so far: the Ministry of Economy selected the contractor for the designing and implementing the electronic registry.</p>	<p>The Credit Registry, which is the electronic database on banking system borrowers, has started to operate at the Bank of Albania since January 3, 2008. At the moment of “live” operation of the Credit Registry, there are recorded 201.729 loans, as well as data on borrowers, connected persons and collaterals. Banks are considering the in addition to the standard credit report, the Credit Registry should start to deliver credit scoring cards for individuals as this would facilitate credit analysis, reduce costs and alleviate risks.</p>		
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Impact drivers	Industry economic driver	By improving the foreclosure procedures banks operate in a safer institutional environment. Reduced uncertainty might be reflected in lower costs, reduced premium on the environment/institutional uncertainty and expansion of the mortgage loan activity. In addition banks might distribute more evenly their cost according to the quality of the borrower.	Better regulated markets will create a safer environment for the leasing companies and might enhance their business activity; will boost financial system development	Benchmarks for risk rating for individuals create the premises for having a higher standards loan portfolio for the individuals and this in turn might be reflected in lower probability to default and even reduced losses generated by the lending activity or it might as well have an impact in lowering the costs associated with recovering bad debts.		
	Public good driver	Improved access to finance and lower lending costs improve consumption and investments.	Regulated and supervised markets ensure financial stability. Costumers might benefit a wider range of products and services.	Lower cost and reduced uncertainty might lead to lower prices on banks products – loans to individuals. The higher quality loan portfolios addresses the concerns on the financial stability as well.		
	Economics Some	To be determined	To be determined.	To be determined.		
Expected AAB Contribution	<ul style="list-style-type: none"> • To undertake ownership of the project • To provide experts for the working group; • To intermedate the banking surveys; • To validate the solutions. 	<ul style="list-style-type: none"> • To undertake ownership of the project; • To provide experts for the working group; • To validate the solutions. 	<ul style="list-style-type: none"> • To undertake ownership of the project; • To provide experts for the working group; 			
Expected BoA Contribution	<ul style="list-style-type: none"> • To provide experts for the working group 	<ul style="list-style-type: none"> • To provide experts for the working group; 	<ul style="list-style-type: none"> • To provide experts for the working group; 			
Other Expected Contributions	MoJ, General Directory of Bailiff Office, Euralius, Appraisers' Association, MPATT.	Other public private institutions.	Other public private institutions.			

	I. Business Development	II. Industry Competitiveness			III. Industry Reputation
		<i>The impact on the banking regulation of the IFRS implementation</i>	<i>Reducing cash transactions</i>	<i>Reviewing the Capital Adequacy Regulation</i>	
		Estimated starting time June 2008	Estimated starting time July 2008	Estimated starting time October 2008	
Actionable SPI Committee Proposal		A comprehensive document with the regulations to be change, an assessment of the main necessary changes with an action plan for their implementation.	A document, in the form of protocol, presenting the actions and measures that need to be taken by the banks in order to reduce cash transactions.	A final document presenting the necessary amendments to the existing framework on capital adequacy and a timeframe for a smooth implementation.	
SPI Albania Involvement Rationale		SPI Committee is the appropriate structure to bring together the interested parties for identifying the most suitable ways and timeframe for a smooth IFRS implementation.	SPI Committee would prompt banks to achieve a consensus in signing and implementing the protocol.	Under SPI Committee aegis, banks and BoA could find stronger incentives to identify an implementation solution addressing both parties' concerns.	

Description - background		<p>In May 2008, the Ministry of Finances issued a decree that made obligatory the application of International Accounting Standards and International Financial Reporting Standards since January 1st 2008. Banks, as business entities, have to start with the application and implementation of the new standards.</p> <p>In order to facilitate the transition process, Bank of Albania, as the banking system supervisory authority, has to adjust the banking legislative framework and align it with the new accounting and reporting standards.</p>	<p>Albanian authorities have taken several legal and administrative initiatives to reduce the use of cash. Despite these initiatives undertaken it seems that the intended effects are not completely materialized and the volume of cash transactions continues to be high. The high level of cash transaction raises concerns to the banks. These concerns are related to the costs associated with processing the cash and with the inefficiency produced by the high level of the unused liquidities.</p>	<p>BoA is seeking to improve and to expand the coverage of the regulation on capital adequacy in order to capture a wider range of risks faced by the banks. The methodology used in the current frameworks calculates the (minimum) regulatory capital to cover only for credit risk. Other risk typologies, such as operational risk, have not been addressed yet. Therefore BoA proposes to improve risk management by improving the methodology for calculating risk weighted assets, by improving the existing methodology on credit risk and by including the operational risk.</p>	
Impact drivers	Industry economic driver	<p>Banks would benefit from a comprehensive regulatory framework that will make the IFRS implementation smoother.</p>	<p>By reducing cash transaction banks will reduce the level of liquidity and will place more money in income-producing assets and they will register a decrease in the cost and in operational risk.</p>	<p>The new methodologies for calculation of risk charges will provide tools for a better identification, measurement, monitoring and control of the risks credit and operational.</p>	
	Public good driver	<p>BoA's mission to adjust the regulatory framework to be IFRS compliant would be facilitated.</p>	<p>The reduced use of cash in economy is potentially generating more income to the budget.</p>	<p>Promote banking system stability, by a better coverage of risks with capital. A better risk management decreases the probability of banks' default, giving thus an enhanced coverage for the customers.</p>	

	Some Economics		To be determined	To be determined	To be determined	
Expected BoA Contribution			<ul style="list-style-type: none"> • To undertake ownership of the project; • To provide experts for the working group; • To validate the set the final document; • To follow the proposals. 	<ul style="list-style-type: none"> • To provide experts for the working group; 	<ul style="list-style-type: none"> • To undertake ownership of the project; • To provide experts for the working group; • To validate the set of proposals; • To enact the proposals. 	
Expected AAB Contributions			<ul style="list-style-type: none"> • To provide experts for the working group; • To support the banking survey and the consultations. 	<ul style="list-style-type: none"> • To undertake ownership of the project • To provide experts for the working group; • To intermediate the banking surveys; • To validate the solutions. • To act for consensus building. • To act for informing the public on the initiative 	<ul style="list-style-type: none"> • To provide experts for the working group; • To facilitate data collection for the impact assessment and the consultations with banking community 	
Other Expected Contributions			MoF to provide experts for the working group, auditing companies.	Other public and private institutions	-	