



DRAFT
SUBJECT TO PWG AGREEMENT

TERMS OF REFERENCE

Project: The impact on the banking regulation of the IFRS implementation

Project Owner:	Mr. Indrit Bank, Supervision Department, Bank of Albania.
Project Manager:	Mrs. Miranda Ramaj, Supervision Department, Bank of Albania.
Deputy Project Managers:	Mr. Armand Muharremi –Finance Division / Banka Popullore
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Project Working Group:	BoA – Supervision Department, Accounting Department, Banks, Ministry of Finance, National Council of Accountants, Private Auditing Firms (local and international), AMF.

I - Background - Identification of the problem

In May 2008, the Albanian Ministry of Finance issued a decree making obligatory the application of International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) since January 1st 2008. Banks, as business entities, have to start with the application and implementation of the new standards.

In order to facilitate the transition process, Bank of Albania, as the banking system supervisory authority, has to adjust the banking regulatory framework and align it with the new accounting and reporting standards.

SPI Albania Secretariat

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IFRS are considered a "principles-based" set of standards in that they establish broad rules as well as dictating specific treatments.

International Financial Reporting Standards comprise:

- *International Financial Reporting Standards (IFRS)* - standards issued after 2001
- *International Accounting Standards (IAS)* - standards issued before 2001
- *Interpretations originated from the International Financial Reporting Interpretations Committee (IFRIC)*-issued after 2001
- *Standing Interpretations Committee (SIC)* - issued before 2001

There is also a *Framework for the Preparation and Presentation of Financial Statements* which describes some of the principles underlying IFRS.

The framework states that the objective of financial statements is to provide information about the financial position, performance and changes in the financial position of an entity that is useful to a wide range of users in making economic decisions.

The underlying assumptions used in IFRS are:

- **Accrual basis** - the effect of transactions and other events are recognized when they occur, not as cash is received or paid;
- **Going concern** - the financial statements are prepared on the basis that an entity is a going concern and will continue in operation for the foreseeable future.

The Framework describes the qualitative characteristics of financial statements as being

- Understandable,
- Relevant,
- Reliable, **and**
- Comparable.

IFRS are used in many parts of the world, including the European Union, Hong Kong, Australia, Pakistan, India, GCC countries, Russia, South Africa, Singapore and Turkey. As of March 28, 2008, about 75 countries require the use of IFRS, or some form of modified IFRS.

All listed EU companies (including banks and insurance companies) have been required to use IFRS since 2005. Prior to 2005, there were around 350 publicly listed companies that used IFRS, based on SPI Romania experience.

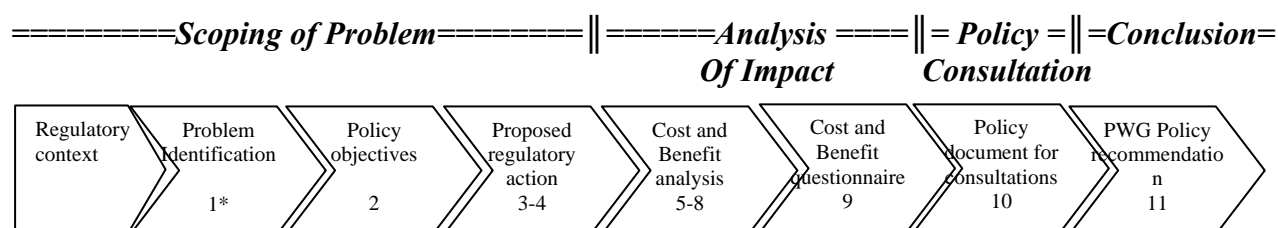
II - Project Objective – Definition of policy goals

1. To interpret the Decision of the Ministry of Finance for the timing of the application of IFRS standards.
2. To assess the impact of IFRS implementation in banking regulatory framework by preparing a list / identifying the affected laws, bylaws, regulations and guidelines.

- To assess the main areas of impact and the general sense of the changes to be brought to the regulations.

In a later stage, SPI Albania and the local stakeholders could undertake a project on loan provisioning under IFRS.

III – Intended Strategy – Description of the Better Regulation 9 steps



* See attachment

The project management group (Project Owner, Project Manager, Deputy Project Manager, supported by the SPI Secretariat) will act based on the mandate received from the SPI Committee to assess the impact that the implementation of IFRS will have on the banking regulatory framework.

PMG with SPI Albania Secretariat support will conduct a research and collect all the materials and studies that are undertaken with regard to the accounting and reporting system in Albania in order to have an adequate image on the regulatory context

PMG will conduct, with SPI Albania Secretariat support, a research on the European experience with the implementation of IFRS in order to be used as a benchmark.

PMG, with the support of SPI Albania Secretariat, will draft a document on the main changes brought by implementing IFRS.

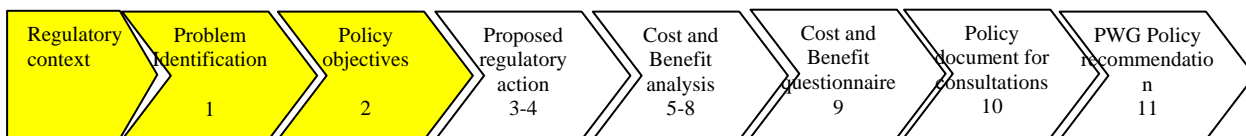
PWG will prepare a comprehensive list of the banking system regulations to be changed in order to implement IFRS and will formulate the sense of the changes in these regulations. PWG will acquire an understanding on the qualitative impact and influence that changes brought by IFRS implementation will have in the banking regulations / system.

PWG, with the support of SPI Albania Secretariat, will prepare an action for implementing IFRS.

IV- Methodology: from kick off to the accomplishment of the project

A. First PWG Meeting

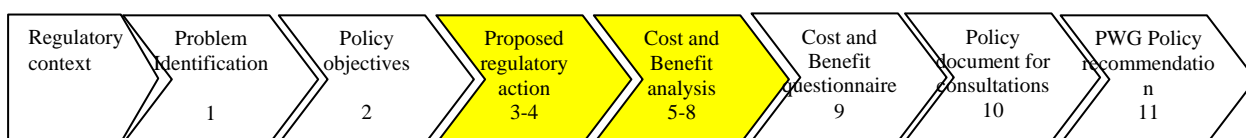
Preparation of PWG 1st meeting (PM/DPM and SPI Secretariat)



PMG and SPI Secretariat to prepare: a. a background note on current situation. b. a note on international experience; c. draft a document on the main changes brought by implementing IFRS

Output: First Draft of “Scoping of Problem” for PWG discussion

PWG 1st meeting

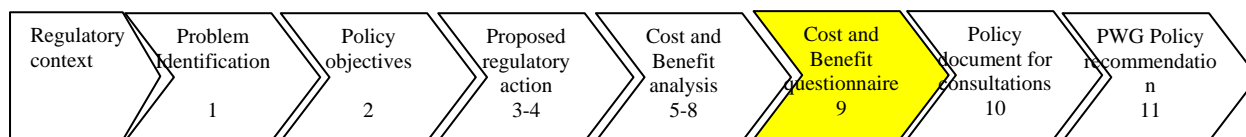


- Objectives:
- a. To agree on the presented TORs prepared by SPI Secretariat and endorsed by PO and PM/DPMs.
 - b. To understand the current context and the policy goals;
 - c. To finalize the list of the main changes brought by IFRS implementation;
 - d. To analyze the impact for users, regulated firms and regulators

Output: Information to complete a document comprising the Scoping of the Problem and the Impact Assessment (Impact Assessment Analysis Document - IAAD) to be endorsed in PWG 2nd meeting. The IAAD covers steps 1-8 of the Better Regulation Template.

B. Second PWG Meeting

Preparation of PWG 2nd meeting (PM/DPM and SPI Secretariat)



PMG and SPI Secretariat to draft the questionnaire for data collection.

PWG 2nd meeting

Objective: To discuss and agree on the cost and benefit questionnaire.

Output: (a) Endorsement of IAAD (1-8) and (b) Final questionnaire

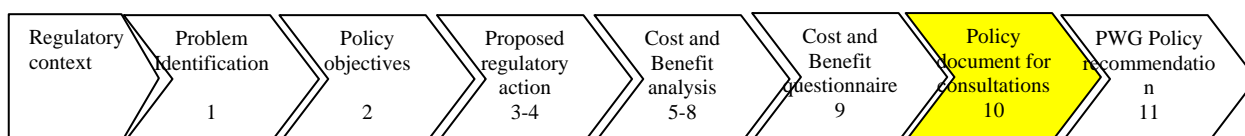
C. Third PWG Meeting

Preparation of PWG 3rd meeting (PM/DPM and SPI Secretariat)

SPI Secretariat to: collect data from PWG participating banks analyzing; summarize questionnaire results and prepare draft “summary impact assessment” for PWG discussion and endorsement.

PMG and SPI Secretariat will draft a document on the main changes brought by implementing IFRS and the policy option consultation paper

PWG 3rd meeting



Objectives: (a) To endorse Impact Assessment Analysis Document including “Summary Impact Assessment”; b) To finalize policy option consultation paper.

Output: a) IAAD; b) final policy option consultation paper.

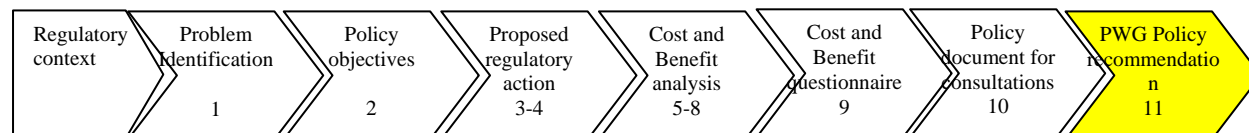
D. Fourth PWG Meeting

Preparation of PWG 4th meeting (PM/DPM and SPI Secretariat :

PM/DPM and SPI Secretariat to:

- a. Run consultations with stakeholders based on the policy option consultation paper;
- b. Draft feedback document.

PWG 4th meeting



Objective:

- a) To discuss the consultation feedback document and the policy document; and
- b) To agree on the policy recommendations (including the implementation action plan).

Output: Policy recommendations.

Following PWG 4th meeting:

Preparation of the SPI Committee paper.

SPI Secretariat will prepare the minutes of PWG meetings.

SPI Secretariat will send the final SPI Committee document for approval and then it will forward it to Bank of Albania for implementation. The document will be also presented to the Ministry of Finance.

VI - Project Team

The team is composed of:

- Bank of Albania,
- Banks
- National Council of Accountants
- Ministry of Finance

VII – Tentative PWG meeting schedule

- First meeting June 2008
- Second meeting July 2008
- Third meeting September 2008
- Fourth meeting September 2008

VI - Consulted documents:

- The set of International Accounting Standards.
- The set of International Financial Reporting Standards.
- World Bank Report, 2008, Migration Plan to IFRS, Albania.

The EU Better Regulation Approach	
Steps	Purpose
Scoping of problem	
1. Problem identification	To understand if a market/regulatory failure creates the case for regulatory intervention.
2. Definition of policy objectives	To identify the effects of the market /regulatory failure to the regulatory objectives.
3. Development of “do nothing option”	To identify and state the status quo.
4. Alternative policy options	To identify and state alternative policies (among them the “market solution”).
Analysis of impact	
5. Costs to users	To identify and state the costs borne by consumers
6. Benefits to users	To identify and state the benefits yielded by consumers
7. Costs to regulated firms and regulator	To identify and state the costs borne by regulator and regulated firms
8. Benefits to regulated firms and regulator	To identify and state the benefits yielded by regulator and regulated firms
9. Data Questionnaire	To collect market structure data to perform a quantitative cost and benefit analysis
Consultations	
10. Policy Document	To learn market participant opinions on various policy options
Conclusion	
11. Final Recommendations	Final report to decision-makers, based on Cost Benefit Analysis and market feedback

Source: CESR-CEBS-CEIOPS 3L3 Guidelines, adjusted by the Convergence Program based on experience.