



SPI Project on the impact of IFRS implementation on the Banking regulatory framework

Project Objectives

- To interpret the Decision of the Ministry of Finance for the timing of the application of IFRS standards.
- 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.

Project Management Team

Project Owner (PO): Indrit Banka, Supervision Director, BoA

Project Manager (PM): Miranda Ramaj, Supervision Deputy Director, BoA

Deputy Project Manger (DPM): Armand Muharremi, Head of Finance Department, Banka Popullore

Minutes

Second meeting

July 29, 2008—AAB premises

Attendees: Armand Muharremi, Banka Popullore (DPM)
Ilir Pustina, BoA (member)
Julia Manushi, Raiffeisen Bank (member)
Lirola Keri, National Accounting Council (member)
Bendis Husi, National Accounting Council (observer)
Lyela Rama, AMF (member)
Romira Hoxha, KPMG (member)

SPI Albania Secretariat

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Heris Jani, KPMG (observer)
Florian Dervishi, FIB (member)
Nuriona Sokoli, Deloitte, (member)
Skender Emini, BKT (member)
Zinaida Cako, BNT (member)
Eralda Gurga, Emporiki Bank (member)
Gentiana Mucaj, Alpha Bank (alternate member)
Vadiola Melellari, Alpha Bank (alternate member)
Ramona Bratu, SPI Regional Operations Director
Elona Bollano, SPI Albania Director of Analysis and Policy
Anuela Ristani, SPI Albania Director of Operations

I. Project Activity Brief

- Presentation of the Note on European Experience sent to NAC
SPI Secretariat has prepared a Note on the European Experience on IFRS implementation to assist the NAC in their interpretation of the MoF decree. The Note was drafted in consultation with the Project Management Team.

- Presentation of the Official interpretation of the MoF decree by NAC
The NAC has issued an official interpretation of the issues raised by the PWG on the start of IFRS implementation accordingly to the decree issued by the Ministry of Finance and as a response to the official letter for interpretation sent by BoA.

The two main issues that required interpretation were:

- a. The official date of IFRS implementation: whether 1 January 2008 could be the full compliance date for the implementation or transitory period.
- b. The Albanian translation of 2006 version of IFRS should be the applicable version for reporting or the updated in 2008 English version of IFRS will prevail.

NAC interpretation consisted on the following:

- a. The IFRS implementation date will be 1 January 2008, since the business entities had enough time to be prepared for this as Law on accounting dated 29.4.2004 stated the obligation to use IFRS and they had the English version of the standards available for preparations.
- b. The IFRS translation in Albanian is only supportive and does not prevail the English Version as prepared by IAS Board.

The Project Working Group members commented on possible alternatives of interpretation of the above mentioned conclusions. PWG outlined that a more precise answer is needed in order to clarify the prevalence issue between the English Version versus the official translated and approved by NAC version, and declared as mandatory by the Ministry of Finance.

The Working Group will make a note in the closing document that will be circulated to all institutions involved in this process on the need to clarify this issue in consistence with the terminology used in Law on Accounting, Article 4, Paragraph 3.

II. Banking Survey Report Presentation (Discussion and Approval)

SPI Secretariat run a questionnaire for the bank's readiness on implementing IFRS. The survey was distributed through AAB to the 16 banks. The results were as follows:

1. Respondent banks represent a large share of the banking market, therefore the results of the survey may be considered as relevant. To a large extent, the findings of this survey can be generalized to the entire banking system since they represent all types of operational and ownership structures.
2. The survey confirms that the largest part of the banking system is applying international financial reporting standards. Out of the 11 respondent banks only three banks have not applied IFRS yet, and one of them is under the implementation process.
3. The adjustment of human resources and IT systems to the requirements of IFRS implementation would need 3 to 6 months for HR and 7-12 month for IT in case the reports are to be produced automatically.
4. Regarding the main changes brought by IFRS, banks have identified different treatment of loan loss impairment, amortization of expenses, treatment of the income from various activities (FX, fees and commissions etc.), deferred tax asset / liability, reclassification of statistical provisions of loans from liabilities to contra – assets accounts, revaluation of the capital held in currencies different from ALL, fair asset value etc.

The survey results were sent to NAC before their official interpretation in order to assist them drafting their response.

III. Discussions on the changes to be brought to the banking regulation in the process of implementing IFRS

The PMT under the assistance of SPI Secretariat has grouped the BoA regulations in 3 main categories based on the significance of the change produced by IFRS implementation:

1. Regulations that will be substantially affected by IFRS implementation (First Priority)
2. Regulations that will be moderately affected by IFRS implementation (Second Priority)
3. Regulations that will not be affected by IFRS implementation (no priority).

The working group members were invited to study the material and send their suggestions on:

- a. The accuracy of the classification (if the regulations are properly grouped accordingly to the grouping criteria)
- b. The individual suggestions on specific items of each regulation affected by the IFRS implementation and the sense of the changes.

Based on the comments sent by the WG members and aggregated by the SPI Secretariat, the working group will draft a conclusive document, highlighting the main areas of impact brought by IFRS implementation in the banking regulations and the priority in modifying them.

Based on the above document the WG will deliver a consultative priority plan to support BoA in their process of regulatory changes in due process of IFRS implementation.

IV. Other topics discussed (Banking Manual, Banking Capital)

The banks are very concerned to understand if the Banking Manual maintains validity under the current changes in the accounting framework brought by IFRS Implementation. Some of the main areas of interest are:

- If the Banking Manual will continue to be valid and until when.
- Nature of changes in the chart of accounts
- The reporting for BoA (SRU) vis-a-vis IFRS reporting.

BoA is aware of the challenges encountered under the current context and the controversies that may derive while the Manual has not been invalidated by the Council of Ministers (the formal issuers). However under the revision processes of BoA the issue of the Banking Manual will be clarified.

V. Conclusions and distribution of tasks:

- **SPI Secretariat will disseminate to the banking community the findings of the survey on banks' readiness to implement IFRS together with NAC interpretation.**
- **The Project Working Group Members will send their individual contributions on the accuracy of classification (if the regulations are properly grouped accordingly to the grouping criteria).**
- **The Project Working Group Members will send their individual suggestions on specific items of each regulation affected by the IFRS implementation and the sense of the changes.**
- **The SPI Secretariat will collect and aggregate the individual contributions as sent by the Working Group Members.**
- **SPI Secretariat will draft the PWG document for consultation.**

Next PWG meeting: September 12, 2008.