



## **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**

### **Third meeting**

September 22, 2008—AAB premises

**Attendees:** Miranda Ramaj, BoA (PM)  
Armand Muharremi, Banka Popullore (DPM)  
Ilir Pustina, BoA (member)  
Julia Manushi, Raiffeisen Bank (member)  
Lirola Keri, National Accounting Council (member)

### **SPI Albania Secretariat**

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Lyela Rama, AMF (member)  
Romira Hoxha, KPMG (member)  
Florian Dervishi, FIB (member)  
Skender Emini, BKT (member)  
Zinaida Cako, BNT (member)  
Lindita Kopica, BNT (alternate member)  
Adela Xhemali, ABA (member)  
Silvana Osmani, ABA (alternate member)  
Adela Leka, ProCredit (member)  
Rezarta Kocollari, NBG (alternate member)  
Elona Bollano, SPI Albania, Director of Analysis and Policy  
Anuela Ristani, SPI Albania, Director of Operations

## **I. Project Activity Brief**

- SPI Secretariat has forwarded to the banking community the findings of the survey on banks' readiness to implement IFRS together with NAC interpretation.
- The SPI Secretariat presented an overview of the contributions received on the accuracy of classification (if the regulations are properly grouped accordingly to the grouping criteria) and the suggestions on specific items of each regulation affected by the IFRS implementation and the sense of the changes.

## **II. Discussion on:**

- The grouping of the regulations accordingly to their priority

The SPI Secretariat introduced the list of regulations whose classification was subject of change due to PWG members' suggestions. These non-classified regulations together with the respective comments were considered one by one.

The interpretation of IFRS 7 and its peculiar disclaimers was subject of discussion for several regulations classified in the third group in the initial proposal.

After all the comments and arguments for the re-classification of regulations were exhausted, the final classification of the regulations was consensual and satisfactory for all the present PWG members.

- Specific issues of each regulation affected by the IFRS implementation and the sense of the changes.

The PWG managed to cover all the issues for the regulations included in the first group: Regulations that will be highly affected by the implementation of IFRS. (Please refer to

the APPENDIX: SPI Albania IFRS Project Group I Regulations Statutory vs IFRS changes Draft)

The PWG members representing the banks and their external auditors expressed their concern in the differences that will appear between IFRS reporting and SRU reporting for Bank of Albania. When banks were reporting in local and IFRS, this was acceptable but since the law provides for IFRS only, this discrepancy should not be ignored. Some of the suggestions to Bank of Albania were instead of loan loss provisioning to use the capital adequacy as a prudential instrument to control lending risk. Another suggestion coming from the PWG members representing the banks was for BoA to introduce a set of instructions that would lead the banks through the transitory period and guide them through a standard path of IFRS application.

However the PWG members representing BoA stressed once more the fact that they acknowledge the distortions that will be introduced in the beginning, and that the differences in the level of provisions compared to the current reporting are too significant to be ignored. In addition, there are no assurances that the banks would have the capabilities of reporting correctly through IFRS even for the banks that have experience in this kind of reports. The difference between reporting to the mother bank and reporting by law will be significant, therefore BoA insists in having a transitory period of prudence in order to allow banks to consolidate their experience and improve the reliability of their reporting for supervision purposes.

Bank of Albania will start adopting one by one all the elements of IFRS reporting that may be implemented within the prudential approach. There is no foreign experience of immediate implementation of IFRS standards from the Central banks.

The PWG members representing banks and auditors raised the issue of dividend distribution due to the differences in profit between the IFRS and SRU reporting. The banks and auditors suggested that BoA should consider specifying in the Capital Adequacy regulation the criteria of profit evaluation from the external auditor with a reference on the dividends. BoA is under continuous revision of many regulations and the Capital Adequacy in particular which will be the focus of the next SPI project proposed by Bank of Albania.

BoA is currently working on transforming the Bank Accounting Manual into a document outlining the methodologies of regulation applications for the banks. The references to the IFRS instead of the local standards will be the main focus of the changes.

BoA requested from the banks to share their database of discrepancies in the current manual in order for the revisions to be efficient and accurate. SPI Secretariat will assist in the collection of these contributions from the Banks.

While many issues are also related to tax-authorities, the PWG members and the PM suggested establishing contacts with the Tax Office and consulting with them on the issues raised by the banks. SPI secretariat and PMT will follow up on establishing these contacts.

### **III. Scoping of the problem (Discussion and Agreement)**

The SPI Secretariat presented the Scoping of the Problem Document, part of the Regulatory Impact Assessment methodology of the EU Better Regulation approach.

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 1<sup>st</sup> 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 legislative framework and align it with the new accounting and reporting standards.

The PWG approved the document without any objections.

### **VI. Conclusions and distribution of tasks**

- The SPI secretariat together with the PMT will follow up on establishing contacts with the Tax Authorities in order to clarify the tax reporting changes after IFRS implementation.
- The SPI Secretariat will send the revised classification of the regulations and the summary of the suggestions made during the meeting for the First Group.
- The PWG Members will consult the regulations of the Second Group (medium level changes) and will make their suggestions/ comments with regards to the specific changes needed as a consequence of IFRS implementation.
- The SPI Secretariat will send a request to the PWG members representing the banks for contributing through their reconciliation tables that identify the differences between the entries as per IFRS versus Bank Accounting Manual standards, as well as the specific references to these differences.

### **VII. Closing Remarks**

**Next PWG meeting is preliminary scheduled to take place mid October 2008.**