

PROPOSED SPI ALBANIA 2009 PROGRAM

BOLD BLUE: Public Stakeholders' Proposals; BOLD RED: Banks' proposals; BOLD GREEN: Private – Public Proposals

Bank of Albania Governor's Banking Forum Issues	European Central Bank				
	Asymmetric information	Completeness of the market	Increased opportunities to engage in financial transactions	Reduced transaction costs	Increased competition
Transparency in bank-customer relationship 0/1					
Strengthening judicial system on banking issues 1/8				Revising regulatory act on Execution of Procedures on Bank accounts	
The recognition of and protection from the various risks 5/8	Extension of the credit bureau services – 1.database for businesses 2. scoring cards for individuals;	Enhancing banks' liquidity risk management	Revising Foreign Currency Open Position Loan loss provisioning under IFRS		
The strengthening of internal control 0/1					
Introduction of new products 1/7		Revising Public Procurement Law			
The functioning of the interbank market 1/5		Preparing a feasibility study for a central depository			
The increase of funds circulation through the system 1/2		Establishment of a national settlement scheme for payments in foreign currency			
The building of full technological capacities 1/2				Unique and rationalized reporting system	
Facilitate lending to excluded groups 0/3					
The increase of ALL denominated lending 0/3					
Improvement of bank's governance					
Total:10	2	4	2	2	

SUMMARY FEATURES OF PROPOSED PROJECTS (1)

MAIN THEME

Banking Forum Issue: Recognition of and Protection from various risks

Projects	Enhancing banks' liquidity risk management	Revising Foreign Currency Open Position	Loan loss provisioning under IFRS	Extension of the credit bureau services – 1.database for businesses 2. scoring cards for individuals;
Estimated starting time	February 2009	June 2009	June 2009	September 2009
Actionable SPI Committee Proposal	A proposed regulatory amendment providing limits to banks' exposures to liquidity risk	A regulatory proposal for amending the calculation of the banks' foreign currency open position	PWG recommendation for a regulation on loan loss provisioning under IFRS	1.A comprehensive and structured proposal on expanding the credit bureau services in cooperation with other data providers 2. An action plan for developing a credit scoring card system
SPI Albania Involvement Rationale	SPI Committee's endorsement would ensure a balanced solution and a smooth implementation.	SPI Committee would facilitate the consensus building on a feasible conversion of prudential standards to reflect new accounting standards that would meet both business reality and supervisory objectives.	SPI Committee would support the identification of a solution addressing banks' concern and also prudential principles	1. SPI Committee would be the proper framework to ensure the cooperation among different institutions for collecting data. 2. The public-private framework would facilitate the build-up process and ensure the capacities for implementation

Projects		Enhancing banks' liquidity risk management	Revising Foreign Currency Open Position	Loan loss provisioning under IFRS	Extension of the credit bureau services – 1.database for businesses 2. scoring cards for individuals;
Description-Background		Currently the regulation on the banks' liquidity risk management provides only principles. BoA would like to enhance the liquidity risk management by providing some limits to banks' exposures. The necessity in improving liquidity management is again related to tight conditions on liquidity in international markets, a factor that might influence the activity of the banking system in Albania as well. It is a regulatory issue, at a bank prospective, but a plan of contingency as it was applied on many countries on the liquidity level of the banking system might be of good help for the banking system.	The calculation of the FX position as per the current regulation does not reflect the profit/loss resulting from the treasury activity since it revaluates all assets/liabilities and not only the ones subject to the treasury activity. An additional calculation method concerning only the profit/loss related to the treasury activity could be introduced or a modification of the current method could take place in order to adjust the above mentioned issue. The way of calculating FX positions should be revised in accordance with IFRS in order to have a better dimension of the banks' exposure to FX risk.	Currently, Albanian banks calculate provisions both according to BoA regulations (for prudential and fiscal purposes) and to IFRS (for reporting to their mother entities). This duplication will continue after Basel II implementation, unless the related regulations change.	Statistics data are incomplete, uncertain and come from many sources. Easier and quicker access to statistics on industries and sectors is needed for Credit Risk Management purposes. There is an institution that collects and manages the information – INSTAT and centre of business registration (QKR) which keeps dataset on businesses. Development of interactions with INSTAT should take place and exploring additional information sources for this purpose are welcomed such as reaching agreement with QKR or involving of a non public entity such as research institute or university in collecting data. At the same time, buiding up a credit scoring system for individuals would be very helpful in managing the credit risk attached to them and in having credit terms and conditions relating to the risk profile.
Impact drivers	Industry economic driver	By changing the regulation on liquidity, banks could lower liquidity risk and improve liquidity risk management.	By improving the regulation, banks benefit from having a real dimension of their exposure to FX risks and to control foreign currency risk.	1. Through institutionalized access to information, banks will have better information regarding different industries and businesses. This reduces credit risk, operational risk and leads to efficiency of the banking system	

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				2. 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 of 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	Netter regulated liquidity ensures sound banking system and financial stability. Customers will be protected against the consequences of possible liquidity crisis.	It promotes banking system stability by a better coverage of risks with regulatory capital. A better risk management gives an enhanced coverage for the customers.	1. It serves to the stability and sustainable development by taking more informed lending decisions. 2. Lower cost and reduced uncertainty might lead to lower prices in bank products-loans to individuals. The higher quality loan portfolios addresses the concerns on the financial stability as well.	
Expected AAB Contribution		-To undertake ownership of the project -To provide experts for the working group -To validate the solutions -To implement recommendations	-To undertake ownership of the project -To provide experts for the working group -To provide data for impact calculations -To validate the solutions	-To undertake ownership of the project -To provide experts for the working group -To provide data for impact calculations -To validate the solutions	-To undertake ownership of the project -To provide experts for the working group -To offer data for surveys -To validate the solutions

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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 proposal -To follow implement the solution 	<ul style="list-style-type: none"> -To undertake ownership of the project -To provide experts for the working group -To validate the proposal -To follow up implementation 	<ul style="list-style-type: none"> -To provide experts for the working group -To validate and implement solution 	<ul style="list-style-type: none"> To provide experts for the working group -To validate solutions -To implement recommendations
Other Expected Contributions			Audit Companies Ministry of Finance	INSTAT, QKR, other public or private institutions

SUMMARY FEATURES OF PROPOSED PROJECTS (2)

OTHER THEMES

Banking Forum Issue	Strengthening judicial system on banking issues	Introduction of new products	The building of full technological capacities	The functioning of the interbank market	The increase of funds circulation through the system
Project	Revising regulatory act on Execution of Procedures on Bank accounts	Revising Public Procurement Law	Unique and rationalized reporting system	Preparing a feasibility study for a central depository	Establishment of a national settlement scheme for payments in foreign currency
Estimated starting time	April 2009	April 2009	April 2009	June 2009	September 2009
Actionable SPI Committee Proposal	PWG regulatory amendment proposal backed by an impact assessment	PWG proposals for a legislative package with the necessary changes to the regulatory framework (draft law and/or secondary regulations)	A comprehensive regulatory proposal on the new system of banks' reporting to the central bank	PWG recommendation to the financial sector on establishing a central depository	PWG recommendation on establishing a national settlement system for payments in foreign currency
SPI Albania Involvement Rationale	SPI Committee would ensure a public-private collaboration and foster dialogue	SPI Committee would ensure that the solution meets public interests while being feasible	SPI Committee is the appropriate structure to bring together the interested parties to agree on the standardized reporting	All main stakeholders being represented in the SPI Committee, this would facilitate reaching a solution addressing all interests and concerns	SPI Committee would bring a balanced view on the feasibility, advantages versus costs and risk mitigation
Description-Background	Bank of Albania current regulation on the implementation of execution on bank accounts is lacking provisions regarding public institution accounts or consolidated accounts. Notwithstanding financial	Article 7 of the Public Procurement Law (no.9643 dated 20.11.2006) excludes from the jurisdiction of the law financial services related to purchase, sale, or title transfer or other financial instruments. This	Until now banks have reported according to the national accounting standards. With the introduction of IFRS, its implementation will also impact the reporting system, which now should be	In Albania, there are individual banks acting as custodians, but there is not a central depository. This institutional lack prevents the development of the securities market and of the treasury bills market in	Albania has a high level of domestic EUR transactions. The current system of settlement exclusively via foreign correspondent banks is expensive, especially for low value transactions, therefore clients prefer to

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		intermediary role, banks are faced with the difficulty to execute bailiff orders. There is a need for a new regulation to be issued by the Bank of Albania.	provision restrains the Ministry of Finance when contracting complex loans because financial and supporting services (eg. legal services) associated to the loan contracting process lack coverage in the law. This hampers banks as they are in many cases offering financial services. In this context, there is a need to revise the public procurement law to include clear provisions on financial services.	unified.	particular (as the most advanced securities market). The feasibility study should assess the opportunity of building up this institution, the possible options to establish it and a recommendation to the financial sector based on a cost/benefit analysis.	perform their domestic EUR transactions in cash. A domestic payment system/a correspondent banking arrangement for EUR domestic transactions is likely to reduce settlement commissions and to decrease EUR cash transactions.
Impact drivers	Industry economic driver	By determining proper procedures regarding execution on public institution accounts, Banks operate in a safer institutional environment which protects them from abusive or unclear actions of bailiff offices, tax offices etc. Reduced uncertainty might be reflected in lower costs, improved bank-client	Banks will be offering financial services associated to the loan contracting process, leading to their business development.	Establishing one central depository would support an active Stock Exchange, securities' tradability and, as a result, an increase in their liquidity. Overall, this leads to fund raising opportunities for different actors in the market (foreign banks also) and to an increase in the income coming from transactions on the financial	By establishing this national system for payments banks could operate domestic EUR non-cash transactions faster and with lower costs and could reduce EUR cash transactions, with all attached costs.	

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	relationships and in more transparency with account operations.		market.		
Public good driver	Clear procedures could improve collection of receivables by state budget or by public companies.	By regulating environment for procuring financial services, the access to foreign borrowing improves and investments increase, facilitating economic development.	By having a central depository, public could be more interested in investing in Government bonds, facilitating thus public borrowing. This leads further to more governmental actions for economic development.	Customers could benefit of payment services in a shorter time and with cost efficiency. Use of cash in economy is reduced and informality decreases.	
Expected AAB Contribution	-To undertake ownership of the project -To provide experts for the working group and data for impact assessment -To validate the solutions	-To provide experts for the working group -To validate the solutions	-To undertake ownership of the project -To provide experts for the working group -To provide information on reporting requirements and on the reporting costs -To validate the solutions	-To provide experts for the working group -To provide data for impact assessment -To validate the solutions	-To undertake ownership of the project -To provide experts for the working group -To validate the solutions
Expected BoA Contribution	-To provide experts for the working group -To validate the proposal	-To provide experts for the working group	-To undertake ownership of the project -To provide experts for the working group -To validate and implement solution	-To provide experts for the working group -To validate the proposal	-To provide experts for the working group -To validate the proposal

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Other Expected Contributions	Ministry of Finance (Budget Department), Ministry of Justice (General Directory of Bailiff Office), General Tax Directorate, General Customs Directorate	Ministry of Finance (General Debt Department) – to undertake ownership, Public Procurement Agency, Council of Ministers	Audit companies	Securities market operators, Ministry of Finance Financial Supervisory Authority (to undertake ownership)	Other public and private institutions