

CONVERGENCE ROMANIA FINANCIAL SECTOR MODERNIZATION

SPECIAL PROJECTS INITIATIVE PUBLIC-PRIVATE STEERING COMMITTEE



Terms of Reference for Technical Anchor

Project: Loan loss provisioning in view of IFRS application

Project Owner: Veronica Raducanescu (NBR)

Project Manager: Oana Balanescu (NBR)

Deputy Project Managers: Dana Zachi (BCR) and Cornelia Dumitrescu (Alpha Bank)

Project Working Group: Banks (4 experts), NBR (1 expert), MoPF (2 experts)

Technical Anchor (TAN) Role

JAVIER DE LA CRUZ

Project Objective:

To assist the Project Management Group to prepare a set of principles commonly agreed by the relevant stakeholders (NBR-banks-MoPF) on a feasible update of the prudential requirements for provisioning (possibly including a methodology for calculating the provisions) that would meet supervisory objectives and reflect the IFRS and Basel II standards.

Role:

It is expected that TAN will perform the following functions, drawing from the PWG TOR.

Phase 1 (5 working days)

- **Knowledge sharing:** TAN should make a technical presentation (at a technical workshop) to the project working group on the Bank of Spain experience with designing the prudential rules in line with IFRS and Basel II requirements;
- **Work planning:** TAN should support the project working group in planning the future work with an adequate division of roles. In this regard, TAN should propose a detailed work program for the next phases of the project, outlining the contributions expected from each member (banks, NBR, TAN). The division of labor should take into account the SPI/Convergence approach according to which the role of TAN should be a complementary one, substituting the working group only after all existing knowledge has

SPI Committee Secretariat:

Ms. Oana Nedelescu, SPI Committee Secretary and SPI Director of Analytics and Policy

Ms. Ramona Bratu, SPI Director of Bank Products and Services

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been exhausted (this division on labor could be discussed and agreed the day following the technical workshop).

Phase 2 (several slots of 2-3 days from April through June)

- TAN would support the project depending on the concrete tasks established with the working group in order to achieve the project objective. It can be envisaged that TAN will perform the following tasks:
 - TAN will assist the PWG in analyzing the common elements and the differences in approach amongst IFRS-based supervisory regulations and how they ensure consistency between the accounting standards and prudential requirements, based on relevant international experience gathered by the PWG and provided by TAN
 - o support the PWG in making a comparison between the different approaches embraced by supervisors in designing provisioning regulations in line with IFRS and Basel II;
 - o assist the PWG in assessing whether the following actions are feasible steps in redesigning the prudential requirements to reflect IFRS and Basel II and what would be the enabling factors for each of them:
 - use the Basel II definition of default as trigger event for IFRS purposes;
 - use LGD as a measure for estimating the recovery cash flows corresponding to various assets classes;
 - use PD for provisioning at portfolio level;
 - use the internal rating systems as determinant factor in calculating provisions;
 - use dynamic provisioning.
 - o *outline a feasible approach for modifying the prudential regulations adapted to local conditions.*
 - TAN will assist the PWG in reaching a consensus on a solution acceptable for all parties, outlining the consistency of the prudential requirements with the accounting standards:
 - o support PWG in understand the pros and cons of the possible solutions and how they are aligned with international best practices;
 - o support PWG in reaching a solution that meets supervisory standards and banks needs for more efficient risk management and reporting.
 - TAN will review technical work/deliverables of PWG;
 - TAN will signal if PWG technical work goes “off track”.

Collaboration:

With PO/PM/DPM/SPI Secretariat

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Reporting:

Main: Project Owner; Secondary: SPI Secretariat.

Activity Budget

Mr. De La Cruz will be paid a daily fee of XY USD, plus travel costs. He is expected to provide his services for no more than 5 days.

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