



September 2, 2005

Romania Deposit Insurance Fund
Validation of Size Adequacy
Terms of Reference
Independent Assessment of Convergence Review

Background

In May 2005, the Director General of Romania's Deposit Insurance Fund has invited Convergence to assess whether a reduction in the premium charged to member banks could be justified in light of the Fund's current size and the present conditions in the Romanian economy and banking system.

Convergence Review

The review has focused on determining the nature and size of the Fund's risk exposure, analyzing bank-by-bank aggregate financial data made available by the Supervision Department of the National Bank of Romania. This has led to the formulation of a first tentative financial policy framework for the Fund. The reasonableness of such a framework and the feasibility of the proposed associated policy instruments are two critical factors that will influence the Romanian authorities' ability to reach an informed decision about the Fund's "optimal" size and attendant annual premium policy.

Rationale for Independent Assessment

The lack of relevant data to estimate the Fund's prospective risk exposure with a high degree of confidence suggests that the considered judgment of two seasoned independent analysts with significant high-level decision-making experience under uncertain conditions could strengthen the credibility of the Convergence proposal and promote the establishment of a constructive dialogue with Romanian counterparts.

Scope of Independent Assessment

The two independent analysts will write each a two-to-three page note. The note will highlight those features of the Convergence review that a policy-maker (a) could reasonably use as a direct input in his/her decision-making process and (b) should subject to further review/validation if taken at full face value for decision-making purposes.

It is expected that the independent analysts will work with the Convergence team as it completes the review so as to maximize the usefulness of the review for the Romanian decision-makers.

Convergence Team Obligation

The project team commits itself to communicate the notes prepared by the two independent analysts to the Romanian authorities as an integral part of the final report.