

How to Design Better Financial Regulation

– Regulatory Impact Assessment (RIA): A Key Policy Analysis Tool –

Wednesday

September 12, 2007

Getting to know Better Regulation and Regulatory Impact Assessment for Financial Industry

Seminar Objective:

Participants have learnt how to execute in their working experience the following items:

- Application of law and economics approach to policy design;
- Organization of the regulatory process along the prevailing EU practice;
- Involvement of stakeholders for qualitative/quantitative IA;
- Development of RIA/Better Regulation Units within respective regulators.

Session Objective:

Participants have learnt several aspects of the RIA process: organizational implications, various assessment methodologies, which steps the IA process is made up of, and practical applications.

Chair: Mr. Luigi Passamonti Head of Convergence Program, The World Bank

- 8:45 – 9:00 Registration of participants
- 9:00 – 9:15 Introduction and Context
- Welcome to Participants by the CEF Management and House-keeping information
 - Introduction of Participants
- 9:15 – 9:30 Course introduction and Context
Convergence Program
- 9:30 – 10:30 [Impact Assessment at Better Regulation Executive: how has the regulatory process been reshaped](#)
Ms. Helen Carrier, Senior Economist, Department for Business, Enterprise and Regulatory Reform (BERR), UK Government
- [BERR Impact Assessment Template](#)
- 10:30 – 11.00 *Break*
- 11:00 – 12:00 [A framework for assessing the costs and benefits of financial regulation](#)
Mr. Paul Gower, Senior Adviser, Oxera
- 12:00 – 12.30 Discussion, feedback and interventions
- 12:30 – 13:30 *Lunch Break*
- 13:30 – 14:00 [Keynote speech](#) addressed by *Mr. Stefan Nanu, General Director, Romania Ministry of Economy and Finance, SPI Committee Alternate Member*

- 14:00 – 15:00 [Illustration of draft Impact Assessment Guidelines prepared by CESR-CEBS-CEIOPS](#)
Dr. Alexandra Berketi, Senior Officer, CESR
- [CEIOPS Experience with Impact Assessment](#)
Ms. Sandra Wesseling, Senior Officer, CEIOPS
[CESR-CEBS-CEIOPS draft Impact Assessment Guidelines](#)
- [Impact Assessment Information Complement](#)
- 15:00 – 15:20 Discussion, feedback and interventions
- 15:20 – 16:00 Panel discussion on main principles raised from previous presentations
Members of panel: Ms. Carrier, Mr. Gower, Mr. Nanu, Dr. Berketi, Ms. Wessling
- 16:00 – 16:45 [Standard Cost Model: a key tool for policymakers to monitor effectively regulatory administrative burdens over time](#)
Mrs. Constanze Rübke, Consultant, Rambøll Management [by video-conference]
- [Reducing Administrative Burdens, by Danish Commerce and Company Agency](#)
- 16:45 – 17:00 Wrap up and end of session.

Thursday

September 13, 2007

Case Studies

Session Objective:

Participants have become more familiar with IA approach by going through a selected range of case studies which differed in qualitative/quantitative weights and analysis perspective.

Chair: Mr. John Pyne, Senior Regulator, Irish Financial Services Authority

- 9:00 – 10:30 [Impact Assessment and the regulatory design of Securitization in Croatia](#) (including discussion, feedback and interventions)
Mr. Velimir Šonje, Arhivanalitika General Manager and South-East Europe Regional RIA Program Deputy Director
- 10:30 – 11:00 *Break*
- 11:00 – 12:30 [Impact assessment in practice: MiFID Case study](#) (including discussion, feedback and interventions)
Mr. Stephen Dickinson, Senior Regulator, UK Financial Services Authority
- 12:30 – 14:00 *Lunch break*
- 14:00 – 14:40 [Credit fraud detection – RIA-based solution](#)
Mr. Pietro Scabellone, Head of Impact Assessment Unit, Italian Banking Association
- 14:40 – 15:00 Discussion, feedback and interventions
- 15:00 – 15:30 *Break*
- 15:30 – 16:30 [The Regulatory Impact Assessment on Post-trading Activities](#)
Mr. Sebastijan Hrovatin, DG Internal Market and Services, Financial Market Infrastructure Unit, European Commission

- 16:30 – 16:50 Discussion, feedback and interventions
- 16:50 – 17:00 Wrap-up
- 17:00 – 17:30 Live RIA exercise preparatory work
(Instructors met with their respective Working Groups and had a preliminary briefing on how to approach RIA applied to the case studies)
- 17:30 End of session

Friday

September 14, 2007

Applying RIA to the Official Regulatory Process

Session Objective:

Participants have experienced a live RIA exercise on specific policy initiatives really implemented

Chair: Ms. Oana Nedelescu, Romania SPI Director of Analytics and Policy

Facilitators:

- Mr. Stephen Dickinson, Senior Regulator, British Financial Services Authority;
- Mr. John Pyne, Senior Regulator, Irish Financial Services Authority;
- Mr. Velimir Šonje, Arhivanalitika General Manager and South-East Europe Regional RIA Program Deputy Director.

Participants have practiced the Impact Assessment process, step by step, of the case studies illustrated the previous day, using the IA Guidelines illustrated by CESR representative in the first day.

Participants have been divided into three working groups (WGs), each supported by the respective case presenter. The case presenter, acting as facilitator, has provided assistance and guidance throughout the analytical exercise and has ensured that the plenary discussion takes place in a smooth manner.

- 9:00 – 13:00 Analytical RIA work
Break in between Facilitators outline the case studies presented previously. Working Groups are formed and the RIA application to case studies starts as illustrated in the table below:

13:00 – 14:00 *Lunch break*

14:00 – 16:30 Plenary discussion on IA exercises produced by groups

- [Credit Fraud Detection Case Study](#)
- [Croatia Securitization Case Study](#)
- [MiFID Case Study](#)

The following Slovenian Institutions and market participants have attended the plenary session as observers:

- Ms. Nataša Pukl, Director of the Banking Supervision Department, Bank of Slovenia;
- Mr. Aleš Butala, Advisor at the Department for Banking, Insurance, and Payment System at the Ministry of Finance;
- Mr. Boris Bajt, Head of Legal Office, UniCredit Bank, Slovenia

- 16:30 – 17:00 [Concluding Remarks and Next Steps](#)
Riccardo Brogi, Convergence Program and South-East Europe Regional RIA Program Director

The working groups were composed as follows:

Steps of the RIA Process	Purpose of each RIA Step	Croatia Securitization	MiFID/Post-trading	Credit databases
		Velimir Sonje	Stephen Dickinson	John Pyne
		WG # 1	WG # 2	WG # 3
1. Problem identification	To understand a market/Regulatory Failure analysis to establish whether or not there is an economic case at all for regulatory intervention	All 3 WGs jointly		
2. Development of "do nothing option"	To identify and state the status quo	Convergence <i>Mr. Riccardo Brogi</i>	Croatia Institute of Economics <i>Ms. Jelena Budak</i>	Bulgaria Financial Superv. Comm. <i>Ms. Katerina Gigova</i>
3. Development of alternative policy options	To identify and state alternative policies among them the "market solution" which consists in not intervening at all in the market and to rely on market forces alone to solve the problem	Croatia Ministry of Economy <i>Ms. Sanja Fišer</i>	Albania Bank of Albania <i>Mr. Artan Toro</i>	Kosovo Ministry of Economy <i>Mr. Mentor Osmanaj</i>
4. Definition of policy objectives	To identify the effects of policies. This will be useful to check whether the regulatory policy brings the market closer in line with organizational regulatory objectives	Albania Bank of Albania <i>Ms. Eteva Gjonca</i>	Romania National Commission <i>Mr. Remus Carteleanu</i>	Montenegro Ministry of Finance <i>Mr. Vladimir Kavarić</i>
Analysis of impact				
5. Costs to users	To identify and state the costs borne by consumers under all options considered	Bulgaria Financial Superv. Comm. <i>Ms. Elena Paneva</i>	Croatia Ministry of Economy <i>Ms. Ana Vincent Šepić</i>	Montenegro Barents Group <i>Mr. Bruce Reid</i>
6. Benefits to users	To identify and state the benefits yielded by consumers under all options considered	Kosovo Ministry of Labour <i>Mr. Veli Lecaj</i>	Romania National Bank <i>Mr. Gabriel Valvoi</i>	Macedonia Ministry of Finance <i>Ms. Violeta Stojanovska Petrovska</i>
7. Costs to regulated firms and regulator	To identify and state the costs borne by regulator and regulated firms under all options considered	Serbia National Bank <i>Ms. Maja Marković</i>	Bulgaria Financial Superv. Comm. <i>Ms. Venelina Tomova</i>	Montenegro USAID Montenegro <i>Mr. Savo Djurović</i>
8. Benefits to regulated firms and regulator	To identify and state the benefits yielded by regulator and regulated firms under all options considered	Slovakia National Bank <i>Mr. Tomas Ambra</i>	Croatia Ministry of Economy <i>Ms. Helena Milkovic</i>	Slovenia Bank of Slovenia <i>Mr. Matej Pollick</i>
Public consultation				
9. Arrangements of consultation process	To identify all main relevant stakeholders that should be consulted, outline some questions to be discussed in the consultation and choose the possible way(s) consultation process might be run	Croatia Ministry of Economy <i>Ms. Jasminka Keser</i>	Slovenia Office of the President <i>Ms. Barbara Fakin</i>	Kosovo Ministry of Economy <i>Mr. Dugagjin Krasniqi</i>

List of Participants

Country	Title	Name	Last name	Institution	Position	E-mail
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Slovenia	Mr.	Matej	Pollick	Bank of Slovenia	Expert	matej.pollick@bsi.si

List of Speakers

Title	Name	Last name	Position	Institution	Country	E-mail
Ms.	Alexandra	Berketi	Senior Officer	The Committee of European Securities Regulators (CESR)	France	A.Berketi@cmc.gov.gr
Mr.	Riccardo	Brogi	Senior Regulatory Economist and	Convergence Program	USA	rbrogi@worldbank.org
Ms.	Helen	Carrier	Senior Economist	Department for Business, Enterprise and Regulatory Reform – UK government	UK	Helen.Carrier@berr.gsi.gov.uk
Mr.	Stephen	Dickinson	Senior Regulator	Financial Services Authority	UK	Stephen.Dickinson@fsa.gov.uk
Mr.	Paul	Gower	Senior Adviser	Oxera	UK	Paul_Gower@oxera.com
Mr.	Sebastijan	Hrovatin	DG Internal Market and Services	Financial Market Infrastructure Unit - European Commission	Belgium	Sebastijan.HROVATIN@ec.europa.eu
Mr.	Stefan	Nanu	General Director of General Treasury and Public Debt	Ministry of Economy and Finance	Romania	stefan.nanu@mfinante.ro
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Mr.	Velimir	Šonje	General Manager	Arhivanalitika	Croatia	vsonje@arhivanalitika.hr
Ms.	Sandra	Wesseling	Senior Officer	The Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS)	Germany	A.A.T.Wesseling@DNB.NL



How to Design Better Financial Regulation



Reshaping Impact Assessment

Helen Carrier

Regulation, Appraisal & Evaluation Section

Department for Business, Enterprise and Regulatory Reform

Ljubljana, 12th September 2007

Why regulate?

- Well designed government interventions can:
 - Correct market failures (productivity benefits)
 - Address equality issues/redistribution

Why worry about regulation?

... Because Government intervention can:

- Create unnecessary bureaucracy for private and public sectors
- Add to firms' costs
- Reduce innovation, productivity and ultimately growth of the economy
- Distort competition, e.g. create barriers to new firms
- Damage small businesses
- Have adverse impacts on different groups in society

IoD Competitiveness Survey of 2006:

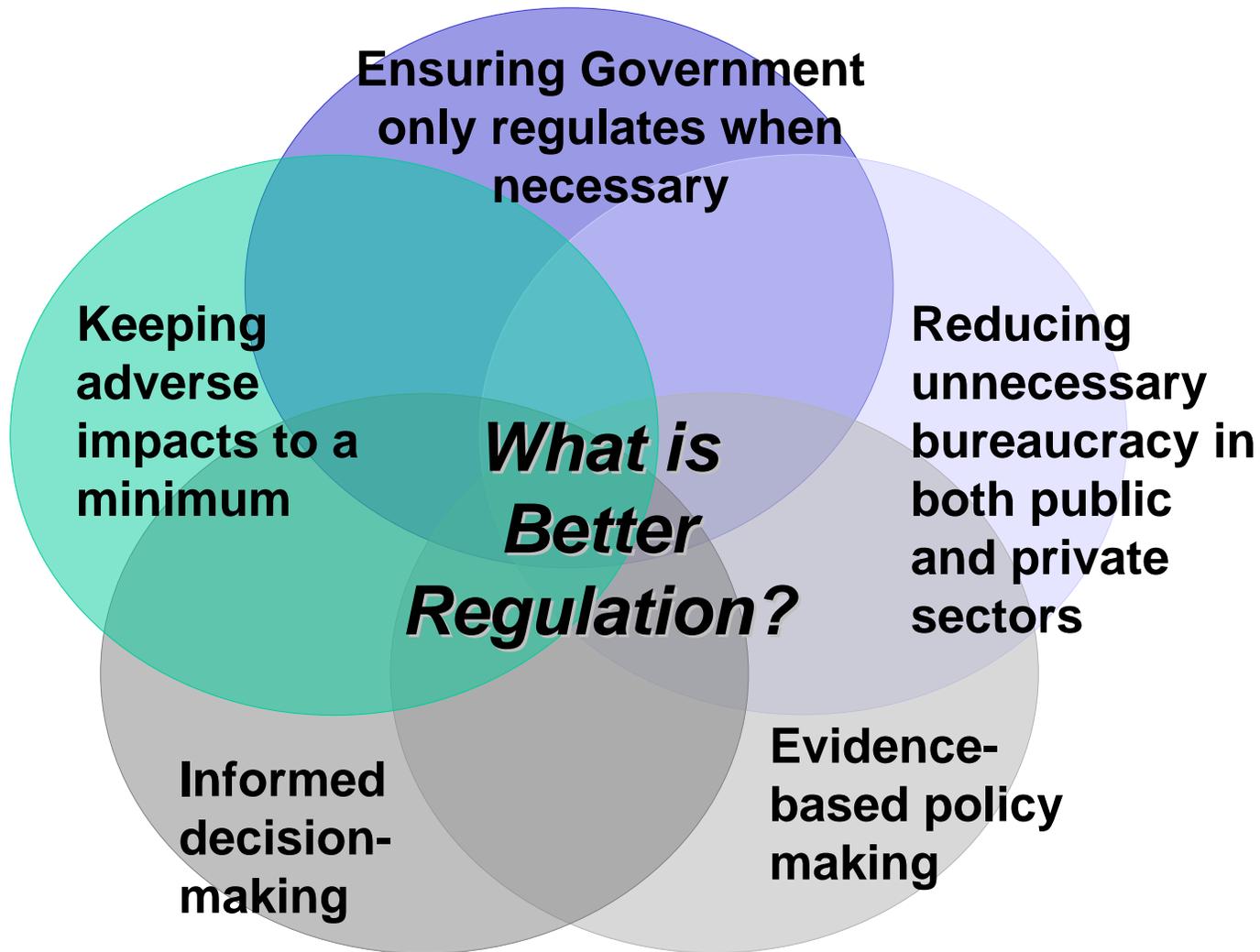
31% of respondents stated less regulation would be their number 1 reform to boost UK competitiveness

2005 changed the UK's regulatory landscape

- Budget 2005, UK Government announced acceptance of 2 key reports:
 - Better Regulation Task Force 'Less is More. Reducing Burdens, Improvement Outcomes'
 - Hampton Review on Inspection and Enforcement

Result was an updated better regulation agenda

- Not about removing necessary safeguards; is about better policy making underpinning a global, competitive economy capable of sustainable growth
- Regulation should be proportionate; accountable; consistent; transparent and targeted



Workstreams to support the agenda

- Measuring the stock of admin burdens
- Target setting and simplification
- **Checking regulatory flow through regulatory impact assessment**

The old regulatory impact assessment had some real strengths.....

- ✓ Established brand. Widespread currency
- ✓ Compliance across central government was close to 100%
- ✓ Lengthy history and high rates of compliance has given the UK a reputation as a world leader
- ✓ Approach fully integrated into consultation mechanisms
- ✓ Increasing use by Parliament and other external challenge bodies (e.g. National Audit Office) to hold Government to account

.... but some weaknesses as well

- Insufficient recognition of fundamental purpose i.e. rigorous analysis underpinning policy-making
- Too often seen as the last hurdle to regulate – not properly embedded in early analysis – poor ex-post review
- Often no clear statement of the underlying problem
- Alternatives not sufficiently considered (including do nothing)
- Critical data hard to find or missing
- Arguments and evidence inaccessible; narrative too discursive

Objectives underlying revisions to impact assessment

- Embed impact assessment at the heart of policy-making
- Improve the quality of the economic and other analysis that underpinning policy-making
- Increase the transparency underpinning policy options

Main proposals behind the revision

- Revised template with one-page summary sheet
- Shorter guidance
- No requirement to have three policy options
- Internal sign off declaration
- Focus on full range of impacts of policy options
- Changing name from 'Regulatory Impact Assessment' to 'Impact Assessment'
- On-line database bringing a single point of access
- Improved training and support to departments

SUMMARY: INTERVENTION & OPTIONS

Department	Impact Assessment of
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Stage	Version	Related Publications
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Available to view or download at: [www.](#)

Contact name for enquiries:

Telephone number:

What is the problem under consideration? Why is government intervention necessary?

What are the policy objectives and the intended effects?

What policy options have been considered? Please justify any preferred option.

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects? mm/yyyy

Ministerial Sign-off For consultation stage Impact Assessments:
I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options
Signed by the responsible Minister:

Date:

Ministerial Sign-off For final proposal/implementation stage Assessments:
I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) that the benefits justify the costs.
Signed by the responsible Minister:

Date:

SUMMARY: ANALYSIS & EVIDENCE

Policy Option	Description
ANNUAL COSTS One off (Transition) £ <input type="text"/> Yrs <input type="text"/> Average Annual Cost (excluding one-off) £ <input type="text"/> Total Cost (PV) £ <input type="text"/>	Description and scale of key monetised costs by 'main affected groups'

Other **key non-monetised costs** by 'main affected groups'

ANNUAL BENEFITS One off £ <input type="text"/> Yrs <input type="text"/> Average Annual Benefit (excluding one-off) £ <input type="text"/> Total Benefit (PV) £ <input type="text"/>	Description and scale of key monetised benefits by 'main affected groups'
--	--

Other **key non-monetised benefits** by 'main affected groups'

Key Assumption/Sensitivities/Risks

Price Base Year	Time Period Years	Net Benefit Range (NPV) £ <input type="text"/>	NET BENEFIT (NPV Best estimate) £ <input type="text"/>
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What is the geographic coverage of the policy/option?				
On what date will the policy be implemented?				
Which organisation(s) will enforce the policy?				
What is the total annual cost of enforcement for these organisations?				£ <input type="text"/>
Does enforcement comply with Hampton principles?				Yes/No
Will implementation go beyond minimum EU requirements?				Yes/No
What is the value of the proposed offsetting measure per year?				£ <input type="text"/>
What is the value of changes in greenhouse gas emissions?				Negligible/£
Will the proposal have a significant impact on competition?				Yes/No
Annual cost (£-£) per organisation (excluding one-off)		Micro <input type="text"/>	Small <input type="text"/>	Med <input type="text"/> Large <input type="text"/>
Are any of these organisations exempt?		Yes/No	Yes/No	N/A N/A

Impact on Admin Burdens Baseline (2005 Prices)			Net Impact £ (Increase - Decrease)
Increase of £ <input type="text"/>	Decrease of £ <input type="text"/>		

Key: Annual Cost: Constant Prices (Net) Present Value

Evidence Base for Summary Sheets

[Use this space (with a recommended maximum of 30 pages) to set out the evidence, analysis and detailed narrative from which you have generated your policy options or proposal. Ensure that the information is organised in such a way as to explain clearly the summary information on p.1 and p.2 of this form.]

Specific Impact Tests - Checklist

Use the table below to demonstrate how broadly you have considered the potential impacts of your policy options.

Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.

Type of testing undertaken	Results in Evidence Base? (Y/N)	Results annexed? (Y/N)
Competition Assessment		
Small Firms Impact Test		
Legal Aid		
Sustainable Development		
Carbon Assessment		
Other Environment		
Health Impact Assessment		
Race Equality		
Disability Equality		
Gender Equality		
Human Rights		
Rural Proofing		

Two tests to help assess impact of proposed regulation on business

- Competition Assessment - would a regulatory proposal:
 - Directly limit the number or range of suppliers?
 - Indirectly limit the number or range of suppliers?
 - Limit the ability of suppliers to compete?
 - Reduce suppliers' incentives to compete vigorously?

Another test of interest

- Small firms impact test
 - THINK SMALL FIRST
 - Most policies affecting business will bear on small businesses more heavily than large ones
 - Small business has significantly less resource and time available to cope with regulatory change

Immediate reactions to revisions

- Accepted the template
- Encouraged conciseness
- Focussed minds on the problem, the objectives, the evidence requirements/evaluation and other things that have been missed before
- Encouraging greater monetisation/quantification
- Made people aware of the need to engage specialists
- Issues remain around proportionality/cost benefit analysis

Supporting the transition period

Setting the framework to assist transition:

- Training programmes
- Impact assessment peer review groups
- Learning from the approach of other departments/cross Government support
- Additional push on analysis and use of evidence (demystifying economics) as a core requirement for all

Questions?

SUMMARY: INTERVENTION & OPTIONS

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<p>Key Assumption/Sensitivities/Risks</p>				
Price Base Year	Time Period Years	Net Benefit Range (NPV) £ <input style="width: 100px;" type="text"/>	NET BENEFIT (NPV Best estimate) £ <input style="width: 150px;" type="text"/>	
What is the geographic coverage of the policy/option?		<input style="width: 100%;" type="text"/>		
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Will implementation go beyond minimum EU requirements?		Yes/No		
What is the value of the proposed offsetting measure per year?		£ <input style="width: 100%;" type="text"/>		
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Will the proposal have a significant impact on competition?		Yes/No		
Annual cost (£-£) per organisation (excluding one-off)		Micro <input style="width: 40px;" type="text"/>	Small <input style="width: 40px;" type="text"/>	Med <input style="width: 40px;" type="text"/>
Are any of these organisations exempt?		Yes/No <input style="width: 40px;" type="text"/>	Yes/No <input style="width: 40px;" type="text"/>	N/A <input style="width: 40px;" type="text"/>
<p>Impact on Admin Burdens Baseline (2005 Prices)</p> <p>Increase of £ <input style="width: 100px;" type="text"/> Decrease of £ <input style="width: 100px;" type="text"/> Net Impact £ (Increase - Decrease) <input style="width: 100px;" type="text"/></p>				
Key:		Annual Cost: Constant Prices	(Net) Present Value	

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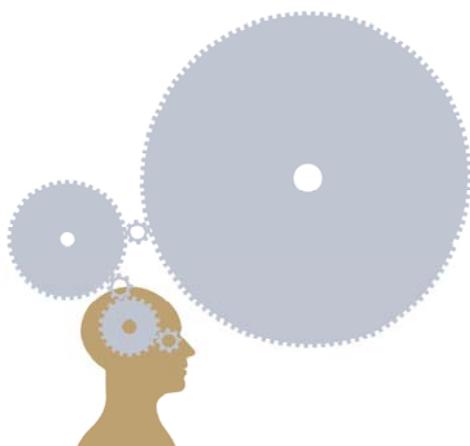
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Health Impact Assessment		
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Disability Equality		
Gender Equality		
Human Rights		
Rural Proofing		



A framework for assessing the costs and benefits of financial regulation

Prepared for 'How to Design Better Financial Regulation - Regulatory Impact Assessment (RIA): A Key Policy Analysis Tool'



Dr Paul Gower

Senior Adviser

September 12th 2007

Overview

- introduction
- key building blocks of an RIA
- market failure/impact
- assessing and quantifying costs
- assessing and quantifying benefits
- impact assessment in practice
- further issues

Introduction

- RIAs should be undertaken at the beginning of the policy-making process—not the end
- market failure analysis (MFA) is vital at an early stage
- need to be able to identify the relevant market
- measure impact against a benchmark/counterfactual
- consider all potential government interventions, including the ‘do nothing’ option
- monitoring and evaluation plans need to be formulated

Key building blocks of an RIA (I)

- important to determine the scope of the RIA in terms of:
 - relevant markets
 - identification of affected parties
 - identification of baseline/counterfactual
 - time scale
- what do we mean by relevant markets? (markets in an economic sense, not financial)
 - see, for example, the Oxera (2004) review of the UK Financial Services and Markets Act which identified 18 high-level markets
 - may be necessary to sub-divide further

Key building blocks of an RIA (II)

- the parties affected may include:
 - those who incur costs directly/indirectly
 - those who benefit directly/indirectly
- effects may be different even with a single group affected
 - costs may fall more on small firms rather than large
 - some consumers may benefit at the expense of others
- baseline/counterfactual must be meaningful
 - regulation may simply reinforce current best practice for some firms affected (consider incremental costs/benefits)
- time scale chosen may affect net impact

Market failures

- benefits of government intervention are improvements in market outcomes compared with a situation without intervention (eg, consumer choice, prices, costs of financial failure)
- with no intervention, adverse effects in the provision of financial services may arise from:
 - market failures
 - asymmetric information
 - market power
 - externalities
 - risks
 - operational
 - default
 - systemic
 - incentive problems

Market impact

- beware—market failure alone may not be sufficient justification for intervention
- market failure, risks and incentive problems are all linked
- also need to assess impact on competition
- may also need to consider unintended consequences
 - important to think about all parties who may be affected
- need to consider how behaviour of market participants may change when there is government intervention

Assessing and quantifying costs (I)

- direct costs can emerge for all parties affected, including government/regulator
- compliance costs usually incurred by firms in financial services rather than by consumers
 - can relate to administrative costs and policy costs
- policy costs refer to ways in which a firm changes its behaviour or strategy
 - often overlap with administrative costs
- Examples of costs arising from financial regulation are contained in the Deloitte (2006) report

Assessing and quantifying costs (II)

- administrative costs refer to the need to comply with third-party information requirements to statutory bodies
 - need to consider only incremental costs
 - incurred in addition to normal business activity
 - often referred to as administrative burden
 - measured using Standard Cost Model
 - equates time taken on a task with the unit cost of the task
 - should provision of information to consumers be considered as well?
 - different firms may incur different costs to provide the same information
- need to distinguish between one-off and ongoing costs
- what about cost savings?
- examples of administrative burdens arising from financial regulation are contained in the Real Assurance Risk Management (2006) report

Assessing and quantifying benefits (I)

- measurement of benefits is a complex exercise in practice
- need to think in terms of improvements in market outcomes
- must consider how market failures, risks and incentive problems combine
 - severe market failure may not be a problem if risks are low/there are no incentive problems
- improvements may be seen from the perspective of consumers, firms or the economy as a whole
 - identify the ways in which improvements may occur

Assessing and quantifying benefits (II)

- may be possible to measure market outcomes directly
 - market prices/transactions costs
 - often difficult to do in practice
 - particularly problematic in the case of assessment of future benefits
- better results may be obtained from indirect measures
 - assessment of the ways in which intervention brings about desired change in market outcome
 - quantifies intermediate stages along the process
 - must be able to validate link between intermediate stages and final outcome
- A methodology for assessing benefits is more fully described in the Oxera (2006) report and an actual example of this methodology, in practice, can be found in the Oxera 2007 report on the benefits of the 'suitability letter'

Impact assessment in practice - the Consumer Credit Directive (I)

- Consumer Credit Directive first published in 2002
- Oxera impact assessment undertaken in 2003
- Further amendments to the Directive necessitated an updated impact assessment in 2007
- Study assumed that the direct costs of the Directive would be passed on to consumers
- Also assumed a reduction in availability of credit due to reduction in willingness of providers to supply it

Impact assessment in practice - the Consumer Credit Directive (II)

- Study considered impact of reduced credit supply on general UK economy and consumer welfare
- Effects on the economy estimated using a macroeconomic model
 - directive would result in a fall in consumer spending of 0.2% and one off fall in GDP of 0.08% within 2 years
- Impact on welfare arises through loss in consumer surplus
 - quantified by estimating price elasticity of demand for consumer credit and undertaking scenario analysis for different price increases of credit
 - medium scenario gave an estimated welfare loss of 216 million Euros

Further issues

- costs and benefits may arise in the future and at different times
 - important to consider how these can be restated to current values
 - what discount rate should be used?
 - government intervention may not affect all groups in the same way
 - look at distributional effects
 - may be differences even within broadly similar groups
- risk and sensitivity analysis must be undertaken
 - what could affect the desired outcomes of the intervention?
 - how may the outcomes change if there are changes in the external environment?
- monitoring and evaluation vital to assess impact
 - implementation reviews
 - further cost–benefit analysis

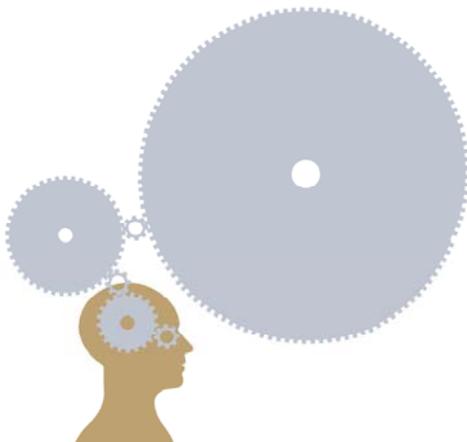
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www.oxera.com

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How RIA-Based Consultations Benefit Policy Design

The SPI Romania Experience

Stefan Nanu

General Director, Ministry of Economy and Finance

Member of the SPI Romania Committee



ROMANIA

CONVERGENCE FINANCIAL SECTOR MODERNIZATION

Public-Private Special Projects Initiative



What is SPI Romania?

A public-private partnership established in September 2006 to provide focus and coordination to an accelerated modernization of the Romanian financial sector.

Set-Up

- **SPI Committee**

High-level direction and endorsement

- **Public-Private Working Groups**

Analyses (including RIA), consultations and recommendations to SPI Committee

- **SPI Secretariat**

Overall management and coordination



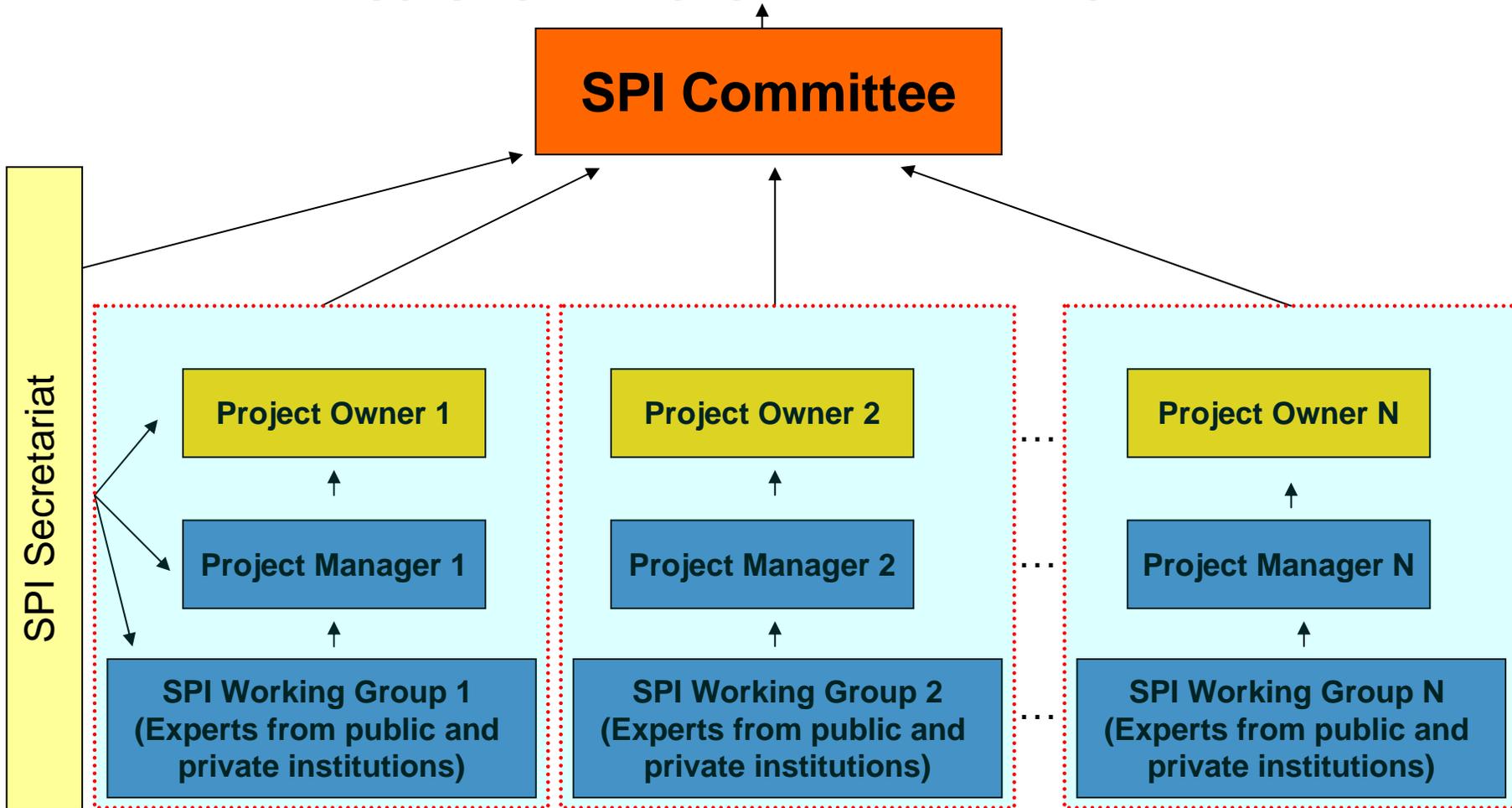
ROMANIA

CONVERGENCE FINANCIAL SECTOR MODERNIZATION

Public-Private Special Projects Initiative



SOLUTION ENDORSEMENT AND ENACTMENT



SOLUTION FINDING (Based on public-private consultations through RIA)



ROMANIA

CONVERGENCE FINANCIAL SECTOR MODERNIZATION

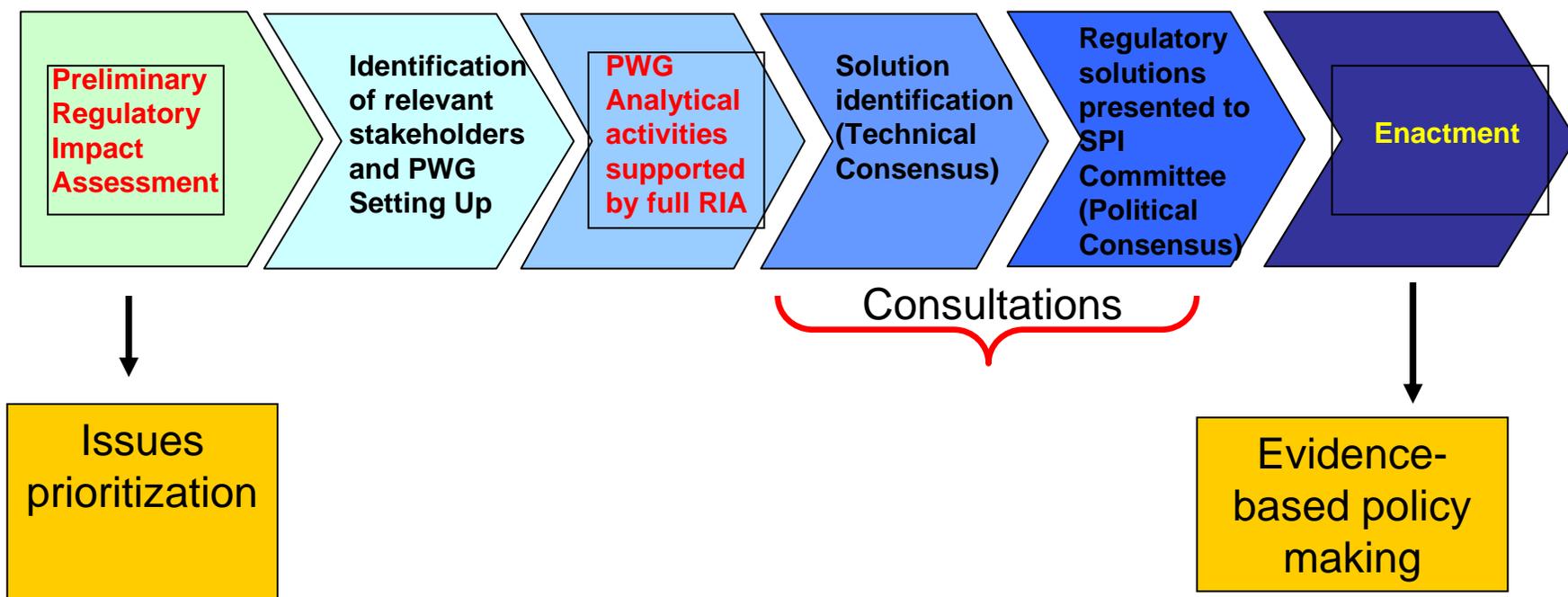
Public-Private Special Projects Initiative



SPI Projects

- Relevant to both authorities and market participants;
- 2007 SPI Projects:
 - 15 projects mobilizing over 120 financial sector professionals
 - examples of successfully completed SPI projects:
 - ✓ expansion of positive credit information sharing;
 - ✓ amendment of anti-money laundering legislation;
 - ✓ promoting the electronic processing of debit instruments;
 - ✓ bank ombudsman establishment;
 - ✓ IFRS provisioning;
 - ✓ rural lending;
 - ✓ bank security law, etc.
- The public-private interface strengthens technical cooperation and mutual understanding between public institutions and market participants
 - Public-private consultations are now institutionalized.

The role of RIA and Consultations in the SPI process



Benefits of RIA in Policy Design (I)

AML Project

- RIA enabled the PWG to identify the detailed policy options that would rationalize the institutions' AML reporting system while preserving high AML standards;
- SPI Romania RIA accompanied the law amendment proposal when MEF promoted the legislative initiative;

Debit Instruments Project

- RIA outlined the large positive impact for users and financial intermediaries from the decrease of the banks' operational costs;
- SPI Romania RIA also accompanied the law amendment proposal when MEF promoted the legislative initiative;



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CONVERGENCE FINANCIAL SECTOR MODERNIZATION

Public-Private Special Projects Initiative



Benefits of RIA in Policy Design (II)

Rural Lending Project

- RIA outlined the benefits for both public and private stakeholders and triggered the development of a mix (public-private) solution;
- RIA will accompany the law amendment proposal when MA will promote the legislative initiative;

Positive Information, Law on Goods Safety, Lending Databases, Ombudsman, Consumer Education Projects

- RIA outlined the impact on the stakeholders and helped at tailoring the solutions;
- In some cases (Positive Information Reporting), RIA supported the development of industry self-regulatory options as an alternative to prescriptive regulations;
- RIA also outlined the positive impact on the state budget from the increase in the taxable profit of banks resulting from cost efficiencies.

Benefits of RIA in Policy Design (III)

IFRS Provisioning Project (RIA Underway)

Background:

- The NBR rules on provisioning will be changed to implement IFRS
- The NBR rules are essentially a prudential regulation but
- Provisions are currently fully deductible, therefore fiscal implications

An analysis of the fiscal implications will enable MEF to make a decision regarding the fiscal treatment of the provisions calculated on the basis of the new framework.

Actions: Questionnaire designed by public-private working group; bank survey launched through NBR, results expected by October.

Role of Consultations in the SPI Process

- ✓ Based on RIA analysis, to ensure that the technical solution is adequate from the authorities point of view, but takes into account the market participants opinion;
- ✓ To build stakeholder “ownership” for the solution and therefore prepare for:
 - a quick enactment;
 - a smooth solution implementation.

Benefits of Consultations in Policy Design (I)

AML Project

- The regulatory solutions identified stroke a balance between high AML standards and the needs of the reporting institutions (including MEF) to have more efficient AML reporting system;

Debit Instruments Project

- The regulatory solutions were based on the consensus of the stakeholders, ensuring that the technical solution will be implemented smoothly;

Rural Lending Project

- The multi-stakeholder solution represents an efficient public-private institutional scheme, aimed at removing the current deadlock in the official actions for making the warrants-deposit certificates system operational;

Benefits of Consultations in Policy Design (II)

IFRS Provisioning Project

- The RIA consultations enabled an accurate determination of the potential impact of the new NBR regulations on the banks' financial statements and the state budget and allowed for the identification of the alternative fiscal solutions for the treatment of provisions;

Other SPI Projects

- The regulatory / institutional solutions stroke a balance between the public and private interests and therefore facilitated a smooth and effective implementation;
- The consultations helped fine-tuning the regulation;
- The consultations helped basing solutions on established market participants practices.

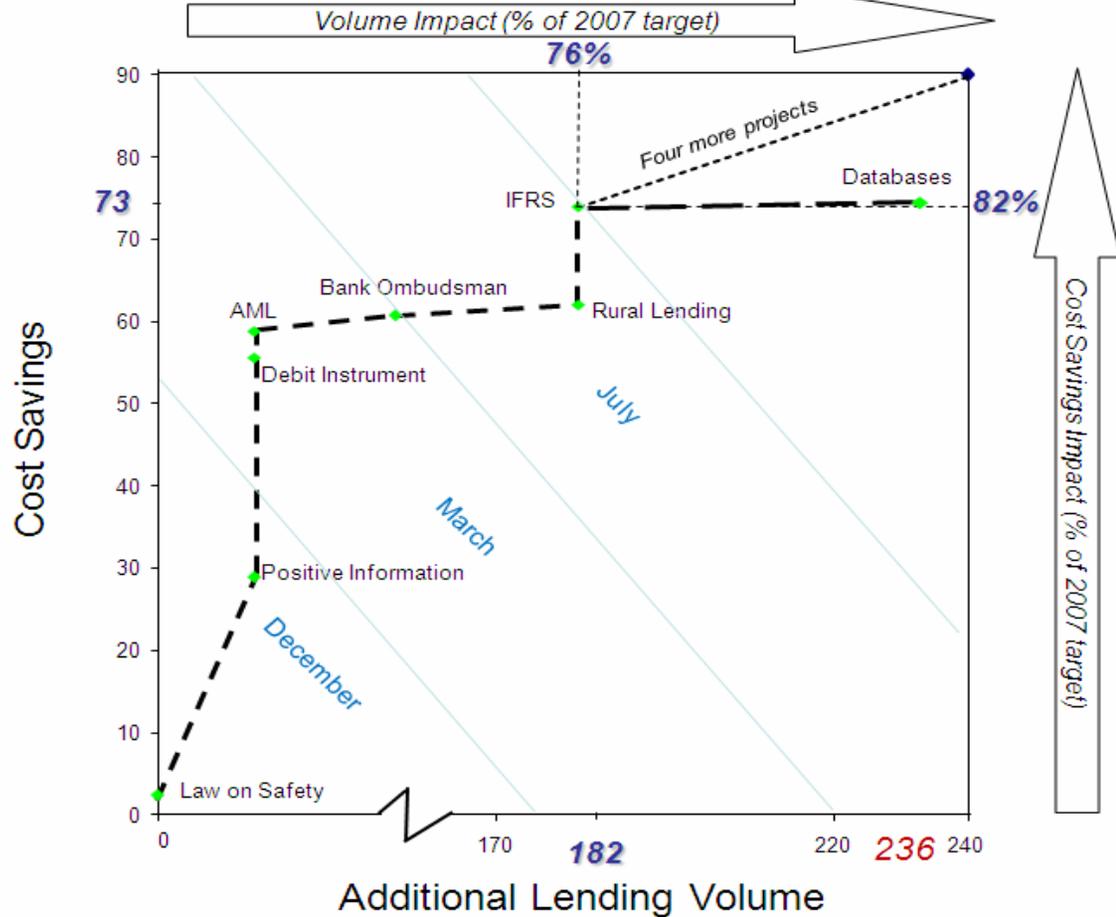
Conclusions

RIA-based consultations have been an useful policy design tool since they:

- ✓ Strengthened the Romanian financial community's analytical culture and promoted evidence based policy making (in line with “better regulation” concept);
- ✓ Enhanced public-private dialogue on financial sector modernization needs;
- ✓ Enabled the identification of workable regulatory and institutional solutions.

A USEFUL RIA BY-PRODUCT!

Financial Impact of Finalized SPI Projects (Mln, EUR) – First Full Year





ROMANIA

CONVERGENCE FINANCIAL SECTOR MODERNIZATION

Public-Private Special Projects Initiative



Message to Workshop Participants

Our countries need continued legislative and regulatory reforms for real convergence with the EU.

To achieve quality results efficiently, our countries need to innovate on two fronts:

- **More evidence-based policy analysis**
- **More dialogue between authorities and other stakeholders.**

The SPI public-private partnership is an attractive platform because:

- **It places analytics at the core of its working method;**
- **It offers a well structured environment of carrying out projects and conducting the consultations.**

Message to Workshop Participants (2)

SPI Romania is keen to share its experience to support:

- **similar SPI initiatives in other countries in the region**
 - **Already started: Serbia;**
- **the development of a regional Financial Sector RIA network**
 - **To collaborate on analytics and consultations in the spirit of the “better regulation” concept;**
 - **A possible role for CEF as a “hub”.**

For more information see

www.spi-romania.eu

Thank you!



Impact Assessment Guidelines for EU Lamfalussy Level 3 Committees

Ljubljana, 12-14 September 2007

Presentation by:

Dr Alexandra Berketi, Senior Officer, CESR



What is Impact Assessment ?

- IA is a method to assess the impact of regulatory / supervisory policies and practices.
- IA means doing in a systematic and transparent way what regulators/supervisors more or less always do when they design, implement and enforce policies.



Advantages of Impact Assessment

1. Better quality of policy making,
2. More transparent policy making,
3. Better communication with regulated/supervised firms (market participants).
4. More credible evidential basis for policy proposals



The chronological order of the 3L3 IA guidelines' adoption

1. February 2007: 3L3 Committees adoption of draft guidelines
2. March 2007: Pilot Studies' inception
3. May-August 2007: IA guidelines on consultation
4. December 2007/January 2008: Target for adoption of final text



EU Commission Impact Assessment Guidelines

Cover all types of regulatory policies in the EU, wide range of types of impact (economic, social, environmental).

=> Too broad for financial services and markets regulation / supervision.



Unified IA framework for financial regulation / supervision in the EU

CESR (securities), CEBS (banking) and CEIOPS (pensions & insurance) are participating in a joint initiative to ensure that there is a common approach towards IA.

Developed IA framework in line with EU policy and OECD Guidelines.



Unified IA framework for financial regulation / supervision in the EU

Future IA work will mainly concern:

- Level 3 work
- Revising level 2 policies
- Developing additional level 2 advice
- Level 1 work if requested by the Commission



An example of a trigger point for applying IA at level 3 work:

Proposed measures are likely to have significant structural and cost implications

When the cost is insignificant there is no need for an IA



The 3 pillars of the IA framework

- ▶ Market Failure Analysis
- ▶ Public consultation
- ▶ Review of implemented policy



Market Failure Analysis

-  Assume complete absence of financial regulation. Is there a significant market failure?
-  Which objective is threatened?
-  Targeted regulatory intervention?
-  Is there regulatory failure?



Objectives

- General
- Operational



Objectives: Example

Investor Protection

Market Abuse Framework

Disclosure regime, definition of inside information, market manipulation, fair presentation of information, disclosure of conflict of interests etc.



IA in eight steps

1. Problem identification.
2. Development of the main policy options.
3. Defining policy objectives.
4. Analysis of the positive and negative impacts of each policy option.



IA in eight steps

5. Comparison of options through their net impact and identification of the preferred policy option (s).
6. Consulting on the draft policy proposal and the IA report which accompanies it.
7. Publishing the responses received and giving public feedback.
8. Once it is implemented and enforced, keeping the policy under review as appropriate.



Proportionality & Flexibility

- ✓ Time constraints
- ✓ Resources
- ✓ Significance of structural and cost implication of policy proposals



Key features of IA

- IA should be proportionate to the problem at hand and the policy chosen.
- Much of the time a *screening IA* is sufficient.



Screening IA

- + Steps 1 – 5 on a principal basis or at a high level
- + Informal consultation
- + Brief report with recommendation for a full IA

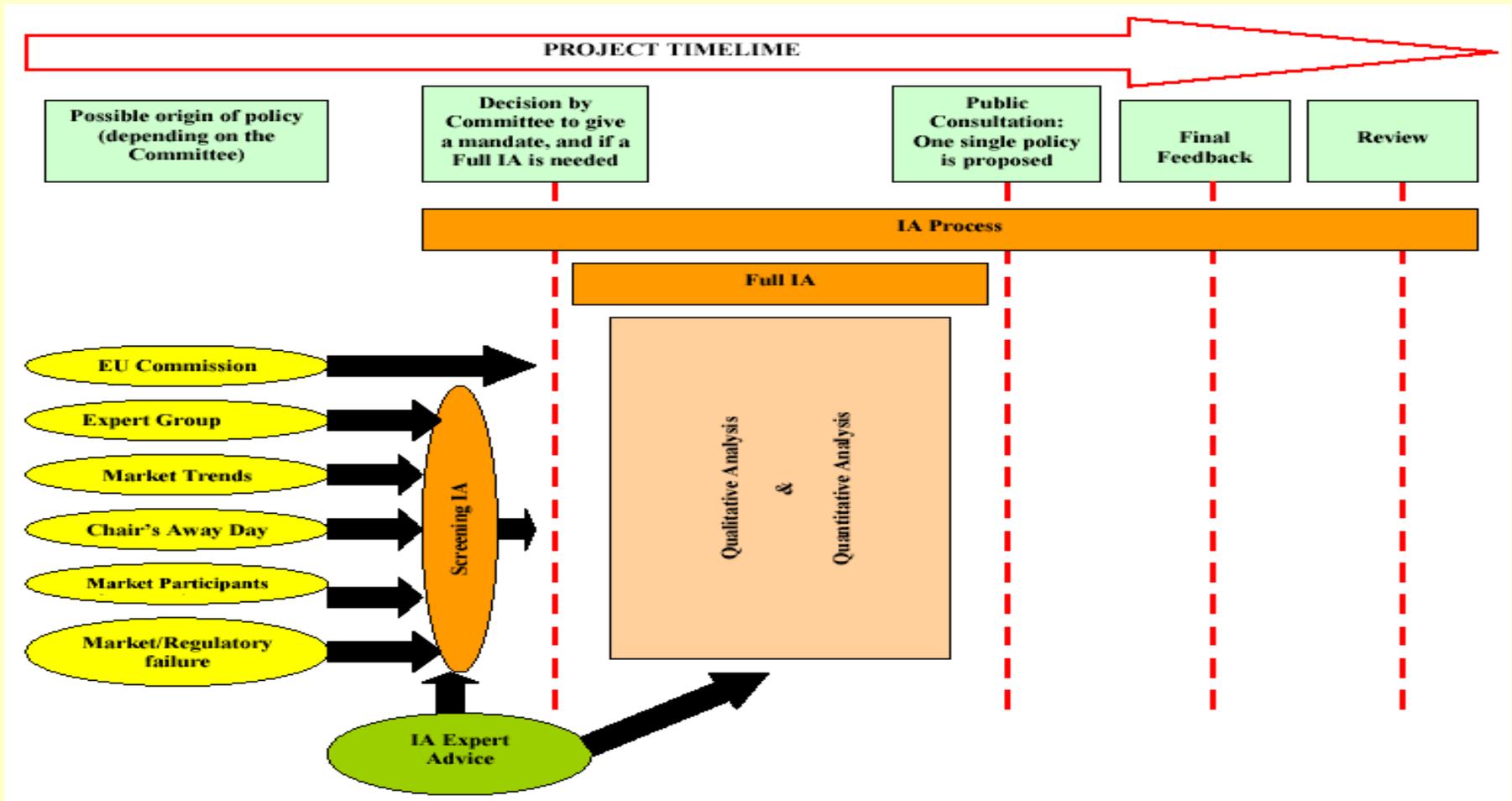


Key features of IA

- Wrong approach: using IA once the policy decisions have already been made, i.e. at the end of the policy making process.
- Correct approach: using IA right from the start when policy options are still open.
- => IA is a tool to help with the final policy decision (and neither a means to justify the decision ex post nor a substitute for decision making).

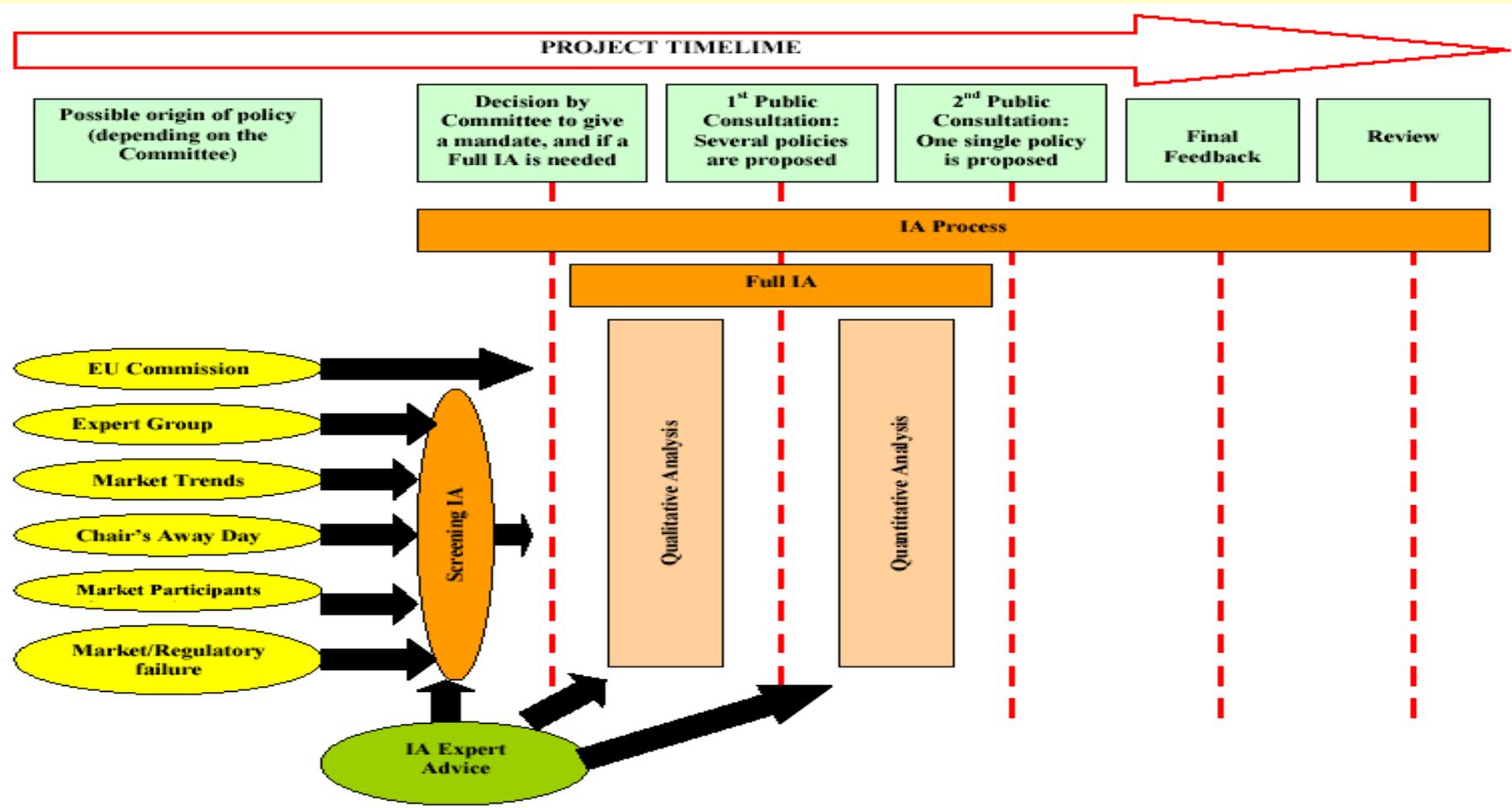


Consultation Process 1





Consultation Process 2





THE IA REPORT

- ▶ summarise the work undertaken for the IA into a short report
- ▶ state any assumptions or uncertainties and knowledge gaps
- ▶ use simple and non-technical language
- ▶ put technical details or supporting documents in an appendix



Example of an IA REPORT

THE PROBLEM	
What is the problem? Is the issue identified likely to have an EU-wide impact on market participants/end users and on the smooth functioning of the single market?	
What evidence shows that the problem is significant?	
What regulatory objective is put at risk by the problem?	[Information about regulatory objectives can be found in section 1.5 of the Guidelines]
Is the problem due to market failure? What is the market failure?	[Information about market failure analysis can be found in section 1.3. of the Guidelines]
Is the problem due to regulatory/supervisory failure? What is the regulatory/supervisory failure?	[Information about regulatory failures can be found in section 1.4. of the Guidelines]
Is it or is it not likely that the problem will be solved over time without a new regulatory policy? Give reasons.	
Is the case for regulatory/supervisory action justified?	



REGULATORY POLICY RESPONSE

Policy option 1	
Operational objective	[Information about operational objectives can be found in section 1.8. of the Guidelines]
How would achieving the objective alleviate/eliminate the problem?	
Policy option 2	
Operational objective	
How would achieving the objective alleviate/eliminate the problem?	
Policy option 3	
Operational objective	
How would achieving the objective alleviate/eliminate the problem?	
Which policy option is the preferred one? Explain briefly.	



IMPACT ASSESSMENT OF THE PROPOSED POLICIES

POLICY OPTION S	SHORT TERM			LONG TERM			OVERALL NET EFFECT
	-TIVE Effects	+TIVE Effects	NET	-TIVE Effects	+TIVE Effects	NET	
Option-1							
Option-2							
Option-3							



IMPACT ASSESSMENT OF EACH PROPOSED POLICY

BENEFITS & COSTS OPTION-1 etc.	QUALITATIVE DESCRIPTION	QUANTITATIVE DESCRIPTION	MONETARY VALUE
Benefits			
Direct costs			
Compliance costs			
Quantity of products offered			
Quality of products offered			
Variety of products offered			
Efficiency of competition			



CONSULTATION & REVIEW

Consultation period	Start:	End:
Participation	(low, medium, high)	
Summary of reactions received		
Feedback publication date		
Did the feedback result in a policy change? Explain briefly.		
Proposed review date (when appropriate)		



Key Features of IA

- IA is typically qualitative in nature.
- Sometimes it is possible and reasonable to complement the qualitative analysis by a quantitative analysis.
- Is a quantitative evaluation of the negative and positive impacts of regulatory / supervisory policies possible?



CESR Pilot Study

- Work on Simplified Prospectus for UCITS– Key Investor Information
- **Scope**: The KII should be fundamentally a tool to provide retail consumers with necessary information on which to base an informed investment decision, having used it to compare products if they wish to. Each item in KII should be:
 - either essential for making a decision on whether or not to invest in this fund; or
 - essential to allow the investor to concretely execute his investment decision.



CESR Pilot Study

- Main issues assessed: Information on past performance, information on risk, information on charges.
- Expected completion: First draft advice by mid-October 2007



3L3 IA Training Seminar

- The 3L3 Committees are currently developing a common training platform covering cross-sector issues.
- Joint training is considered at EU level as an important tool which can contribute to the development of a common supervisory culture by fostering convergence and cooperation between supervisory authorities on a cross-sector level.
- One of the 2 first pilot seminars is on Impact Assessment and it will take place on 17-19 October in Eltville, Germany.



Questions & Answers

?



Thank you



CEIOPS' experience with of Impact Assessment

Ljubljana, 12-14 September 2007

***Presentation by Sandra Wesseling,
Senior Officer, CEIOPS***



Structure of financial regulation / supervision in the EU

3 European Committees:

- CESR (securities)
- CEBS (banking)
- CEIOPS (pensions & insurance)



Part of the so-called Lamfalussy Structure for the adoption of European legislation:

Level 1: Framework Directives – by European Commission

Level 2: Detail of the European Law – by European ministers

Level 3: Regulatory convergence and consistent implementation – by supervisors/regulators

Level 4: Enforcement of the framework – compliance checks



Common elements in the role and the tasks of the 3L3 Committees:

- Convergence
- Cooperation
- Co-ordination



Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) – tasks:

- Advise the European Commission on the drafting of implementation measures for framework directives and regulations on insurance and pensions
- Establish supervisory standards, recommendations and guidelines to enhance convergence
- Facilitate co-operation between national supervisors



CEIOPS – Advice on Solvency II

- New prudential framework for insurance companies in Europe
- Will lead to a new Directive for the insurance sector - Draft EU Directive published in July 2007
- Discussion still mainly on level 1



Solvency II – Characteristics:

- Principle based
- Market values for assets and liabilities
- Risk based system: companies' capital should closely align the risks they face
- Modern techniques for risk management



Solvency II – Impact:

- IA requested and conducted by the EU Commission
- CEIOPS conducts 2 parts:
 1. Quantitative impact study (QIS)
 2. Impact on supervisory bodies (Qualitative)



Analysis of impacts by EU Commission

Impacts to be considered:

- on macro-economy and financial stability
- on consumers
- on insurance products and markets
- on insurance undertakings and supervisory authorities (by CEIOPS)



Impact on macro-economy and financial stability

Key questions are:

- impact on pricing, policy terms and conditions and availability of insurance products?
- impact on insurers' investment policies and capital raising activities?
- impact on reinsurance markets?

Input from European Central Bank



Impact on insurance products and markets

Key questions are:

- Which products and markets are likely to be significantly impacted by Solvency II and why?
- What are the likely consequences in these cases?
- How does the analysis vary from one Member State to another?

Input from the industry (European insurance associations, of large and small and medium sized insurance companies)



Impacts on consumers

Particular focus on problems encountered by users (retail consumers and SMEs).

Input from European consumer platforms



Impact on insurance undertakings and supervisory authorities

Distinguish between:

- Large vs small undertakings
- Group vs solo undertakings
- Life vs non-life, direct insurance vs reinsurance

Assess administrative costs for firms and supervisors

Input requested from CEIOPS



CEIOPS experience with of Impact Assessment

Solvency II – two parts:

1. Assessing the quantitative impact on insurance companies
2. Assessing the impact on supervisory authorities



Quantitative impact studies (QIS) among insurance companies – characteristics:

- Partial
- Quantitative
- Voluntary exercise – coverage and dispersion
- Level 1 testing
- Several rounds of QIS
- Public consultation important during the process



Objectives of QIS:

- Testing of quantitative impact on financial position of insurers
- Testing of valuation techniques
- Increasing the awareness of insurance companies: test their readiness – people, systems and outcomes
- Enabling insurance companies to influence the development of Solvency II



Results of QIS:

- Communication with the insurance sector – have been able to influence the decision process on SII
- Important decisions on technical aspects
- Treatment of insurance groups
- Proportionality (special treatment of SME)



Benefits of Impact Assessment

- Better quality of policy making
- More transparent policy making
- Better communication with regulated/supervised firms (market participants)
- More credible evidential basis for policy proposals (social support)



Questions ?



Thank you

Framework of Principles for Impact Assessment in the area of financial regulation

Introduction

Having looked at the principles that inform regulatory impact assessment as a discipline generally and also having regard to the principles that guide impact assessment within the membership of the Lamfalussy Committees and the European Commission, it is agreed that the four guiding principles that would serve as an appropriate basis for a framework for impact assessment for the L3 Committees' work are:

- I. Clarity;
- II. Effectiveness and Focus;
- III. Proportionality; and
- IV. Transparency.

These impact assessment principles will enhance the accountability of the Lamfalussy Committees and do not conflict with, or require a revisiting of, the Charters of the Committees.

Practical implications

The Lamfalussy Committees agree these principles for impact assessment and have elaborated on them as follows:

Principles	Practical Implications for Impact Assessment in the work of the Lamfalussy Committees
Clarity	The impact assessment process will need to describe the policy context, the objectives and what the various options are. Options must be shown to be relevant to the Committee's Charters.
Effectiveness and Focus	<p>The impact assessment process will seek to ensure that policy initiatives are focused on the problem identified, and that anticipated side effects, and the risk of unintended consequences, are both taken into account.</p> <p>The impact assessment process will also consider, as appropriate, the compliance and enforcement dimensions of initiatives.</p>
Proportionality	The impact assessment process will ensure that policy initiatives are

	<p>appropriate for the perceived problem or risk. The impact assessment process will in particular consider the positive and negative impacts, of all proposed initiatives. It will also give reasons for choosing a particular initiative and rejecting the alternatives considered.</p>
<p>Transparency</p>	<p>The impact assessment process will seek to ensure that each Committee's policy initiatives are open, user friendly and are communicated effectively to all stakeholders. The existing consultation processes, which comprises of:</p> <ol style="list-style-type: none"> 1. the publication of a draft policy initiative; 2. a consultation period; 3. the publication of the responses received; and 4. a feedback statement <p>will, at the point at which a draft policy initiative is published, include an impact assessment</p>

SCM –
A key tool for policymakers
to monitor effectively
regulatory administrative
burdens over time

Ljubljana, September 12th 2007

Constanze Rübke, Rambøll Management

Content

- 1 Presentation of Rambøll Management and SCM-experiences
- 2 Framework of the model
- 3 Aim of the model
- 4 Application of the model
- 5 Outlook

Who are we?

- The Rambøll Group



- 4.000 employees in more than 70 office locations across the world
- Scandinavian is home-market, but we have a strong international focus
- The Rambøll Group offers interdisciplinary knowledge within the fields of engineering, development consultancy, management and IT
- Within the Rambøll Group projects are being conducted in more than 100 countries around the world

Who are we?

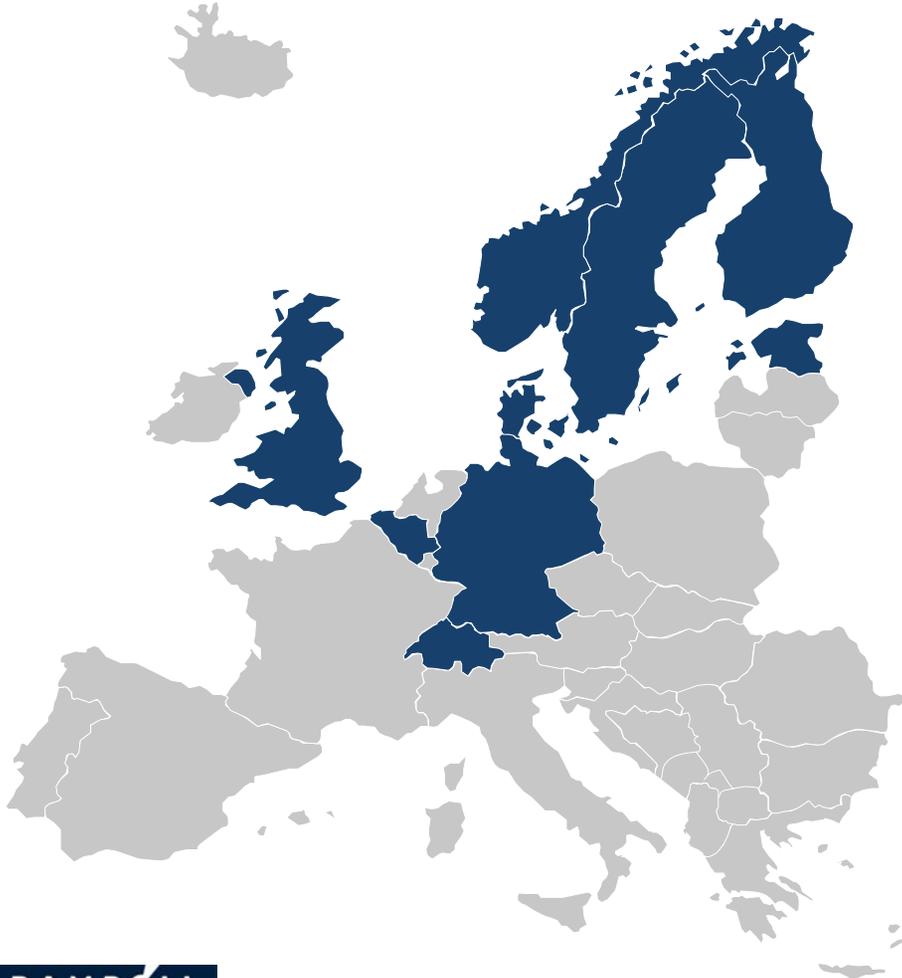
- Rambøll Management

- Founded 1971 in Aarhus, Denmark
- Independent business within the Rambøll Group since 1981
- One of the top 14 Consultancies in Europe and of the top 30 in the world

	Public Sector Development	Business & Industry Development	International Consulting
Management			
IT Consulting			
Research			
Survey			

Who are we?

- Rambøll Management and its SCM experiences



+

European
Commission

More than 50
SCM-
measuremen
ts in the last
six years

Who are we?

- Rambøll Management and its SCM experiences

Denmark:

- SCM pilots on the law of Annual Account and VAT
- SCM baseline measurements of several ministries
- SCM updates on all Danish SCM measurements
- SCM ex-ante assessments (new or amended regulations)

Sweden:

- SCM pilot on the VAT regulation
- SCM baseline measurements on environmental regulation, agriculture, building permits, etc.

Norway:

- SCM pilot on VAT regulation
- SCM baseline on the Health and Safety regulation, tax, bookkeeping, auditing, customs, banking, money laundering, finance and competition etc.

United Kingdom:

- SCM Baseline tax regulation

Germany:

- SCM measurement of public tender procedures
- SCM pilot on burdens for citizens
- 25 Expert panels within SCM baseline measurement
- SCM pilot on building permits
- SCM baseline measurements on selected areas
- SCM Benchmark of regulatory burdens imposed by EC legislation

Finland:

- SCM pilot on the VAT regulation

Switzerland

- SCM measurement ex-post and ex-ante on the VAT regulation
- Feasibility study

European Commission:

- Pilot study: Ex post evaluation of EC legislation and its burden on business
- EU SCM on Company Law
- EU SCM on Common Agricultural Policy
- Regulatory Impact Assessments (RIA)
- EU SCM for DG ENTR on selected policy domains

Content

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Framework of the model

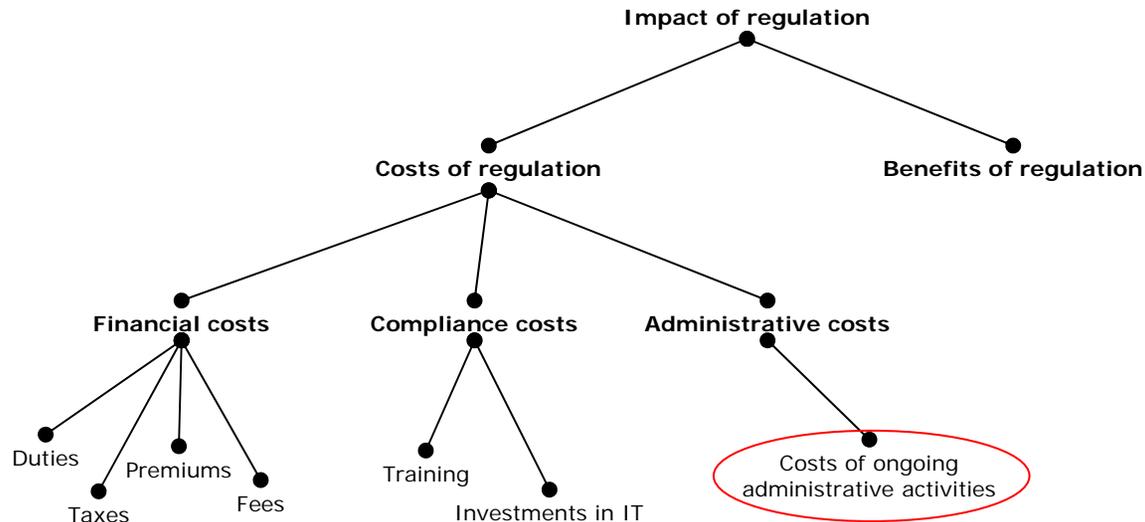
- Historic background of SCM

- The SCM was initially developed in the Netherlands in the 90th and has been used for measuring administrative costs (AC) since 2002
- In autumn of 2003 a number of European countries formed a network, committed to using the same methodological approach when measuring and tackling administrative costs.
- The network currently consists of UK, Norway, Sweden, Denmark, Belgium, The Netherlands, Poland, France, Hungary, Italy, the Czech Republic and Estonia.
- In the summer of 2005 the OECD also chose to apply the SCM method in connection to the 'OECD Red Tape Scoreboard' and take part in the network.
- The network has a homepage (www.administrative-burdens.com) where latest news, manuals, contacts and reference persons in different countries etc. are presented
- In the summer of 2007 also the European Commission decided to apply the model to measure, assess and reduce the admin burdens arising from EC directives within different policy fields in all 27 member states

Framework of the model

- What do we measure?

- Complying with regulations involves various types of costs (and benefits) for businesses:



- Data from the SCM provides a solid basis for rule simplification, but is not an exact and complete picture of real life:
 - The SCM is a *Model* and the results cannot stand alone, but should be analysed further before regulation is changed
 - The SCM contains data on administrative burdens only. Benefits, compliance costs and other impacts of regulation should be included in the work of burden reduction

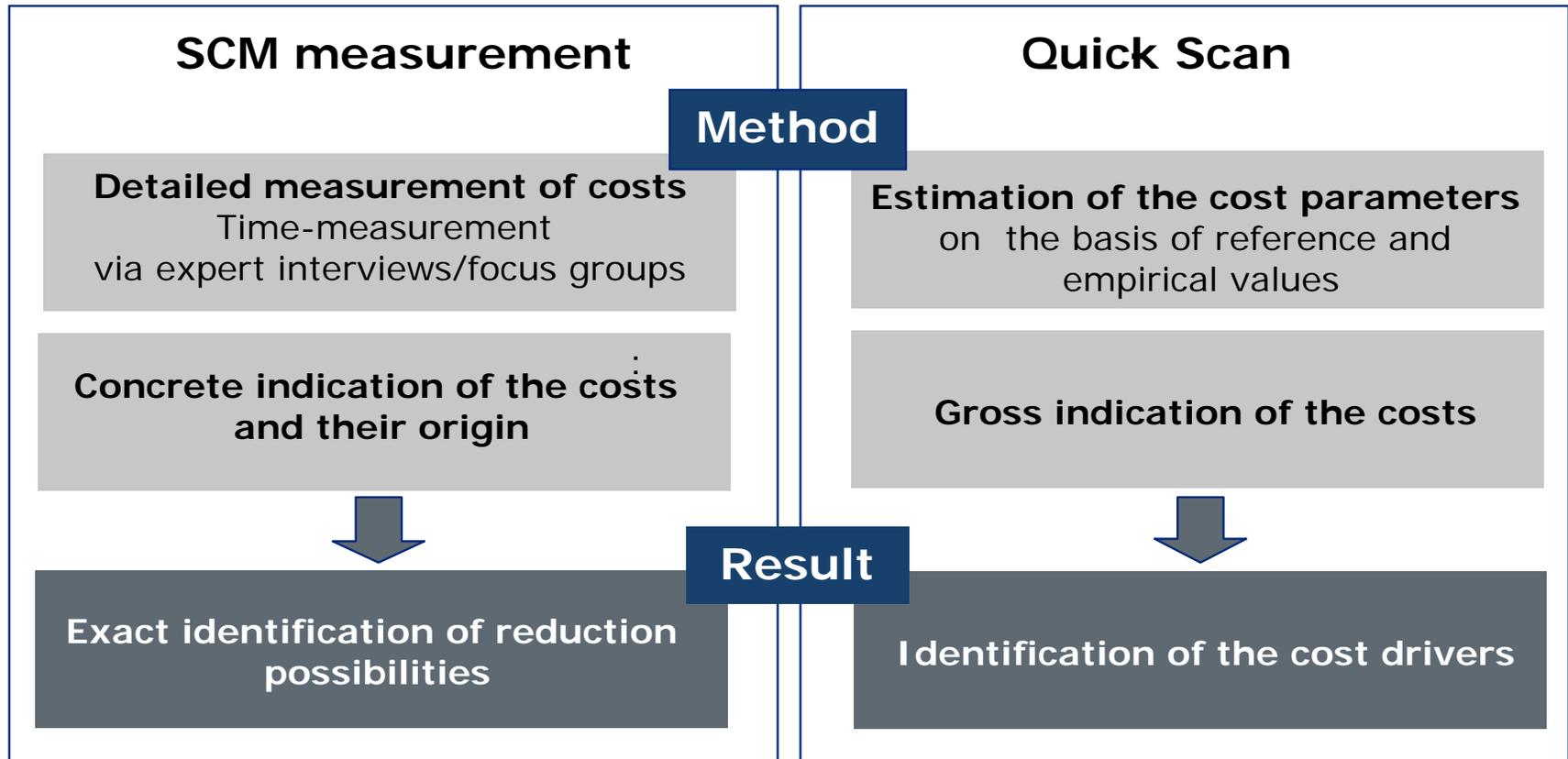
Framework of the model

- Scope of application

- The SCM methodology is an activity-based measurement of the businesses' administrative costs that makes it possible to follow up on the development of the costs over time
- The results from the Standard Cost Model measurements are directly applicable in connection with the governments' rule simplification efforts, in that the results shows which specific regulations, and in details which part of a rule, that are especially costsome for businesses
- SCM makes it possible to:
 - Obtain detailed insight into the administrative costs (AC) per regulation
 - Follow the AC over time, thereby enabling the reductions proposals to be properly quantified
 - Ex-ante evaluations

Framework of the model

- Application forms: Measurement vs. Scan



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- 1 Presentation of Rambøll Management and SCM-experiences
- 2 Framework of the model
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Aim of the model – Simplification

- How much does the administration cost for businesses?

- In the Netherlands alone all the paperwork companies have to do from government costs them € 16.4 billion a year. This corresponds with 3,6 % of gross national product.
- In Denmark the total amount of administrative burdens amount to approximately € 4.5 billion euros, equivalent to 2.4 per cent of GDP.

Aim of the model - Simplification

- 5 routes to simplification

- 1. Remove, reduce, merge or improve regulations
- 2. Simplify the process to comply with regulations
- 3. Data-sharing and joint up government
- 4. Develop ICT-solutions and services
- 5. Provide better guidance and information

Aim of the model - Simplification

- Examples of simplification initiatives - DK

Country	Regulation	Total administrative cost for all affected businesses (€ million)	Simplification measure	Simplification tool used (cf. "Routes to simplify")
DK	VAT regulation	€ 1.5 million	Exemption of groups of businesses from the obligation	1. Remove, reduce, merge or improve regulations
DK	Executive order regarding tax requirements to the accounts	€ 404 million	The executive order was removed	1. Remove, reduce, merge or improve regulations
DK	Executive order regarding an obligation for businesses to keep a trip diary when driving company cars	€ 47 million	The obligation was removed	1. Remove, reduce, merge or improve regulations

Aim of the model - Simplification

- Examples of simplification initiatives - NL

Country	Regulation	Total administrative cost for all affected businesses (€ million)	Simplification measure	Simplification tool used (cf. "Routes to simplify")
NL	Income tax, Corporate tax, Turnover tax	PM	Electronic returns	4. Develop ICT-solutions and services
NL	Wage Withholding Act, Social Insurance Legislation	PM	Payroll taxes return 2006	2. Simplify the process to comply with regulations
				3. Data-sharing and joint up government
NL	VAT Act 1968	€ 388 million (excl. invoicing)	VAT tax: periodical invoicing	2. Simplify the process to comply with regulations
NL	VAT Act (1968)	€ 388 million (excl. invoicing)	VAT tax return: once every quarter for small companies	2. Simplify the process to comply with regulations

Aim of the model - Simplification

- The results so far

- In the Netherlands the SCM approach resulted in reduction plans which count up to a €4.1 billion (25%) reduction of administrative burdens in 2007.
- The first results in Denmark show similar percentages of identified reduction possibilities within selected areas measured with the SCM.
- Up to now in Denmark a reduction of 9,7% is realised.
- The Danish Government supports a website (www.amvab.dk) where a “barometer of burdens” shows the actual burdens as well as the changes in burdens over time.

Aim of the model – Simplification

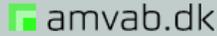
- Transparency: The Danish barometer of burdens

Frontpage - Microsoft Internet Explorer provided by RAMBØLL Management

File Edit View Favorites Tools Help

Back Forward Stop Refresh Home Search Favorites Home Folder Print Mail Stop Bluetooth

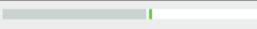
Address <http://www.amvab.dk/sw197.asp> Go Links

[Contact](#) [Danish](#)

Welcome to the Danish website about the Standard Cost Model and measurements of administrative burdens

[Barometer of burdens](#) [News](#) [About SCM](#) [International work](#) [Publications](#) [Links](#)

Barometer of burdens – Total level of administrative burdens (Millions DKK)

Present level of burdens	Burdens in 2001*	Changes in burdens**	Millions DKK				
			10	20	30	40	50
31.103,7 mio. DKK	32.769,4 mio. DKK	-5,1 %					

[Click this link to see how the burdens are distributed between the different ministries](#)

* The administrative burdens when the government took office on the 27th of November 2001.
** Green indicates a decline in the amount of administrative burdens.
Red indicates an increase of administrative burdens.
Black indicates no change.

Latest news

(06.03.2007)
Danish Evaluation of the Impact Assessments
...
[See more news](#)

start

Internet 15:49

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Application of the model

- Overview



Legislation

Information obligation

Data requirement

Administrative activity

Time
(H)

X

Tariff
(T)

+

Acquisitions
(A)

Costs per activity (P)

Number of
businesses (N)

X

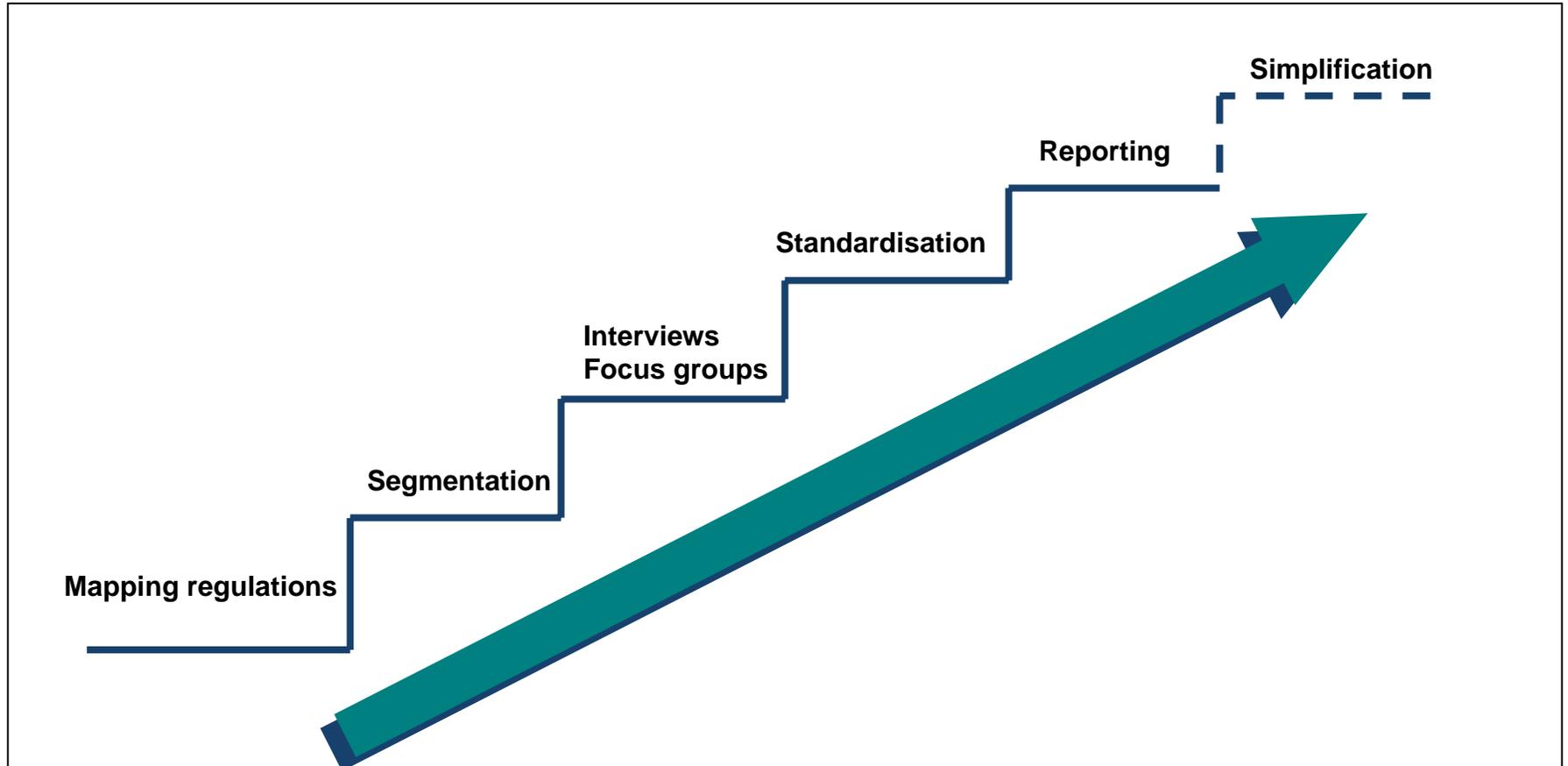
Frequency (F)

Yearly number of activities (Q)

Administrative costs = P x Q

Application of the model

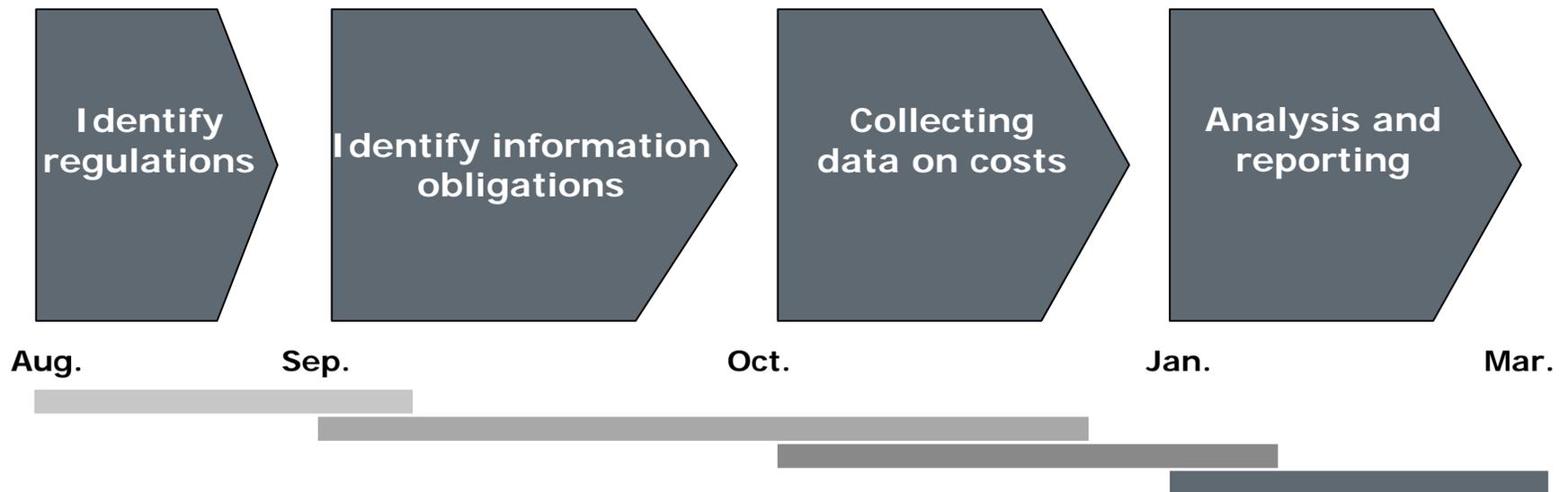
- Main phases of the implementation of the SCM



Application of the model

- Phases and time-schedule of the Baseline-measurement in DK

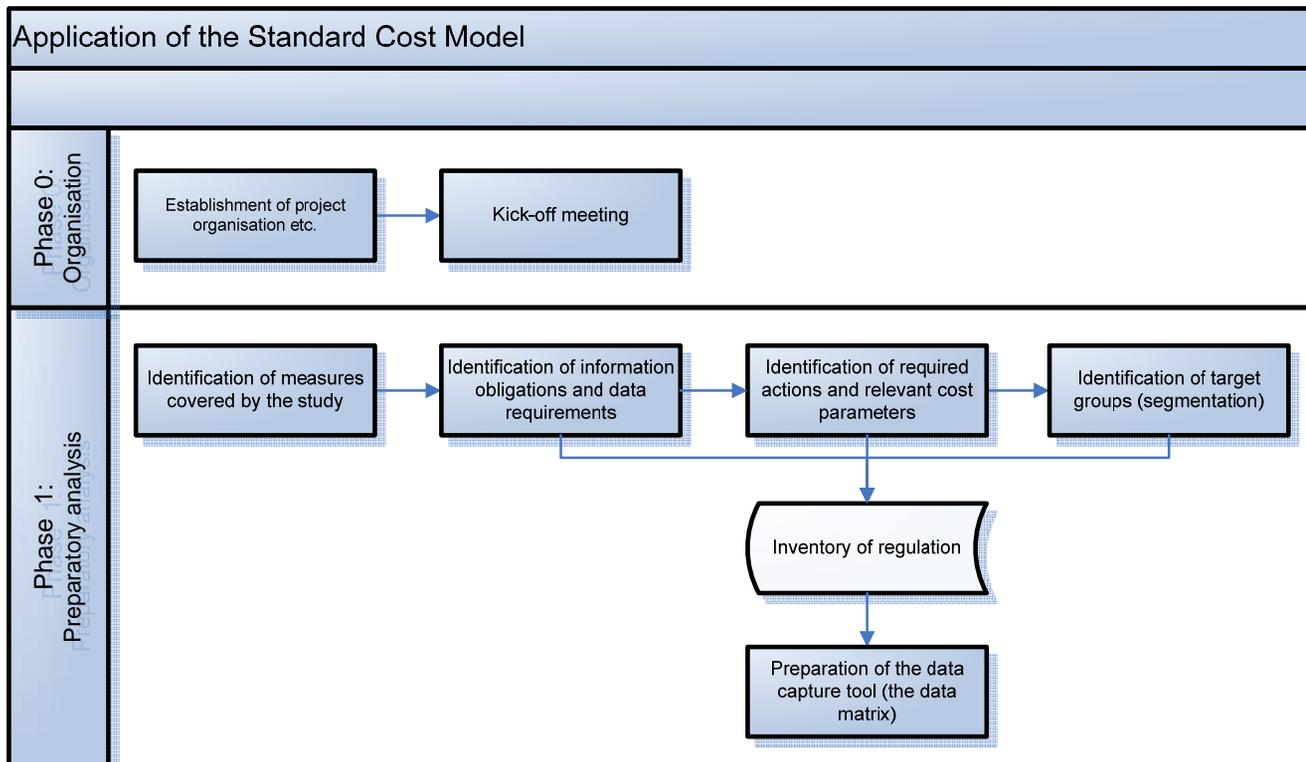
- SCM Baseline measurements on:
 - Ministry of Economic & Business Affairs
 - Ministry of Taxation
 - Ministry of Transport and Energy, Social Affairs, Finance, Defence, Education, Culture
- » Ministry of Economic & Business Affairs and Ministry of Taxation ran in parallel and were the most challenging, completed within a period of 8 months



Application of the model

- Workflow and activities

Phase 0 and 1: Start-up and preparatory analyses

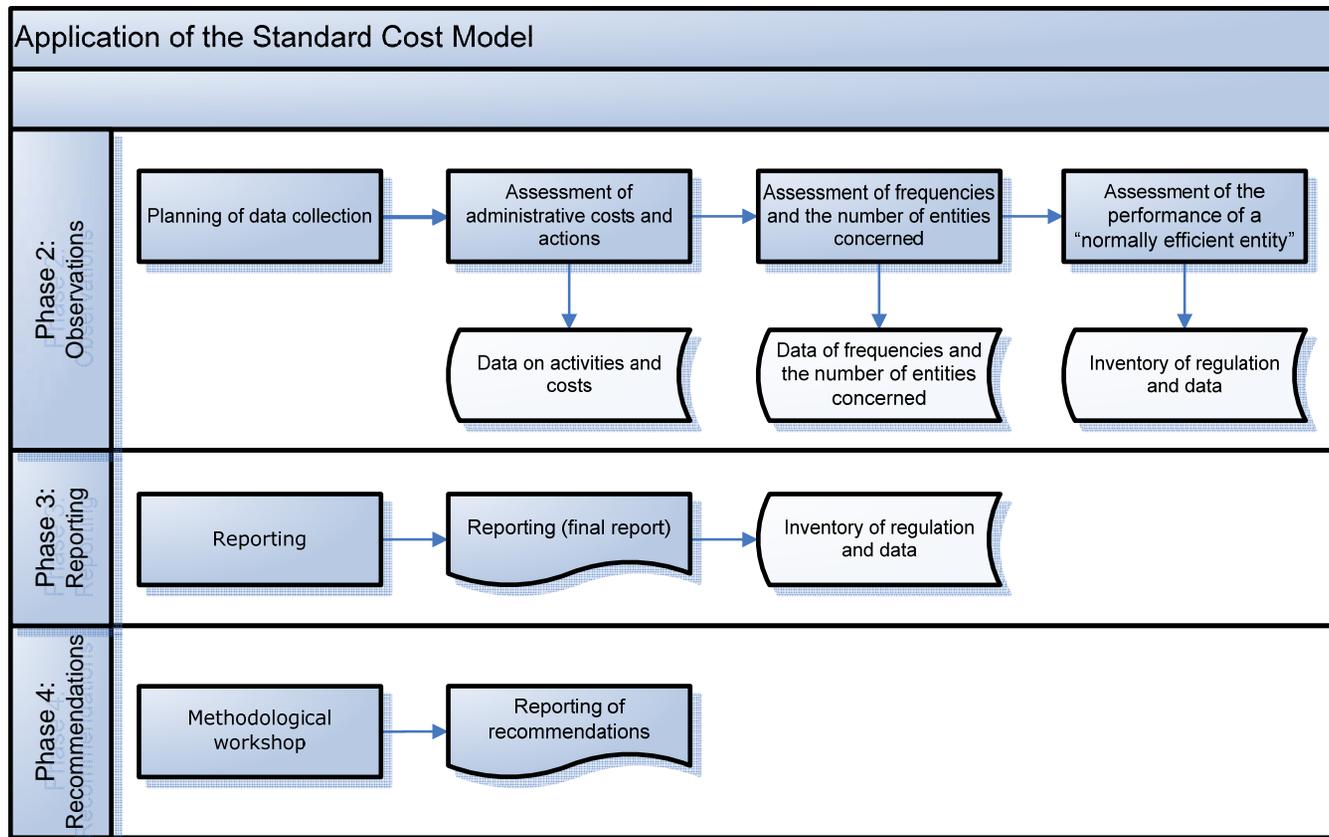


- SCM measurements on a large scale are complex to handle in an efficient way
- Development of a detailed work plan for each phase identifying activities, input and output
- A web-based system was developed to supplement work (keep record of data, changes issues and decisions)

Application of the model

- Workflow and activities

- Phase 2, 3 and 4: Observations, reporting and recommendations



Application of the model

- Identification and registration of requirements

- The pre-work should provide a complete list of regulations affecting the private business sector.
- In Denmark the list was created by the consultants conducting the measurement
- The list of regulations is the basis of all following work and must be created carefully.
- The list must be complete in order to obtain acceptance of the measurement among stakeholders, i.e. business organisation

Application of the model

- Identification and registration of requirements

- In Denmark, Sweden Germany and the UK, the requirements were identified by consultant, accountants and sector experts
- It is efficient to identify and include the following information in the same process as the information obligations
 - Populations of affected companies
 - Expected costs
 - Expected segmentation
 - Means of data collection, based on ranking
- In Denmark, Sweden and Germany, officials has validated the requirements and registered information on populations etc.

Application of the model

- Identification and registration of requirements (Data-base)

- Start up seminars were held with each department in the first phase of the measurement
- Most issues on regulations, information obligations, populations, origin etc. were handled by e-mail through RAMVAB

The screenshot displays the RAMVAB web application interface. At the top, the RAMBOLL management logo is on the left, and 'RAMVAB---' is on the right. Below the logo, a breadcrumb trail reads: 'RAMVAB - United Kingdom - HMRC - Information obligations - R&R Submission of a VAT return'. The main heading is 'Information obligation' with a sub-heading 'R&R Submission of a VAT return'. A 'Properties' section contains several fields and controls:

- Buttons: 'Save and close', 'Save', 'Reset', 'Save and copy', 'Delete'
- Type: 'Information obligation'
- Name: 'R&R Submission of a VAT return'
- Number: (empty text box)
- Description: 'This requires a business to submit a VAT return and account for both any output tax due and any input tax recoverable.'
- Actively enforced: 'Yes' (dropdown menu)
- Voluntary:
- Exempted:
- Note: (empty text box)
- Paragraph reference: 'Reg 25(1)'
- Form URL: (empty text box)
- e-government digital reporting:
- Origin: 'A - EU Directive' (dropdown menu)
- Type of cost: 'Running cost' (dropdown menu)
- Type of information: 'Reporting to authority' (dropdown menu)
- Frequency: 'Annually.'

Application of the model

- Collecting data on costs

- In the field work, consultants obtain data on administrative activities, time and costs by in-depth interviews with businesses or by focus groups etc.
- The businesses do not know the legal requirements, but they know how they comply with them in the daily work!
- This means that:
 - ! the aim and content of the interviews should be explained carefully when recruiting the businesses
 - ! the requirements of the legislation must be translated into activities the businesses know from their daily work
 - ! the interview should be conducted by consultants with knowledge of business processes

Application of the model

- Collecting data on costs

- During the Danish SCM baselines on Ministry of Taxation and Ministry of Economic & Business Affairs 4,000 businesses were contacted in order to set up 400 personal interviews
- Complex interviews were conducted by an accountant and a consultant
- Data from each interview was stored in RAMVAB, establishing a direct link from cost on activities in the single business to information obligations and regulations

Application of the model

- Analysis and reporting

- The analysis contains two main activities:
 - Analysis and standardisation of costs
 - Estimation of the burdens at the level of society (extrapolated costs)
- The results are reported in:
 - A report, describing the method, regulations included in the measurement, process of data collection, compliance with requirements, standardised costs and the administrative burdens at the level of society
 - A database to be used by officials in the work of rule simplification
- Focal points:
 - Standardisation of the costs are the key element in the SCM
 - Assessment based on interview data, focus groups etc.
 - Knowledge of business processes and regulations is needed
 - Not all differences across businesses can be captured (pragmatic approach)
 - The SCM is a bottom-up approach and the results on the level of society must be assessed by reality checks

Application of the model

- Summary

- The complete organisational structure should be set up before the measurements are carried out
 - Implementation of the method in the departments
 - Ownership of the measurements
 - Big bang or measurement of one regulation at a time
 - Use of data in the process of rule simplification
- Involvement of officials, business organisation and stakeholders in all phases of the measurement in order to ensure acceptance of the results
- A common database should be developed as early as possible in the process, especially when many consultants carry out the measurement. Of key importance that the database provides tools for rule simplifications (simulations etc.)
- A multitude of decisions will have to be made in the process: Focus on the use of data in the work of burden reduction and keep it simple

Content

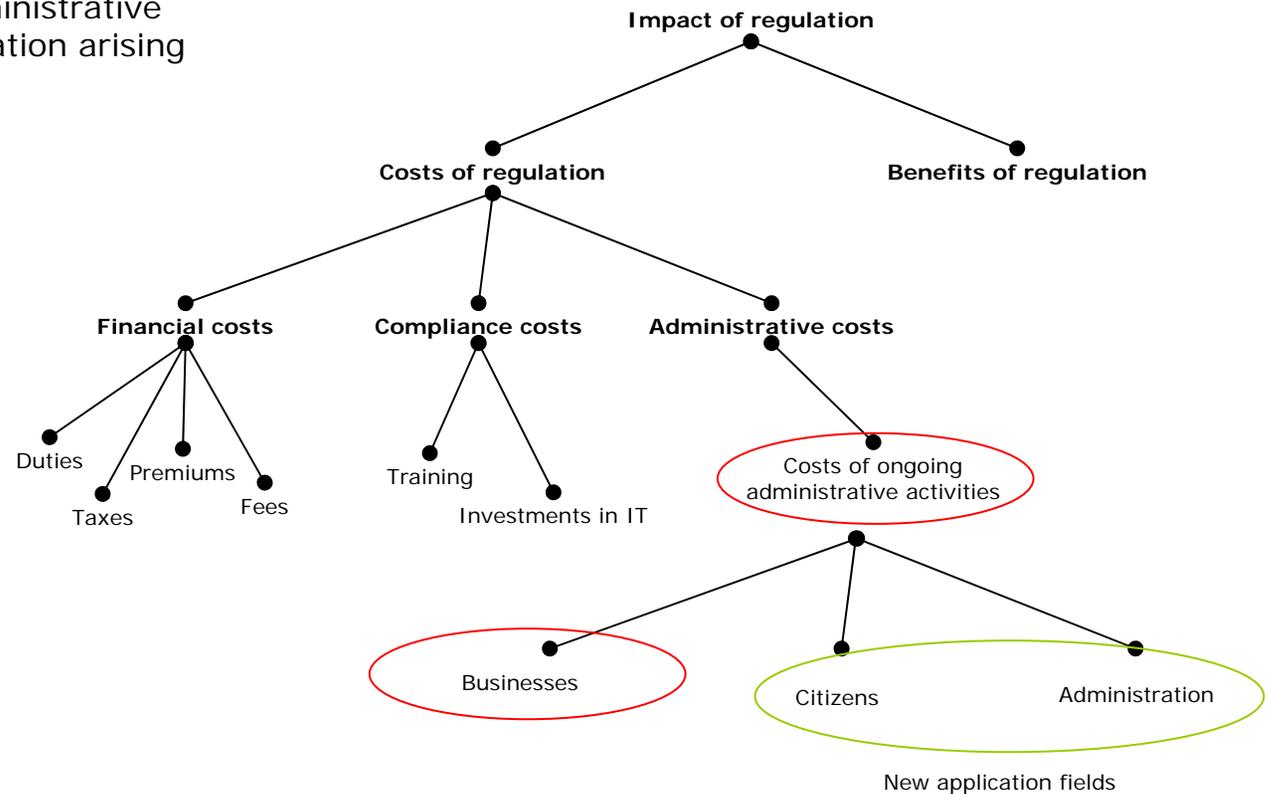
- 1 Presentation of Rambøll Management and SCM-experiences
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Outlook

- Advancement of the model

→ Pilot measurement of time amount for special groups of citizens to comply with certain social regulations

→ Pilot measurements of administrative costs for the public administration arising from public procurement law



Reducing administrative burdens: Impact assessments & government scrutiny

Signe Jensen, Head of Section
Division for Better Regulation of Businesses,
Danish Commerce and Companies Agency

sij@eogs.dk

Standard Cost Model

– quantifying administrative costs

- By carefully mapping the different information obligations and multiplying the time spent on each activity with the hourly wage the SCM model makes it possible to quantify the administrative burdens of new legislation in great detail
- The standard cost model makes it possible to compare administrative costs with other economic costs
- The quantification gives an indication of which obligations are the most costly and enables the government to focus on the most burdensome regulation

Existing regulation - Reducing the administrative costs by 25 % in 2010

- All ministries have to work out a roadmap for reducing the administrative costs by 25 % - regardless of political obstacles
- When an initiative turns out to be politically impractical it must be replaced by another initiative
- **This ensures constant political focus on reducing administrative burdens and makes sure that ministries have examined all possibilities for reducing the administrative burdens**

New legislation - Impact assessments

- Gives a better understanding of the new legislation and the effects it has on society as a whole
- Highlights positive and negative consequences of legislation
- Helps to reveal unintended consequences of draft proposal
- Examines alternatives and adjustment to the proposed legislation
- ➔ **administrative costs are often overshadowed by other economic consequences**

Economic committee

– An effective scrutiny mechanism

- The economic committee is one of the most powerful committees in government and has to approve all legislation which has economic implications for citizens or an impact on public finance.
- All legislation with administrative burdens exceeding 350.000 euros a year must be approved by the economic committee
- ➔ **Administrative burdens are treated in the same way as taxes**
- This is a very powerful signal to lawmakers that administrative burdens are to be taken seriously

Advantages of having large administrative burdens presented to a powerful government committee

- Includes assessments of secondary legislation which does not have to pass through parliament
- The threat of critique from the economic committee gives incentive to adjust the legislation and thereby reduce the negative impact on business at an early stage in the lawmaking process
- ministries will go to great length to avoid having their legislation presented to the economic committee.
- Administrative burdens have to be examined and alternatives identified
- **The review is more comprehensive and administrative burdens are discussed separately**

Impact – strong preventive effect

- 2005 - Saved business for 14 mill. € in administrative burdens!
- New administrative burdens have been reduced considerably
- Has led to a cultural change in the different ministries - administrative burdens are taken seriously
- ➔ **Efforts can be focused on reducing the existing administrative burdens by 25 %**

- **More information about our work on improving regulation and reducing administrative burdens:**

- www.betterregulation.dk

- - or please contact me: sij@eogs.dk

Impact Assessment and the Regulatory Design of Securitisation in Croatia

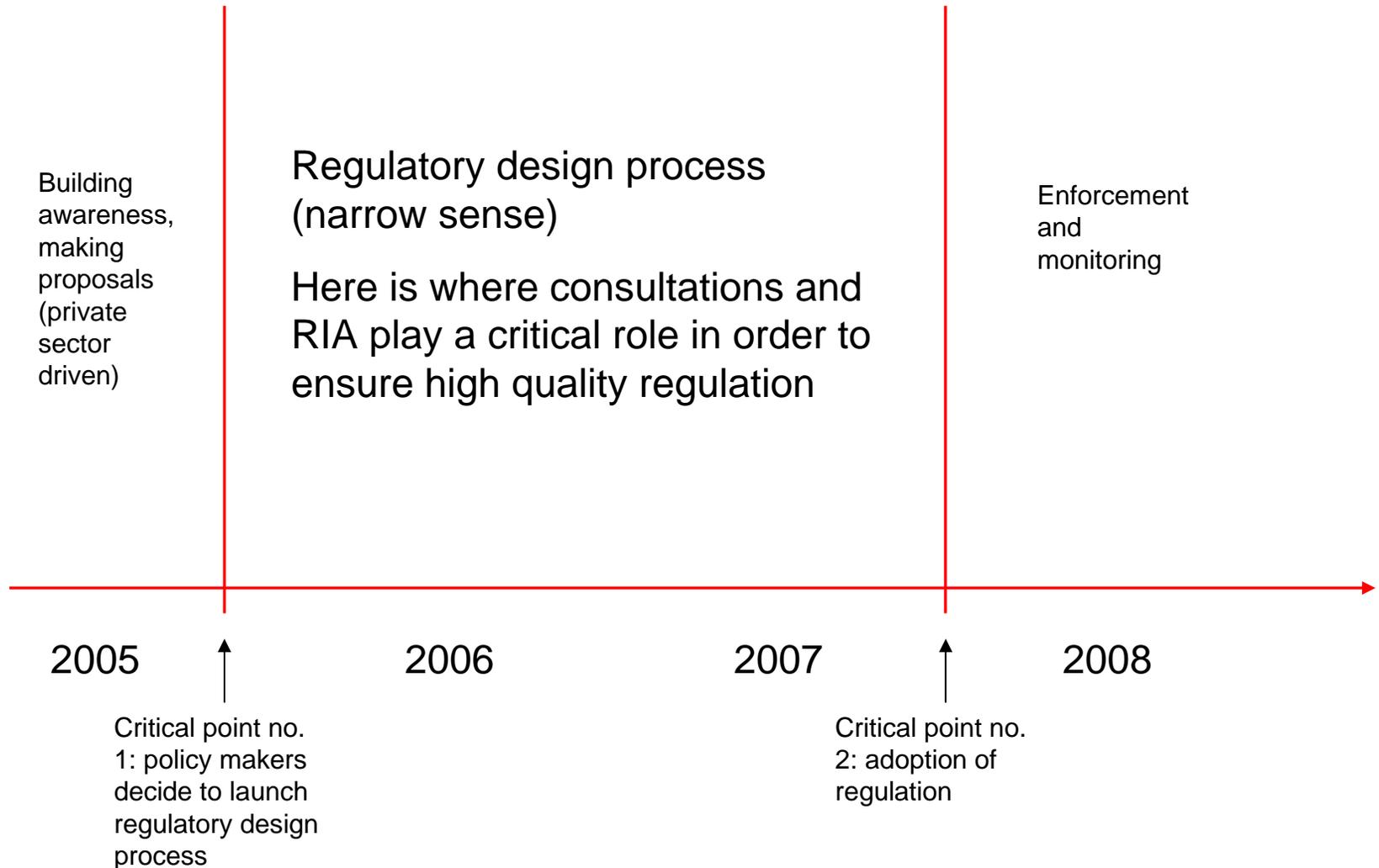
Velimir Šonje

Center for Excellence in Finance, Ljubljana, Slovenia
13 September 2007

Contents

- Introduction: time perspective, models of regulatory design and project organization
- What is Securitisation?
- Why regulation (introduction to RIA)?
- Role of RIA
- Pitfalls and benefits

Time Perspective: Longer Than We're Used To



Models of regulatory design

Traditional

Top-down
Administration driven
- Bureaucratic spirit
- Reform spirit
Fast
Cheap

Adjusted Traditional

Top-down
Administration driven
- Some consultation & dialogue
- Reform spirit
Slower
More expensive

Dialogue driven

Both directions
Driven by any stakeholder
- Based on consultations and dialogue
Slow
Expensive

Capture

Top-down
Interest group driven
- Lobbying, lack of transparency
- Corruption
Fast
Cheap



Project Development Steps in Croatia

20+ Key Events up to end 2006!

All of this happened without prior knowledge about RIA within administration and without any formal RIA framework

2nd Steering Committee Meeting

ILA Opinion on Zero Draft Law

Zero Draft Law

Draft RIA Issued

ILA Final Guidelines

Market Feedback

MoF Press Conference

ILA Draft Guidelines

ILA Consultative Document

1st Steering Committee Meeting

Independent Legal Advisor (ILA) Opinion

LSG Principles Issued

Legal Solution Group (LSG)

Created (D,I&HR)

Convergence, EBRD, KfW meetings in Zagreb

Project Governance Structure Set-Up

Consultations with local regulators

MoF CBA Issue Exploration

Convergence- Working Group

EBRD invitation

Work on RIA →

CBA – Croatian Banking Association

MoF – Ministry of Finance

LSG – Legal Solutions Group

ILA – Independent Legal Advisor

First MoF-Convergence discussion

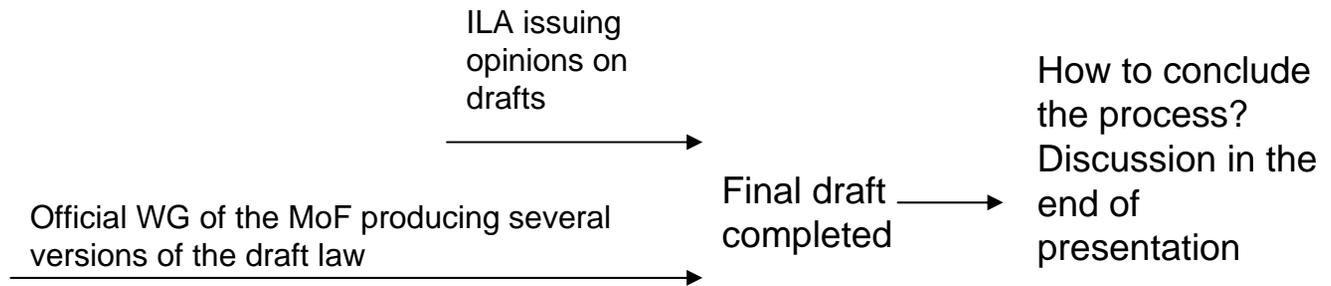
CBA Book Launch Endorsed by Authorities

Oct 05 Dec Jan 06 Apr May Jun Jul Aug Sep Oct Nov Dec 06

Project Development Steps

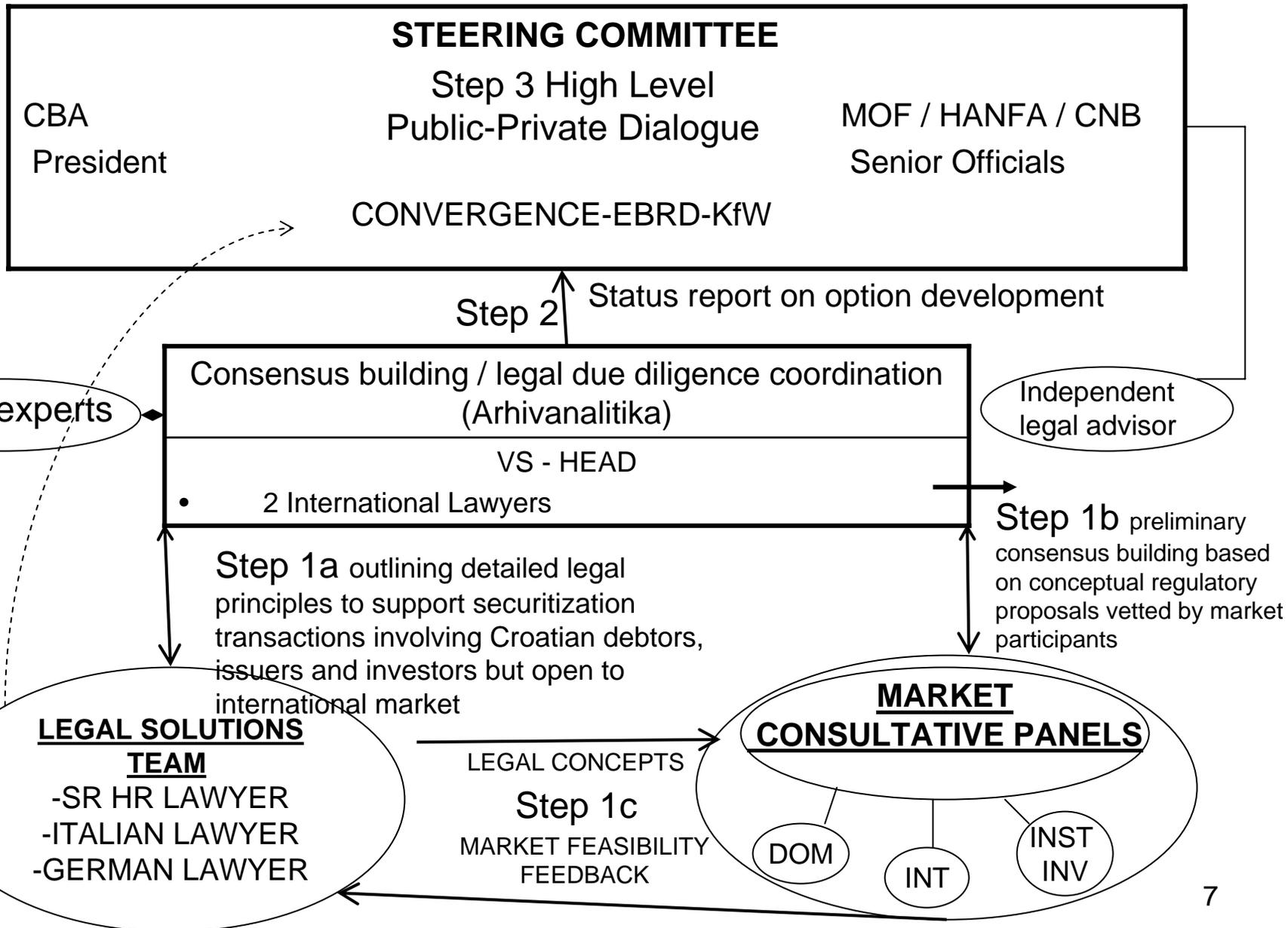
Key Events During 2007

Prior setup of the MoF working group (legal writing team) comprising representatives of the central bank, MoF, regulator and consultants



Jan 07 Apr May Jun Jul Aug Sep Oct Nov Dec 07

Croatian Securitization Project Development Structure



Key Conceptual Issues

(issues that absorbed most resources)

- Broad understanding of benefits and pitfalls (attach appropriate weight to PR activity)
- Ensuring quality (“best practice”)
- Ensuring “horizontal” consistency of regulation (key to enforcement)

Use of PR Within This Model

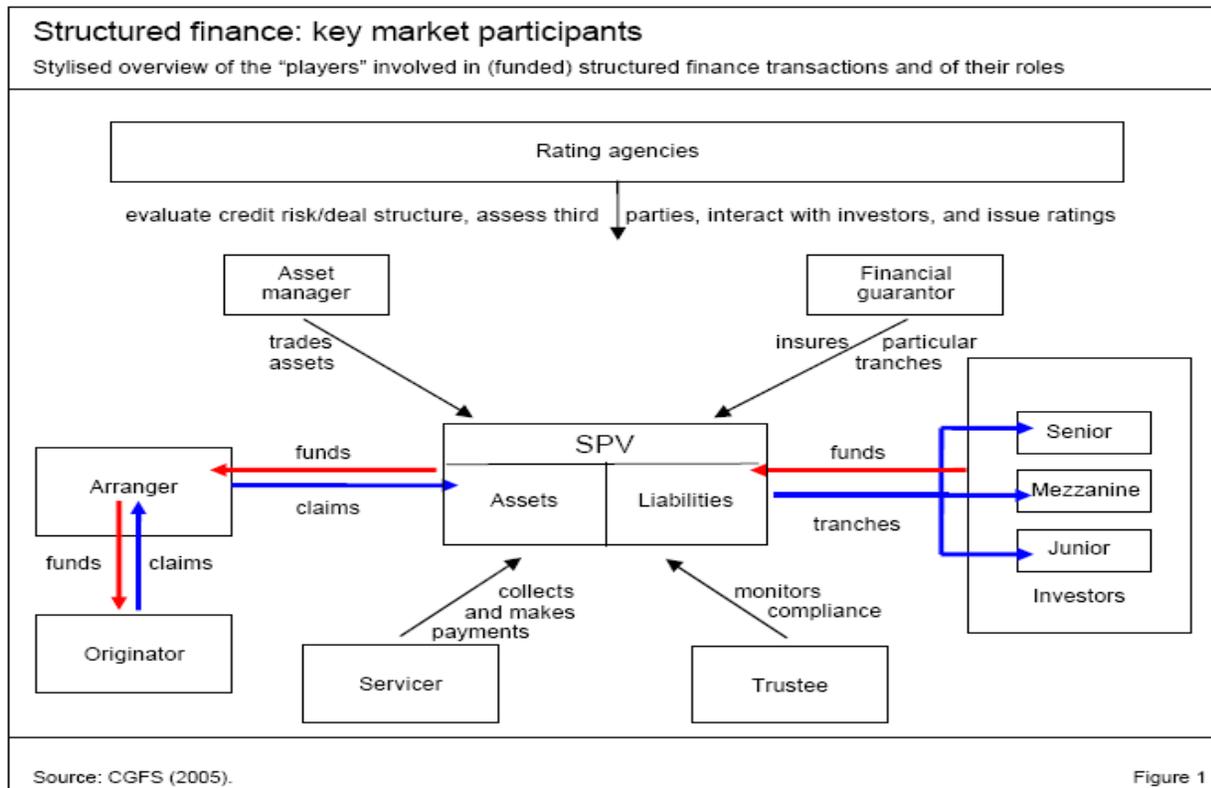
- Stakeholders' legitimate concern (not PR problem – has to be dealt with transparently through regulatory design process)
- PR has to make all stakeholders immune to the lack of information and knowledge
 - “Securitisation is a way to diminish monetary policy effectiveness”
 - “Securitisation will diminish the legal rights of final debtors”

What is securitisation

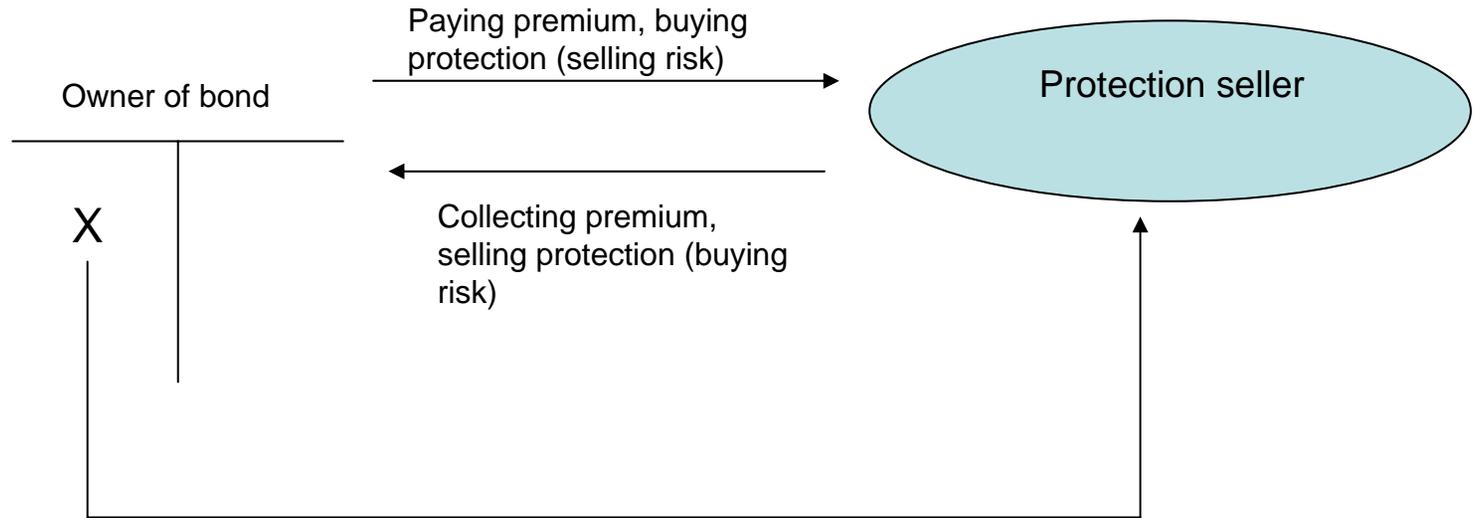
Securitisation belongs to a family of structured financial products. It consists of financing or re-financing of assets by re-packaging them into tradable, liquid form through issue of debt securities.

Traditional vs synthetic securitisation

Traditional securitisation scheme



Synthetic securitisation scheme



Bond transferred to protection seller at par value in the case of "credit event"

- Nonpayment of interest/principal
- Change of currency denomination
- Restructuring (changing coupon, term, "haircut"), etc

This is the logic of credit default swap

Why Regulation?

- Introduction to RIA
- Around 20 key issues identified by the CBA exploration team (this is the list of issues that will have to be assessed in terms of policy options)
- E.g. data secrecy, eligible assets, transfer of collateral, legal form of SPV, tax treatment, risk capital regulations etc.
- Listing key issues at an early stage of project development provides framework for thought and dialogue and helps find out whether regulatory effort is needed at all.

Developing Definitions and Options for Key Issues

Definition of key regulatory issues

As early as possible. Impossible without consultations process starting at early stage.

Developing regulatory options

Goes on throughout the process. Keeping it open-end as long as possible.

Option chosen with explanation

Strategic issues should be closed before final drafting process. Operational issues should be closed at the end of the legal drafting process.

Example (1 of 17 key issues)

What legal form can SPV take?

(issue at strategic level)

Option I

Company according to Company Law without additional provisions in the Securitization Law

Option II

Company according to Company Law with additional provisions in the Securitization Law

Option III

Securitization Fund with special provision in the Securitization Law

Options chosen:
II and III (let the market decide)

RIA in brief

- An aid, not a substitute for decision making
- Reflecting main benefits and costs/pitfalls from the perspectives of all stakeholders
- Using maximum possible quantifications
- Reflecting possible regulatory options
- Open-ended document to be supplemented by analytical work of all parties involved

Stakeholders' Perspectives Households

+

- Borrowing at more favourable terms
- Lower volatility of supply of new loans and leasing (long-run)
- In general, more stable access to finance at better terms

-

- Lower incentives to monitor final borrowers (SPV's incentives problem)
- Changing legal position of final borrowers needs to be prevented

Stakeholders' Perspectives Corporate Sector incl. SMEs

+

- New funding instrument
- More stable access to finance at better terms
- New potential channel for public (IFI's) intervention to support SMEs lending

-

- Lower incentives to monitor final borrowers (SPV's incentives problem)
- Changing legal position of final borrowers needs to be prevented

Stakeholders' Perspectives

Banks and Other Intermediaries

+

- Improvement in management of liquidity, capital and A/L structure in general
- Diversification of credit risk
- Reduced volatility of earnings

-

- Banks buying equity (high risk) tranches expose themselves to macro risks
- Changing legal position of final borrowers needs to be prevented

Stakeholders' Perspectives

Domestic Investors

+

- New opportunity to generate returns on investment
- New opportunity to diversify risks
- Especially related to pension funds

-

0

Stakeholders' Perspectives

Foreign Investors

+

- New opportunity to generate returns on investment
- New opportunity to diversify risks

-

0

Stakeholders' Perspectives

HANFA / MoF

+

- More precise pricing of debt (increased market efficiency)
- New funding instrument for public sector projects
- Further integration with EU single financial market
- Retaining degree of control over transactions after full liberalization of capital flows

-

- Required resources

Stakeholders' Perspectives Croatian National Bank

+

MICRO

- Improvement in liquidity management
- Increased stability of banks
- Improved early warning signals

MACRO

- Stronger links between domestic savings with domestic credit growth and investment

-

- Unsustainable growth of foreign debt

Results of Survey of Potential Originators

Type	Assets estimated by respondents as presently suitable for securitization EUR mln	Expected transactions EUR mln								
		Year 1			Year 2			Year 3		
		No. of trans.	o/w cross border	Total amount	No. of trans.	o/w cross border	Total amount	No. of trans.	o/w cross border	Total amount
Mortgage loans	4 719	4	0	700	6	2	1 300	7	2	1 350
Car loans	927	0	0	0	1	1	50	1	1	50
Leasing portfolio	395	0	0	0	3	0	50	3	0	60
Other	733	0	0	0	0	0	0	1	1	100
TOTAL	6 774	4	0	700	10	3	1 400	12	4	1 560
memo: synthetic				80			70			50
Avg amount of true sales transact.				175			127			120
Avg amount of MBS				175			217			193

Domestic Demand Estimate

	Year 1	Year 2	Year 3	Year 4
Rate of AUM - pension	30%	26%	23%	20%
Rate of AUM – investment	35%	30%	26%	22%
Allocation in % of AUM as stated by respondents	2,5%-5%	4%-5%	5%-6%	assumed the same as Year 3
Total demand estimate (EUR mn)	202	412	571	714
banks	100	120	140	160
funds	102	282	431	554
Funds' allocation as % of AUM	2.5%	5.4%	6.5%	6.9%
Annual increase in funds' allocation as % of annual increase in AUM	10.0%	16.4%	10.6%	8.8%
Aggregate demand estimate (EUR mn) after 20% correction for non-responded demand estimate	242	484	675	857

Scenario A Based on Expert Assessment of Likely Developments and Scenario B based on Survey

EUR million		2007	2008	2009	2010
SCENARIO A					
1	Supply: total cumulative o/w banks	0 0	900 800	2 000 1 890	3 000 2 890
2	Domestic demand estimate (cumulative)	242	494	675	857
3	Supply – demand (cumulative stock): potential foreign demand	0	406	1 325	2 143
4	Implied increase (-decrease) in gross foreign debt if banks use 100% of securitization receipts to repay foreign debt*		-494	-675	-857
SCENARIO B					
1	Supply: total cumulative o/w banks	700 700	2 100 2 000	3 660 3 550	- -
2	(minus) supply cross border**	(0)	(434)	(820)	-
3=1-2	Supply: domestic cumulative	700	1 666	2 840	-
4	Domestic demand estimate (cumulative)	242	494	675	857
5=3-4	Supply – demand (cumulative stock): potential foreign demand	458	1 202	2 165	-
6	Expected cost of funds savings in bps	23	23	23	23
7	Supply if marginal reserve is applied	300	350	610	-
8=7-5	Supply – demand (cumulative stock) with marginal reserve requirement applied	-58	-144	-65	-
9	Implied increase (-decrease) in gross foreign debt if banks use 50% of securitization receipts to repay foreign debt and if cross-border securitization takes place (worst case scenario)	108	581	1 210	

Summary Quantitative Impact Assessment

MICROECONOMIC PERSPECTIVE		Cumulative amount in EUR million (3 years perspective except for consumers)		Methodology of microeconomic calculation	Amount of savings in EUR million (PV over 3 years except for consumers)	
		Scenario B	Scenario A		Scenario B	Scenario A
Banks	Securitized loans	3 550.0	2 890	Lower cost of funding (net)	-35.5	7.5
	Lower capital requirement	355	289	Lower cost of capital	44.2	27.9
Consumers / banks' clients*	Borrowing at better terms (bps decrease as of end period)		-23	Consumer surplus*	170.2	170.2
	Increase in banks' lending to the private sector		600-700 p.a.			
Leasing	Additional finance at lower cost	110.0	110.0	Multiple of additional supply and cheaper funds	0.2	0.2
Domestic investors	Positive shift of risk/return frontier given total allocation to MBS and ABS securities	675.0	857.0	Additional yield/lower risk over alternative investment	17.9	24.6
TOTAL MICROECONOMIC BENEFITS					197.0	230.4
o/w short term					26.8	60.2
o/w long term					170.2	170.2
Total as % of 2006 GDP					0.6%	0.7%
MACROECONOMIC PERSPECTIVE						
Decrease in banks' foreign borrowing		1 775.0	2 890	Repayment of old foreign debt due to cost of regulation		
Non-resident investors' purchases of bonds in 3 ys		2 985.0	2 143			
Impact on growth of gross foreign debt in 3 ys		1 210.0	-747.0	Cumm. growth	4.3%	-2.7%
Impact on growth of net foreign debt in 3 ys		605.0	-374.0	Cumm. growth	3.7%	-2.3%

In Addition ...

... RIA shows second – round impacts on use of released reserves and impact on net international debt, also showing that banks' incentives is to use maximum receipts from securitization for repayment of foreign debt ...

... RIA also shows how coordinated implementation of Securitization Law, Securitization Framework of Basle II and high Marginal Reserve which is not applied to securitization receipts may lead to firm control and even decline of foreign debt ...

... but ...

... THE POINT IS TO SHARE RIA'S MODELS AND RESULTS SO THAT RIA BECOMES A BALANCED REFLECTION OF VIEWS AND BELIEFS OF ALL THE PARTIES INVOLVED.

How to Conclude the Process



The final steps (adoption process) has to be accompanied by RIA summary document



Assessment (pitfalls and benefits) of the process

+

- Spreading knowledge about the topic
- Building consensus about key issues
- Getting access to “best practice”
- Thinking about details (“horizontal coordination of regulation”, enforcement and monitoring)

-

- Cost in terms of resources
- Cost in terms of time needed
- Overly cumbersome for top policy makers to appreciate the benefits and quality
- Very hard to manage due to complex governance structure and a large number of players involved

Thank you!

In case you are interested in full text of RIA used in this project please contact me at

vsonje@arhivanalitika.hr

and I will provide you with the document asap.

Impact assessment in practice: MiFID case study

Stephen Dickinson

**Economics of Financial Regulation Department
UK Financial Services Authority**

- **Background - on FSA and MiFID**
- **Assessing the impact of MiFID**
- **Case study – benefits of MiFID**
- **Case study - overall costs of MiFID**
- **Concluding remarks**

Background – the FSA



- **The Financial Services Authority (FSA) is responsible for regulating the UK's financial markets**
- **We authorise and regulate nearly 30,000 firms and are paid for by fees levied from the industry (2007 FY budget c£300m)**
- **We have four statutory objectives:**
 - Market confidence
 - Consumer protection
 - Consumer awareness
 - Financial crime
- **FSMA (2000), which established the FSA, includes explicit requirements relating to CBA and consultation**
 - Quantification of costs; analysis of benefits
 - CBA must be published as an annex to a consultation paper that seeks stakeholder reaction to proposed rule change(s)

Background - MiFID

- **A key part of FSAP**
- **Replaces Investment Services Directive (ISD) – why?**
 - Innovation
 - Regulatory barriers
- **Introduces EU-wide requirements**
 - eg on investment advice, operation of MTFs and services relating to commodity derivatives
- **Passporting**

Assessing the impact of MiFID (1)



- **FSA approach to impact assessment (IA)**
 - Legal requirements to consult and conduct CBA
 - Use of MFA and HLCBA embedded institutionally to decide whether or not to intervene (where there is discretion)
 - Independent team to ensure IA is conducted to high standard – generates appropriate incentives
 - Formal accountability mechanisms ensure stakeholder involvement both formally and informally
 - Methods of data gathering - use of consultants etc

Assessing the impact of MiFID (2)

- In the case of MiFID, focus was on CBA only – no discretion
- First step was to identify population of affected firms (UK authorised firms only)
- Europe Economics employed to consider the overall benefits of MiFID
- Cost information gathered in a series of individual consultation exercises
- “Overall impact of MiFID” consultation paper published in November 2006
- Issues of super-equivalence and timing

Benefits of MiFID (1)

- Europe Economics employed to quantify, where possible, the benefits of MiFID
- Direct effects distinguished from “second round” effects
- Direct benefit of up to £200m p.a. due to compliance and transaction cost savings to firms – achieved immediately
- Second round benefits of £240m p.a. to end-users from increased competition and innovation due to deepening of capital markets (contingent on achieving direct benefits) – emerge over time
- Possible third round effects relating to increased long-term sustainable growth rate

Benefits of MiFID (2)

- **Four scenarios**
 - Limited effect
 - Non-regulatory factors dominate
 - Contributor to FSAP
 - Key measure
- **Scale of benefits depends on assumptions about:**
 - Existing level of capital market integration (in the UK)
 - Pooling of liquidity in equity markets
 - Scope for greater substitutability between shares and of barriers to cross-border trading
 - Nature of implementation in other member states
- **So scenario 2 deemed most appropriate**

Benefits of MiFID (3)

- **Sources of first round benefits:**
 - Reduced authorisation costs
 - **Reduced compliance costs - £100m p.a.**
 - Reduced costs of establishing “market reputation”
 - Reduced operating costs
 - **Improved market access due to passporting – small but material increase in supply**
 - Lower prices due to best execution and transparency requirements
 - Improved functioning of markets
 - **Reduced transaction costs due to aggregation effects - £100m-£1bn**
 - **Increased competition in publication of firms’ data - £2m-£20m**

Benefits of MiFID (4)

- **Sources of second round benefits:**
 - Deeper, more liquid, more sophisticated capital markets
 - Broader range of available risk-return trade-offs
 - Reduced diversification costs
 - Better risk hedging
 - Increased ability of market participants to diversify

Benefits of MiFID (5)

- **Benefits from reduced compliance costs**
 - Questionnaire used
 - Main driver reduced need to produce multiple compliance systems for multiple regulators
 - Scale of benefit depends on assumption about firms' number of non-UK EU business involvements and extent of associated additional compliance costs
 - Earlier Europe Economics study indicated scale of total UK financial sector compliance costs at 1.5% of operating costs

Benefits of MiFID (6)

- **Benefits from reduced compliance costs**
 - Operating costs assumed to = £70bn
 - Total compliance costs = 1.5%
 - Cost saving of one third assumed
 - Saving only applicable to MiFID firms (15% of financial services industry)
 - Assume passporting to 2 other member states
 - So benefit = $£70bn * 0.015 * 1/3 * 0.15 * 2 = £105m$

Benefits of MiFID (7)

- **Benefits from aggregation**
 - Modelling used
 - Assumption that main scope for scale economies is in segregated equity markets
 - Benefits accrue as creation of an effective single EU exchange increases liquidity and reduces bid-ask spreads
 - Data on turnover for major EU exchanges analysed to model implications and quantify impact of changes in spreads
 - Scenario 2 assumes only 10% of improvement attributable solely to MiFID (£100m but could be £1b under different assumptions)

Costs of MiFID (1)

- **Various elements of MiFID provisions considered separately in a series of consultations but EE surveyed too (bottom up versus top down approach)**
- **One-off costs estimated at £877m to £1.17b**
- **Ongoing costs of £88m to £117m p.a.**
- **Costs driven mainly by:**
 - Client categorisation
 - Best execution
 - Appropriateness test
 - Systems changes due to markets transparency provisions

Costs of MiFID (2)

- **Survey evidence revealed that some firms had budgeted for MiFID but others hadn't**
- **For latter firms (over half of those surveyed) three scenarios considered:**
 - Firms that learn from first-movers so incur lower than industry average costs
 - Firms that incur higher than average costs in order to catch up
 - Firms incurring average costs
- **Scenario 3 assumed but questionable assumption**

Costs of MiFID (3)

- **Firm population stratified into small, medium and large by no. of employees**
 - Small = 100 or fewer
 - Medium = 100 to 5000
 - Large = 5000 and over
- **Distribution of firms by size assumed on basis of survey and FSA data (75:20:5)**
- **Estimates of cost per firm estimated**
- **Median or mean?**

Costs of MiFID (4)

- **One-off versus ongoing costs**
- **Former most important for large firms because they can more easily absorb compliance internal audit and risk control costs given extent of existing functions**
- **But large firms can't avoid large costs of changes to IT systems**
- **Small firms hard to contact and generally suggested large on-going costs as well as one-off costs**
- **Day three exercise will consider specific MiFID provisions on best execution**

Costs of MiFID (5)

- **MiFID provisions on best execution**
 - High level principle: firms must take all reasonable steps to obtain best possible result for their clients (taking account of price, costs, speed, likelihood of execution, settlement procedures, order size)
 - More detailed requirements: firms must establish “execution arrangements” and an “execution policy” (eg information on choice of venues or entities) and disclose arrangements to clients (who must give consent)
 - Firms must monitor and (annually) review effectiveness of execution processes
 - Firms must also notify clients of process changes and, at client request, demonstrate compliance with execution policy

Costs of MiFID (6)

- **MiFID provisions on best execution**
 - Benefits: nature and scale of market failure (retail v professional investors)
 - Benefits: nature of competition effects
 - Costs: compliance costs driven by formulation of execution policy; client consent requirements; execution arrangements; record keeping requirements; and demonstrating compliance with execution policy
 - Costs: scope for negative market impacts

Concluding remarks

- **A very challenging exercise**
- **Very resource intensive for all involved**
- **Anticipating firm behaviour in the face of change – difficult but important**
- **Work of Europe Economics introduces interesting ways of thinking about benefits**
- **Use of existing studies important**
- **Use of scenarios – helps to identify significance of assumptions made**
- **Why bother if you have to do it anyway?**

Questions...



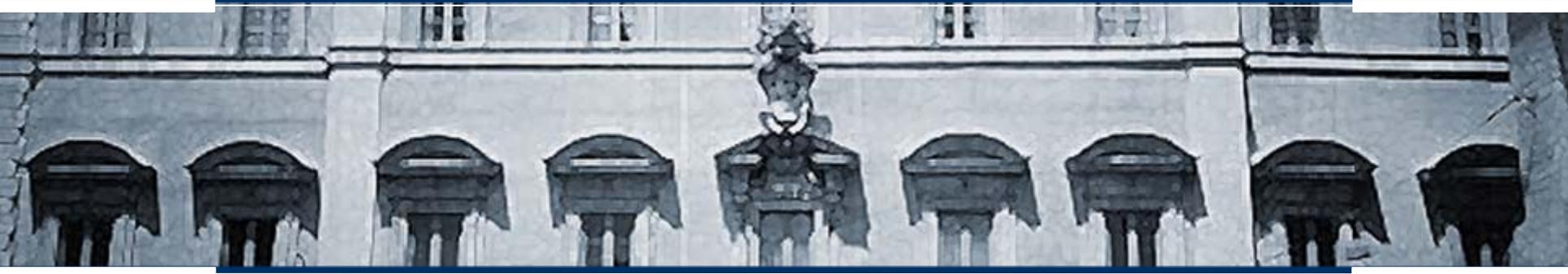
...are very welcome



How to Design Better Financial Regulation



ABI Associazione
Bancaria
Italiana



COST-SENSITIVE CLASSIFIERS AND RIA: CREDIT FRAUD DETECTION CASE STUDY

Pietro Scabellone

Ljubljana, September 12-14, 2007

ABSTRACT

Classification methods are of crucial importance in real-world banking applications (e.g. credit scoring, anti-money laundering, security evaluation procedures in payment systems, consumer credit fraud detection, MiFID compliance, robbery risk branches classification, etc.).

The influence of legislation should not be underestimated in this area and public-private cooperation can achieve very good results.

In this presentation, a model for assessing the benefits of establishing an automated classification system will be considered.

As a case study, a system that allows financial companies to prevent fraud on instruments supplying customers with credit will be assessed.

INTRODUCTION

Misclassification costs are different for different cases.

The assumption that all errors, that is, all incorrect predictions, are equally costly, is not true.

- For most animals, failing to recognize a predator and hence not fleeing is far more costly than fleeing from a non predator;
- In one-to-one marketing, the cost of making an offer to a person who does not respond is typically small compared to the cost of not contacting a person who would respond;
- In a credit card transaction, approving a fraudulent transaction leads to a liability for the expenses of fraud, while refusing a legitimate transaction has a minor (non-trivial) cost because it annoys the customer.

FOCUSING PAYMENT CARD FRAUD PREVENTION

In Italy, a single public authority (The Treasury's UCAMP) is competent to analyse and monitor fraud involving methods of payment other than cash.

To combat payment card fraud UCAMP has set up a computer-based archive that allows companies issuing payment cards to refer to and to share data on businesses performing transactions which have not come to a successful conclusion or that have been held back due to risk of fraud.

To optimise preventive action against fraud UCAMP has access to the archive of Banca d'Italia concerning lost or stolen payments cards and to the archives of the Department for Public Security and of the Police Forces.

COSTS OF FRAUD

Research on the costs of fraud typically disaggregates them into various main components.

Cost of fraud to the public and private stakeholders includes:

- (a) preventing fraud before the event (public sector and private entities take certain defensive measures to prevent/deter fraud);
- (b) fraud losses (i.e. transfer from the legal to the illegal economy);
- (c) responding to fraud after the event (criminal justice system - including police, prosecutors, courts, prison service - but also impact on the health or stress levels of victims).

CONSUMER CREDIT MARKET FAILURE CASE STUDY

Let's move from payment cards to consumer credit fraud.

Consider fraud as a deliberate misrepresentation of fact for the purpose of depriving a financial institution of a certain sum of money.

So, imperfect information and information asymmetry (i.e. elements of a "market failure") can work from borrower to lender.

Will the market correct the failure by itself in the short term?

If not, can a new initiative, with structural and cost implications, be proposed? What requirements must be met?

SOME FIGURES i.e. DO NOTHING OPTION

In Italy, millions of consumers apply for some form of credit each year. In each case, name, address, ID documents, social security number, VAT numbers, are required prior to making a decision to grant the credit.

Many different kinds of credit frauds exist today. Excluding the cost of doing something about them, direct losses from fraud in Italy reached at least €46 million in 2005, due to more than 10.000 acts of fraud. These figures are expected to have doubled in 2006. For a bank, the probability of falling prey to a successful fraud is about 1:1000.

Table 1: prior distribution

Loan application distribution, with regards to consumer credit fraud

	Actual bad	Actual good	Total
Occurrences	10.000	10.000.000	10.010.000

Note: grey cells act as input for the IA model.

DO NOTHING OPTION RESULTS

Losses caused by misclassifying clients have a significant impact on a financial institution's costs as well as on customer service levels.

Table 1: prior distribution

Loan application distribution, with regards to consumer credit fraud

	Actual bad	Actual good	Total
Occurrences	10.000	10.000.000	10.010.000

Table 2: "cost " matrix [cost(+); benefit(-)]

Two possible outcomes for a single consumer credit loan approval (€, \$, ...)

	Actual bad	Actual good
Approve	8.000	-400

Table 3: expected "cost" (ex-ante scenario)

Annual loss/gain for (ex-ante) approval

	Actual bad	Actual good	Total
Approve	80.000.000	-4.000.000.000	-3.920.000.000

THE ONGOING PROPOSAL

Based on experience in payment card fraud prevention, a legislative proposal is under consideration in the Italian Senate to establish a system of prevention that will reduce fraud in consumer credit.

The system will allow financial companies to verify with public administration and private entities information provided by clients before granting funds. UCAMP plays a central role in creating and managing the system.

Regulatory impact assessment is now used to measure the benefits of the proposal as well as to determine the performance break-even point of the system.

WHAT-IF SCENARIO

The next step will be to determine possible benefits by simulating the use of the public system.

Entering requests into the system allows financial institutions to verify data authenticity in real time (here, for free).

Table 4: system hits ratio evidence

What is the evidence of the inquires? Suppose there are z clients predicted as "bad"

	Actual bad	Actual good	Total
Predict bad			z=20.000
Predict good			9.990.000
	Total		10.010.000

Table 5: system performance

Breakdown (example): actually, x/z is the ratio of correct hits.

	Actual bad	Actual good	Total
Predict bad	x=5.000	15.000	z=20.000
Predict good	5.000	9.985.000	9.990.000
	Total	10.000	10.010.000

FILLING THE COST MATRIX

Let's specify "costs" for all correct and incorrect predictions and actions not previously examined (i.e. cost matrix C).

The cost of refusing a bad customer is set to zero, while refusing a legitimate transaction is considered as an opportunity cost, i.e. a forfeited benefit rather than an actual penalty.

Table 6: (mis)classification cost matrix [cost(+); benefit(-)]

Four possible outcomes for a single consumer credit loan refusal or approval (€, \$, ...)

	Actual bad	Actual good
Refuse	c11= 0	c12= 400
Approve	c21= 8.000	c22= -400

PROPER DECISION MAKING

To make an estimate of the expected benefits, the losses in a number of historical cases will be used as an indicator for how much of the loss could have been prevented through the proposed system.

It's possible to determine the cashflow associated with any decision by:

- the breakdown of correct hits, i.e. the system performance (table 5);
- a misclassification cost matrix C , for any possible outcome for a single credit refusal or approval (table 6);

In order to achieve benefits, the action associated with "predict bad" should be denial of loan.

MAKING DECISIONS BASED ON COST MATRIX

Table 5: system performance

Breakdown (example): actually, x/z is the ratio of correct hits.

	Actual bad	Actual good	Total
Predict bad	x=5.000	15.000	z=20.000
Predict good	5.000	9.985.000	9.990.000
Total	10.000	10.000.000	10.010.000

Table 6: (mis)classification cost matrix [cost(+); benefit(-)]

Four possible outcomes for a single consumer credit loan refusal or approval (€, \$, ...)

	Actual bad	Actual good
Refuse	c11= 0	c12= 400
Approve	c21= 8.000	c22= -400

Table 7: pay off | decision

Pay-off of the optimal decisions

	Actual bad	Actual good	Total
Predict bad & refuse	0	6.000.000	6.000.000
Predict bad & approve	40.000.000	-6.000.000	34.000.000
Predict good & refuse	0	3.994.000.000	3.994.000.000
Predict good & approve	40.000.000	-3.994.000.000	-3.954.000.000
Total	40.000.000	-3.988.000.000	-3.948.000.000

REGULATORY IMPACT ASSESSMENT (I)

It's now possible to assess the impact of the policy proposal for financial services to introduce a public system for preventing fraud.

Table 8: regulatory impact assessment

One year, the two scenario comparison

	Actual bad	Actual good	Total
Approve only, ex-ante	80.000.000	-4.000.000.000	-3.920.000.000
Approve and/or refuse, ex-post	40.000.000	-3.988.000.000	-3.948.000.000
Difference (+ = benefit)	40.000.000	-12.000.000	28.000.000

Under our assumptions, the annual benefit rises to 28 million.

REGULATORY IMPACT ASSESSMENT (II)

Table 8 shows a 50% reduction in the total amount of fraud. This implies that all stakeholders will benefit from introduction of the system.

Table 8a: proposal cost reduction summary (per year)

	Prevention	Transfer losses	Response
Consumers	-	50% reduction	50% reduction
Central government	Hypothesis: access fees compensate costs	-	50% reduction
Non-financial services	-	50% reduction	50% reduction
Financial services	Access fees to the system to take in account	Fraud losses 28.000.000	50% reduction

BREAK-EVEN APPROACH

It is also possible to determine the values for the two variables z and x needed to achieve a benefit equal to zero.

It could be demonstrated that, given the evidence z , the value of the threshold x^* depends solely on the cost matrix C .

Table 9: threshold x^* given z

The determination of the threshold posterior $p^* = x^*/z$ depends solely on the cost matrix

$$p^*(x \mid \text{predict bad}) = (c_{22} - c_{12}) / [(c_{22} - c_{12}) + (c_{11} - c_{21})]$$

	Actual bad	Actual good
Refuse	$c_{11} = 0$	$c_{12} = 400$
Approve	$c_{21} = 8.000$	$c_{22} = -400$
	$(c_{22} - c_{12}) =$	-800
	$(c_{11} - c_{21}) =$	-8.000
		$p^* = 0,091$
		$(x^* \mid z) = 1.818,2$

In order for there to be a benefit, the system needs to reach at least 1.819 correct hits.

NEXT STEPS

Some further steps are possible, such as introducing into the cost matrix the value of an access fee to the system.

More in general, the approach shown in this presentation allows eliminating the hypothesis of fixed values in the cost matrix, introducing for each cell a functional form.

Table 10: input dependent missclassification cost matrix (example)

Consider y as the amount of the loan

	Actual bad	Actual good
Refuse	$c_{11} = f(y)$	$c_{12} = g(y)$
Approve	$c_{21} = h(y)$	$c_{22} = -g(y)$

The break-even point, at which the return on investment is exactly equal to the amount invested, follows the same formula shown in table 9.

CONCLUSIONS

A general model for input dependent (mis)classification costs and benefits has been presented as a tool for performing RIA.

An example with simulated data was offered in fraud detection within the consumer credit domain.

RIA has shown that establishing the proposed system of prevention can lead to very good results for all stakeholders.

Moreover, application of the model is not confined to the case proposed in this presentation. The model can be easily applied to determine the benefits of policy initiatives as well as to perform break-even points approaches.

The Regulatory Impact Assessment on Post-trading

CEF RIA Course
Ljubljana, 13 September 2007

Sebastijan HROVATIN

The Agenda

1. Background on post-trading
2. The RIA
3. Conclusions



The Agenda

1. Background

- ∅ The post-trading industry in brief
- ∅ The basic policy questions

2. The RIA

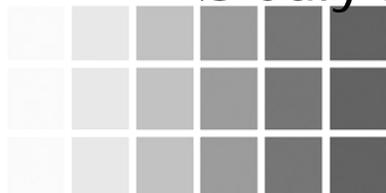
3. Conclusions



A bit of history...

- The post-trading sector has received a fair amount of attention in the last few years:

Ø July 1988:	Kessler report (COM)
Ø November 2001:	1 st Giovannini Report
Ø May 2002:	1 st Commission Communication
Ø January 2003:	Andria Report (EP)
Ø April 2003:	2 nd Giovannini report
Ø February 2004:	DG Competition report (London Economics)
Ø April 2004:	2 nd Commission Communication
Ø July 2005:	Villiers/Kauppi report (EP)



What Is Post-trading?

- Two sets of functions/activities
 - ∅ those that lead to the completion of a transaction in financial instruments (clearing and settlement)
 - ∅ those that are related to the holding of financial instruments (custody)



Who Are the Main Stakeholders?

- Post-trading infrastructures
 - ∅ (International) Central Securities Depositories – (I)CSDs
 - ∅ Central Counterparties – CCPs
- Users
 - ∅ banks
 - ∅ brokers
 - ∅ stock exchanges, etc.
- Final investors
- Public authorities (at national and EU level)



What Is the Wider Objective?

- The challenge: increase growth potential of the EU economy and create more jobs
Æ Lisbon agenda
- Financial market integration plays an important role in this process Æ FSAP
- Integrated post-trading landscape part of the solution Æ ?



What is the current situation?

- Inadequate post-trading landscape:
 - ∅ domestic: efficient and safe
 - ∅ cross-border: fragmentation Æ costly and, potentially, more risky
- Reason: barriers to cross-border provision
 - ∅ national differences in technical requirements/market practice
 - ∅ national differences in tax procedures
 - ∅ issues of legal certainty that may arise between national jurisdictions



What can the Commission do? (1)

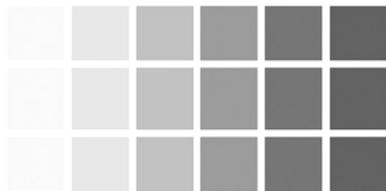
2004 Communication: the Commission's main objective is

"...to foster an EU-wide securities post-trading environment which is efficient and safe and which ensures a level playing field among the different post-trading service providers."



What can the Commission do? (2)

Objectives	Specific objectives	Policies and measures	Rationale	Practical initiatives	
Efficiency	Level playing field	Integration	Ex-post competition policy	Tackle abuses of dominant positions, including discriminatory practices	Investigations and decisions by the Commission and national competition authorities
			Dismantling of market, legal and fiscal barriers	Liberalisation of the cross-border distribution of post-trading services, increase of competition and cost reduction	CESAME group (market barriers)
					Legal Certainty group (legal barriers)
					FISCO group (fiscal barriers)
					Directive (access and location issues) - To be tested in the RIA
Ex-ante competition legislation	To increase pricing and cost transparency as a means to make the detection of possible abuses of market power, and therefore distortions of competition by CSDs/CCPs, easier.	Directive (governance rules, i.e., account separation and unbundling of services) - To be tested in the RIA			
Safety	Financial stability and investor protection	Common regulatory and supervisory framework	Facilitate the integration of systems. Addressing the issue of diverging treatment of similar concerns by national authorities	Directive -To be tested in RIA	
			To increase financial stability and investor protection.		



What can the Commission do? (3)

The Communication indicated that the Commission would have to play three distinct roles to achieve this objective:

1. "Honest broker"

Æ experts' groups (CESAME, Legal Certainty Group, FISCO)

2. Enforcer

Æ DG Competition

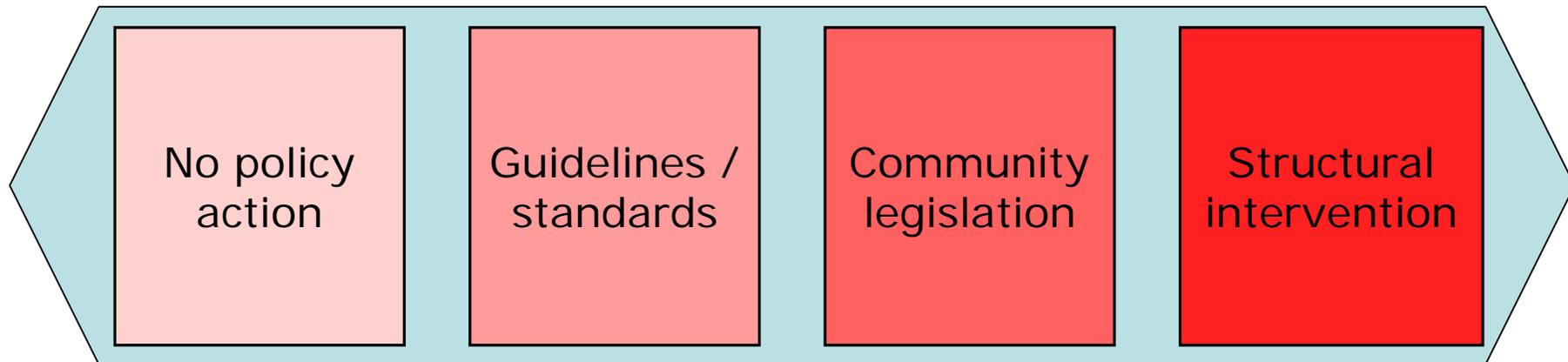
3. Legislator

Æ DG Internal Market and Services (directive
Ø RIA)



The Policy Options

- There are four possible options:



- Each of them needs to be analysed for its merits and its drawbacks Æ RIA



The Agenda

1. Background on post-trading

2. Writing the RIA

- ∅ The Steering Group
- ∅ Division of labour
- ∅ Consultations
- ∅ Verification
- ∅ The main parts
- ∅ The final decision

3. Conclusions



The Steering Group

- The role of the Steering Group (SG)
- The composition of the SG:
 - Ø Internal Market and Services
 - Ø Competition
 - Ø Economic and Financial Affairs
 - Ø Joint Research Center
 - Ø BEPA
 - Ø Secretariat General
- Regular meetings to discuss progress on the RIA



Division of Labour

- The drafting of the different chapters of the RIA was assigned to different members of the SG
- While the work was done faster this way, the choice proved to be less optimal once the chapters had to be put together into a single document



Consultations

- In our case (numerous groups of stakeholders with very different and often conflicting interests) extensive consultations were of paramount importance
- The 2004 Communication served as the basis for a first broad consultation with the various stakeholders
- In addition, during the RIA drafting process, there were constant contacts with the various stakeholders



Verification

- Internally: within the SG
- Externally: presentations of parts of RIA to various stakeholders
 - ∅ particularly important in the case of the economic analysis



The Main Parts

- Definitions
- Characteristics of the industry
- The current state of play in the industry
- The economic analysis
 - ∅ static AE existing studies
 - ∅ dynamic AE econometric paper
- Analysis of pros and cons of the different policy options



The Final Result

Criterion / Option	"Doing nothing"	Guidelines/ Standards	Community legislation	Structural intervention
Benefits (size, likelihood and timeframe)				
Costs of compliance				★
"Stability" and flexibility of the regulatory, supervisory and oversight regime				★
Transparency and the ability to monitor prices				★
Subsidiarity/ Proportionality				★



The Agenda

1. Background on post-trading
2. The RIA
3. Conclusions



The Main Lessons (1)

- Plan carefully
- Gather as many minds as practically possible...
- ... but have only one hand holding the pen
- Be transparent about your work...
- ... but do not disclose too many details
- Consult as widely as possible...
- ... but do not overdo it



The Main Lessons (2)

- Be careful about the data
- Remember: whereas the RIA is a technical document, the final decision is political



Thank you !



Applying RIA to the Official Regulatory Process

– Credit Fraud Detection Case Study –

Ljubljana, 14th September 2007

This document represents the outcome that the Group practicing RIA on Credit Fraud Detection Case Study has prepared and discussed in the plenary session.

- **Facilitator:**

Mr. John Pyne, Senior Regulator, Irish Financial Services Authority

- **Working Group Members:**

<p>Bulgaria Financial Superv. Comm. <i>Ms. Katerina Gigova</i></p>	<p>Kosovo Ministry of Economy <i>Mr. Dugagjin Krasniqi</i></p>
<p>Kosovo Ministry of Economy <i>Mr. Mentor Osmanaj</i></p>	<p>Macedonia Ministry of Finance <i>Ms. Violeta Stojanovska Petrovska</i></p>
<p>Montenegro Ministry of Finance <i>Mr. Vladimir Kavarić</i></p>	<p>Montenegro Barents Group <i>Mr. Bruce Reid</i></p>
<p>Montenegro USAID Montenegro <i>Mr. Savo Djurović</i></p>	<p>Slovenia Bank of Slovenia <i>Mr. Matej Pollick</i></p>

Problem identification

1. Market failure

- 99,9 % → effectively acting part of market
- 0,1 % → problem area
- no evidence of increased cost of capital

2. Criminal justice issue

→ Anti-fraud (→ public response) police existing already

Policy options

1. Do nothing option

2. UCAMP

→ computer database

3. Market solution

- better training
- incentives for sales staff
- database of fraud
- lengthen consideration period -> from 24h to a week
- graduated approach to checks -> depends on the size of loan

1. DO NOTHING

	COST	BENEFITS
CONSUMER	0.1 % of the int. rate on the credit agr. (factor is less for checks)	Privacy issues?
INDUSTRY	€28m p.a. consumer disengagement	
PUBLIC SECTOR	Cost implications for fraud office	

2. MARKET SOLUTION

	COST	BENEFITS
CONSUMER	Anti competitive Tangible costs Harder to shop around Access to credit	Better credit terms Easier access to repeat credit
INDUSTRY	Administrative burden Competition with other products Legal costs	Reduction in fraud (€28m) Enhanced credit quality of loan book Enhanced reputation
PUBLIC SECTOR		Reduction in fraud No resource issues

Administrative burden:

- Better training
- Incentives for sales staff
- Database of fraud
- Lengthen consideration period
- GRADUATED APPROACH TO CHECKS

3. REGULATORY SOLUTION (UCAMP)

	COST	BENEFITS
CONSUMER	Some tangible costs Access to credit Harder to shop around	Better credit terms Easier access to repeat credit
INDUSTRY	Administrative charge Competition with other products	€28m p.a. Data quality Govt to share blame Better loan book
PUBLIC SECTOR	Net cost	Reduction in fraud - positive

Do we make a recommendation?

Some observations:

- 1) Not much difference between market and regulatory solution
- 2) Significant data deficiencies
- 3) Case for regulatory solution not adequately made
- 4) Risk to gout of regulatory failure

Stakeholders

- 1) Consumer organisations
- 2) Banks
- 3) Intermediaries
- 4) Other govt. departments + A.G.
- 5) Competitors
- 6) Privacy agencies
- 7) Competition Authority
- 8) Regulator(s)

Applying RIA to the Official Regulatory Process

- Croatia Securitization Case Study -

Ljubljana, 14th September 2007

This document represents the outcome that the Group practicing RIA on Croatia Securitization Case Study has prepared and discussed in the plenary session.

Facilitator: Mr. Velimir Šonje, Arhivanalitika General Manager

Working Group members:

Albania	Bulgaria	Croatia	Croatia	Kosovo	Serbia	Slovakia
Bank of Albania	Financial Superv. Comm.	Ministry of Economy	Ministry of Economy	Ministry of Labour	National Bank	National Bank
<i>Ms. Etleva Gjonca</i>	<i>Ms. Elena Paneva</i>	<i>Ms. Sanja Fišer</i>	<i>Ms. Jasminka Keser</i>	<i>Mr. Veli Lecaj</i>	<i>Ms. Maja Marković</i>	<i>Mr. Tomas Ambra</i>

Problem identification

- ❑ MARKET FAILURE 15%: potential investors do not have information on underlying assets
 - ❑ UNDERDEVELOPED MARKET 15%: securitization did not develop because market is not mature for it
 - ❑ REGULATORY FAILURE 70%: other legal arrangements make obstacles for securitization
 - ❑ NEXT STAGE
 - CONSULT WITH STAKEHOLDERS NOW BECAUSE WE WANT TO MAKE SURE THAT THIS PROBLEM IDENTIFICATION IS CORRECT
 - CONDUCT MARKET SURVEY OF POTENTIAL ORIGINATORS AND INVESTORS TO CHECK IF THIS IS REALLY IMPORTANT FOR THEM. WE ARE AFRAID IF THIS IS NOT IMPORTANT AND IF WE REGULATE WE WILL JUST INVITE UNWANTED PLAYERS TO THE MARKET.
-

Market survey

- ❑ Potential originations / 2 bln EUR
 - ❑ Potential dom. demand / 1 bln EUR
 - ❑ Potential foreign demand / 1 bln EUR
 - ❑ CONCLUSION: HIGH POTENTIAL SO WE GO ON WITH CONSULTATIONS
-

Stakeholders

1. Investors *funds, insurance companies, banks, individual investors,
 2. Originators *Banks, leasing companies, consumer loan companies, the Government / public sector projects, housing banks and cooperatives, big corporations
 3. Intermediaries
 4. Stock exchange
 5. Central bank
 6. Final debtors/consumers
-

Consultations

- ❑ Separate feedback from all 6 to avoid cross group influences
 - ❑ Send short 5 page document questions and answers in the end, time 2 weeks
 - ❑ After collection of documents presentation to the RIA group
 - ❑ What we want to hear from them?
 - What is wrong with regulation?
 - Do you need new regulation?
 - What do you think about SEC?
 - How much you know about SEC
 - Did you do SEC if yes then list problems and experience
-

OPTIONS

- Do nothing option
 - Amend existing regulation / at least 8 other fundamental laws
 - Build new law 
 - Market self regulation
-

New law? Lex specialis

- Scope and nature of new law
 - Detailed or general principles and bases > medium solution
 - Industry prefers details to minimize risks of different interpretations
 - The team did not decide
 - Now comes situation to call for external expertise
-

Whom to invite?

- We invite panel of legal experts which comprise legal experts from both sides
 - Regulation experts
 - Business experts
 - Domestic and international
-

What do we ask legal experts?

- Review our previous decisions
 - Provide general legal principles solutions
-

POLICY OBJECTIVES

- ❑ GENERAL. DEVELOPMENT OF SECURITIZATION TRANSACTIONS
 - ❑ SPECIFIC > DEEPENING OF CAPITAL MARKET > HIGHER VOLUMES OF SECURITIES TRADING
 - ❑ BETTER FINANCING OPPORTUNITIES FOR ORIGINATORS *LIQUIDITY, BETTER TERMS)
 - ❑ FOR INVESTORS NEW INVESTING OPPORTUNITIES
 - ❑ IMPROVED ACCESS TO CREDIT FOR CONSUMERS
 - ❑ FOR REGULATORS FINANCIAL STABILITY
-

CBA / cost / benefit

- Recall market survey
 - What will be the reduction of the interest rate?
 - Ask banks but don't trust them / they will overestimate
 - Ask independent analysts to provide figures
 - Reduction of 1 p.p.
-

CBA continued / immediate benefits

- ❑ Total: $2 \text{ bln Ex} \times 0.01$ equals 20 mln EUR
 - ❑ How will be split between originators and consumers? Ask independent analyst
 - ❑ Benefits for investors / lower risk and higher return / Ask independent analyst
-

Long run benefits

- Distinguish immediate from long run benefits
 - Stable supply of credits
 - More credits with fixed interest rate
-

Costs

- ❑ Cost of missed opportunities equals benefits
 - ❑ Transaction costs of doing sec. in badly regulated environment
 - ❑ Inability of smaller originators to use securitization / estimated at 300 mn EUR
-

Arrangements of the consultations

- PR, conferences, WEB, publications

RIA

Legal principles

- Dangers to this process
 - Wrong data input, do something on wrong basis
 - Quantitative CBA, estimations, small errors lead to wrong larger results
 - How to explain all of this in 5 minutes to the Minister of finance i.e. understanding by top policy makers
-

Applying RIA to the Official Regulatory Process

– MiFID Implementation –

Ljubljana, 14th September 2007

This document represents the outcome that the Group practicing RIA on MiFID Implementation Case Study has prepared and discussed in the plenary session.

- **Facilitator:**

Mr. John Pyne, Senior Regulator, Irish Financial Services Authority

- **Working Group Members:**

Albania Bank of Albania <i>Mr. Artan Toro</i>	Bulgaria Financial Superv. Comm. <i>Ms. Venelina Tomova</i>
Croatia Ministry of Economy <i>Ms. Helena Milkovic</i>	Croatia Ministry of Economy <i>Ms. Ana Vincent Šepić</i>
Croatia Institute of Economics <i>Ms. Jelena Budak</i>	Romania National Bank <i>Mr. Gabriel Valvoi</i>
Romania National Commission <i>Mr. Remus Carteleanu</i>	Slovenia Office of the President <i>Ms. Barbara Fakin</i>

MIFID IMPLEMENTATION – BEST EXECUTION

Problem identification

1) MFA

Q) What is the market?

A) Market is the place where investors go to buy and sell financial instruments from a broker.

A-PROFESIONAL INVESTORS (INST. /PENS. FUND)

B-RETAIL INVESTORS (INDIVIDUAL)

C-BROKERS

D-DEALERS

2)

Q) What is the problem?

A1) B Face asymmetric (lack of) information about C activities of broker

A2) C = D Broker is in conflict of interest with dealer

A3) Commission bias (debt commission / best price)

3)

Q) What is the evidence of problems?

A) A gets better price than B – for a fully comparable size of trans.

C uses own D

“Do nothing” option

Current situation = regulation

In force requiring broker to get the best price: Does it address the market failure?

A) No. B still does not get best deal, because does not get all information.

Best price NOT best deal

➔ regulatory failure

“Do nothing” option is rejected.

Alternative policy options

- ➔ the following policies increase the information available to retail investor
 - execution process
 - execution policy
 - client confirmation
 - monitoring execution process
 - annual review of the process
 - demonstrating compliance
 - notification of changes in policy

- ➔ our CBA covers different ways of implementing these policy proposals

Policy objectives

- single market integration
- protection and market efficiency
- guarantee the best deal for **B**

- ex-post RIA will determine whether policy objectives were met

Analysis of impact

EXECUTION PROCESS

C receives order from B and chooses D, executes

	COST	BENEFITS
B RETAIL INVESTORS	0 no incremental cost	Effective process of executing orders = best deal Benefit is the difference between best deal – best price
C BROKERS	One-off costs to expand the existing process of executing orders: -training -it, sw -management time to review -hiring skilled staff -internal audit Ongoing cost due to greater complexity of the execution process High-tech. option is cheaper the low-tech -time & people	-More credibility = more business -The whole market expands
REGULATOR	One-off cost of providing guidelines Document published Ongoing cost of face-to-face briefing	Helps meet regulator's objectives re. consumer protection & market confidence

EXECUTION POLICY

	COST	BENEFITS
B	0	- New information means investor is more confident that he gets a best deal
C	One-off cost of producing documents -in-house -external expertise -staff & legal costs -depends on firm size	-Investor is more confident
REGULATOR	Provides guidelines	Same as re. process

CLIENT CONFIRMATION

-Distribution of execution policy

	COST	BENEFITS
B	One-off costs of reading documents & giving confirmation -High-tech cheaper than low-tech	If B reads?
C	On going cost of getting new client to give his consent / agree with a policy	Marketing benefits
REGULATOR	0	0

MONITORING EXECUTION PROCESS

C broker is monitoring his execution process

	COST	BENEFITS
B.	0	Supports general benefit to get the best deal
C	One-off set up costs Ongoing costs -level depends on frequency --> -high tech more capital intensive -size, etc.	Improved business practice Link with scale of benefits?
REGULATOR	Provide guidelines	Reduced risk of mistakes leading to detriment

ANNUAL REVIEW OF THE PROCESS

	COST	BENEFITS
B	0	Same benefits as for monitoring
C	One-off set up cost (how?) Ongoing cost of conducting a review -in-house vs. External -high tech vs. low tech	Would external deer-review bring additional benefits?
REGULATOR	Provide guidelines on form, contents, template...	-Reduces risks of mistakes -Useful documentation for checking compliance

DEMONSTRATING COMPLIANCE

	COST	BENEFITS
B.	0	Same benefits -supports the general benefit to get the best deal
C	a) Annual return-report -> COST RISE -cost of gathering information -high tech vs. low tech b) On-site visit annual -cost of preparing information c) Frequent visits d) Permanent supervision -On going cost of record keeping	Depends of the degree -of risk of the firm -higher supervision make investors more confident, credibility for broker's rise
REGULATOR	-Cost rise from a) to d) as for C	Reduces risk for mistake -achieving compliance is the key mechanism to prove a credibility of reg. policy

NOTIFICATION OF CHANGES IN POLICY

- C notifies
 - B
 - regulator

	COST	BENEFITS
B	-small costs of reading time & providing consent	If reads, then informed if not, does not jeopardize other benefits
C	On going cost -high tech vs. low tech -frequency	-Keep client informed, with marketing opportunities
REGULATOR	Minor handling costs	

Policy consultation process

Who are our stakeholders?

- Retail investors **B**
- Professional investors **A**
- Brokers **C**
- Dealers **D**
- Representative associations of **A B C D**

What will we do? (1)

- Seek views on implications of proposals for each stakeholders group

How will we do it?

- Informal interviews
- Published consultation document asking detailed questions about proposals

What will we do? (2)

- Conduct qualitative & quantitative CBA

How will we do this?

Higher consultancy to devise & implement survey.

Concluding remarks and next steps

Riccardo Brogi
Convergence Program
South-East Europe Regional RIA Program Director

Centre of Excellence in Finance
Ljubljana, September 14 2007

RIA Knowledge Transfer

Day 1:

- Rationale for RIA
- Methodology to analyze financial costs and benefits (quality & quantity);
- Comprehensive EU RIA template (CESR-CEBS-CEIOPS).

- “Better Regulation”:
 - Why?
 - How?
 - Benefits and Costs

Day 2:

- 4 RIA case studies (different angles and domains).

- Regardless of issue, IA:
 - “way of systematic thinking”
 - helps collect expertise and information (consultations)
 - “Compass” to solutions

Day 3:

- Live RIA exercise.

- Analysis in team;
 - Consultations are fun!
-

Next Steps – October-December 2007

- Convergence is ready to arrange in-country initiatives (e.g. seminars, working meeting) to build wider Financial Sector RIA awareness with local institutions;
 - SPI-Romania is ready to share its RIA based public-private financial modernization approach and provide assistance on how to replicate a similar initiative.
-

Next Steps – Other ideas

Participants

- Participants ask CEF to post their first RIAs on its website;
- Participants seek CEF-Convergence RIA network assistance to prepare first “light” RIAs;
- Participants reconvene in CEF to discuss a few concrete RIA cases in six months;
- Participants reconvene in CEF to discuss a SINGLE RIA case of common interest before summer 2008.

Instructors

- Participants seek technical support from instructors;
 - Instructors suggest other technical support modalities.
-

Summary Lessons

1. RIA Role:

- Support policy making;
- Improve quality of regulation.

2. RIA Main Principles:

- Undertaken at the very early stage of policy making;
 - Involve all stakeholders through an open dialogue.
-

Thank you!!!

convergence@worldbank.org

Date: September 19, 2007

Course No.: 01-0177-1-07

EVALUATION RESULTS

(Based on 20 contributions out of 23 participants)

How to Design Better Financial Regulation – Regulatory Impact Assessment (RIA): A Key Policy Analysis Tool –



September 12-14, 2007

The workshop took place in Ljubljana from September 12 to 14, 2007

Course objectives:

What is RIA:

Regulatory Impact Assessment (RIA) consists of a systematic analysis of the likely impact of a proposed policy intervention and of discussion of a range of alternative policy options.

The course is designed to help authorities improve regulatory process by using a solid methodology based on two main tools:

1. A well defined and effective procedure to be used in a regulatory design;
2. The cost/benefit analysis enabling to assess the final impact of current and alternative policy choices.

The course also highlights the crucial role of the consultation of interested parties as a key step in impact assessment and, bottom-line, in policy design. Regulators can extract large value by properly involving market participants through the drafting process. Impact assessment and public consultation are both part of the EU good regulatory making practices. The course is application-oriented and participants are stimulated to have an active role in discussing practical cases.

By the end of the course, participants will have the understanding on: (1) How the regulatory process in financial sector can be shaped in a more systematic and efficient manner; (2) How to blend law background with economic and financial evidence; (3) How to deal with regulatory options by applying a benchmarking approach; and (4) Which stakeholders to involve in the process and in which way.

Topics covered:

- overview of RIA as a tool to make regulation more effective
- procedural steps used by the European Commission, the UK, and other EU countries in performing RIA

- presentation of existing approaches, methodologies and ex-ante/ex-post assessment
- analyzes case studies of micro-regulatory impact assessment pertaining to European Union and some EU countries
- the concrete application of RIA methodology on case studies.

Presentations from:

- Ms. Helen Carrier, *Senior Economist, Department for Business, Enterprise and Regulatory Reform UK Government*
- Mr. Paul Gower, *Senior Adviser, Oxera*
- Mr. Stefan Nanu, *Director General, Ministry of Economy and Finance, Romania*
- Ms. Alexandra Berketi, *Senior Officer, CESR*
- Ms. Sandra Wesseling, *Senior Officer, CEIOPS*
- Mr. Velimir Šonje, *General Manager, Arhivanalitika, Zagreb*
- Mr. Stephen Dickinson, *Senior Regulator, UK Financial Services Authority*
- Mr. Pietro Scabellone, *Head, Impact Assessment Unit, Italian Banking Association*
- Mr. Sebastijan Hrovatin, *Administrator, European Commission, DG Internal Market and Services, Financial Market Infrastructure Unit*
- Ms. Oana Nedelescu, *Director of Policy and Analytics, SPI Romania*
- Mr. John Pyne, *Senior Regulator, Ireland Financial Regulator (Ireland)*
- Mr. Luigi Passamonti, *Head, Convergence Program, The World Bank*
- Mr. Riccardo Brogi, *Senior Regulatory Economist, Convergence Program, The World Bank*

General appreciation and comments of participants

1. Workshop assessment:

1. Please rate the workshop

3.71

(from 1 to 4, with 4 as the best)

2. Did the workshop meet your expectations?

Remarks:

- It was for the first time I attended a course at CEF and also met with RIA. I found all information and new acquainted useful and rewarding.
- More workshop
- Very good combination of topics and lecturers.
- I expect to build my capacity in design the regulation which is my primary task.
- But too short as period.
- Knowledge from EU, MIFLD, experience sharing.
- The workshop was very interesting and useful because I get a view about RIA, about basics of RIS and how is implementing in other countries and it will help me in my further work.
- New knowledge, examples from practice, openness for problem identification
- More rigorous and individual/group work should have been asked from participants. Presentations differed a lot in teams of their suitability from case studies. This introductory seminar needs a follow-up training. Maybe too much theory on the first day, instead of practice on the third day.
- Most relevant, organized, highly professional with practical application, focused and well structured.
- The objectives of the workshop - as the course outline was clearly meet.
- Very well thought and organized seminar.
- The workshop met exactly my expectations. I've got formations on the topic and I also can use it in the future when working to do own IAS.

3. What did you like best about the workshop and how would you compare it to other workshops you have attended?

Remarks:

- Use of new knowledge in practice; use of international advice and practical issues etc.
- More theory.
- High qualification of the lecturers.
- The staff of CEF, presentations and facilitators are open for communication and further help to the participants.
- It is the first workshop which I've attended, that's way I couldn't compare it.
- It was similar to the one I have attended in Bucharest (organized by SPI) - I like both, presentations and the exercise.
- Open minded approach, working in small teams, match making, better than conferences.
- Good organization, actual topic, real-life examples.
- Excellent choice of lectures, excellent organization of the course as far as substance and technical implementation is considered, case studied with practical experiences.
- We had sufficient information on RIA principles to implement acquired knowledge in working groups - was very well composed related to specific knowledge of members and the topics to be analyzed.
- It's very comprehensive and people from various countries attend, changing the experience.
- Good lectures, useful information, final workshop.
- It was good organized and presenters were good.
- The number of high quality presenters and range of different RIA case studies was excellent.
- The best was practical exercise. Workshop is standard and met my expectations..
- Very well organized, excellent lectures, interactive way of communication, new knowledge is presented, and experience shared as between the lectures and participant, as well as between the participants themselves.
- The case studies were very interesting. Usually the workshops are too much theoretical and going with information too much in details

4. Did you feel enough time was allowed for questions and free class discussion?

(from 1 to 4, with 4 as the best)

3.71

Remarks:

- Yes, enough time was allowed, however I suspected some of the participants were not the right people to compare **I** the discussion.
- It was really enough time for interaction between participants and speakers.
- Absolutely.
- More practical questions.
- Maybe the time was allowed, but the atmosphere of the class participants was not favorable in this regard. Attendants should have been more encouraged to discuss.
- Absolutely yes.
- Absolutely, the topic was quite new for many participants and there was many questions.

5. What makes this seminar useful for you and your job?

Participants were asked to evaluate listed by scoring from 1 to 4, where 4 was the best.

Newly-acquired knowledge	3.86
Refinement of existing knowledge	3.43
Exchange of experience with other participants	3.36
Practical case studies	3.58
Final day team presentation	3.81

6. Would you find it useful if this workshop or a continuation of it would be delivered in your institution (in your country)?

Remarks:

- Yes, however some practical questions when already implemented RIA would be useful from the institution side, the course at CEF is for the basic knowledge and excellent start.
- Yes.
- It will be very useful if more people can obtain new knowledge about RIA and participate in practical case studies.
- In Romania SPI has already organized a similar seminar.
- It would be very good if this workshop would be delivered in my country because Croatia is in a process of acceding to EU and we are dealing with adjustment our land to the law of EU's, so it would be very useful.
- Never enough best practices knowledge.
- To promote RIA concept widely to be established as a good practice.
- I found it very useful and recommend the continuation, as there is limited knowledge on RIA - or it is rarely used.
- Yes, it will be very useful to be delivered at our institution.
- The use of RIA needs to be supported by ongoing training to a greater number to government regulations in Montenegro.
- Depends on the need. I suppose the need exists, but I am not sure.
- Yes, much is already depends on the definition of the officials of my institution.

7. Do you recommend more workshop or training on this topic?

Remarks:

- Yes, as I understand RIA is a way of thinking and more persons has to be familiar with it's advantage.
- Yes.
- Yes.
- More practical exercise.
- Surely I recommend, because RIA is something that is totally new for Croatia and other countries that are in process to become a member of EU, so all kinds of training on this topic are useful and get unnecessary knowledge.
- Yes, extend to other related areas, not only narrow financial industry/sector. It should apply to almost all regulations, policy guidelines, etc.
- IA on a concrete EU directive and its implementation in natural law.
- Yes, because it is not enough for three day to understand such material and to learn every thing.
- Yes, otherwise it will not be adopted in new team.
- Yes.
- Sure.
- Differently and more orientated supervisors on as on the banks and MOFs.

8. How useful did you find the following parts of the Workshop?

Participants were asked to evaluate listed by scoring from 1 to 4, where 4 was the best.

Impact Assessment at Better Regulation Executive	3.82
A framework for assessing the costs and benefits of financial regulation	3.77
Romania MOF Director General Address	3.43
Illustration of Impact Assessment Guidelines prepared by CESR-CEBS-CEIOPS	3.52
Standard Cost Model: a key tool for policymakers to monitor effectively regulatory administrative burden	3.55
Panel Concluding Session	3.50
Day's Chairperson support	3.71
Case study on Securitization in Croatia	4.00

Case study on MiFID	3.27
Case study on Italian banking sector	3.00
Case study on EU Post-trading services	3.82
Day's Chairperson support	3.59
Team Execution of a standard RIA procedure	4.00
General Discussion	3.79
Day's Chairperson support	3.34

9. Lecturer Assessment:

The participants were asked to evaluate each lecturer by technically skilled in subject, effective workshop design and delivery and if participant would attend or recommend others attend different workshop by this lecturer, by scoring from 1 to 4, where 4 was the best.

Ms. Helen Carrier	
Technically skilled in subject?	3.84
Effective workshop design & delivery?	3.89
Would you attend or recommend others attend different workshop by this lecturer?	3.88

Mr. Paul Gower	
Technically skilled in subject?	3.92
Effective workshop design & delivery?	3.81
Would you attend or recommend others attend different workshop by this lecturer?	3.65

Mr. Stefan Nanu	
Technically skilled in subject?	3.48
Effective workshop design & delivery?	3.32
Would you attend or recommend others attend different workshop by this lecturer?	3.24

Ms. Alexandra Berketi	
Technically skilled in subject?	3.76
Effective workshop design & delivery?	3.52
Would you attend or recommend others attend different workshop by this lecturer?	3.51

Ms. Sandra Wesseling	
Technically skilled in subject?	3.64
Effective workshop design & delivery?	3.20
Would you attend or recommend others attend different workshop by this lecturer?	3.25

Mr. Velimir Šonje (as speaker)	
Technically skilled in subject?	4.00
Effective workshop design & delivery?	4.00
Would you attend or recommend others attend different workshop by this lecturer?	4.00

Mr. Stephen Dickinson (as speaker)	
Technically skilled in subject?	3.70
Effective workshop design & delivery?	2.14

Would you attend or recommend others attend different workshop by this lecturer?	3.20
--	-------------

Mr. Pietro Scabellone	
Technically skilled in subject?	3.32
Effective workshop design & delivery?	2.90
Would you attend or recommend others attend different workshop by this lecturer?	2.90

Mr. Sebastijan Hrovatin	
Technically skilled in subject?	3.96
Effective workshop design & delivery?	3.89
Would you attend or recommend others attend different workshop by this lecturer?	3.84

Ms. Oana Nedelescu	
Technically skilled in subject?	3.83
Effective workshop design & delivery?	3.79
Would you attend or recommend others attend different workshop by this lecturer?	3.74

Mr. Stephen Dickinson (as facilitator)	
Technically skilled in subject?	3.94
Effective workshop design & delivery?	3.77
Would you attend or recommend others attend different workshop by this lecturer?	3.80

Mr. John Pyne (as facilitator)	
Technically skilled in subject?	3.78
Effective workshop design & delivery?	3.74
Would you attend or recommend others attend different workshop by this lecturer?	3.77

Mr. Velimir Šonje (as facilitator)	
Technically skilled in subject?	4.00
Effective workshop design & delivery?	3.95
Would you attend or recommend others attend different workshop by this lecturer?	3.95

10a. Which topics, critical for the practical use of RIA techniques, were missing in this workshop?

- Effective, detail delivery of details, methodology and its traps at the time of its individual application in practice. However, I would not be too critical, as you made it possible to learn the experience of different case studies. More topics would be useful on the public consultation step.
- More extensive explanation of the EU guidelines and case study in banking (consumer credit fraud is not a pure RIA case or the presentation was weak).
- It was new area for us from Kosovo - but very interesting and very attractive for daily use.
- Case study example for SME's.
- An example of a past evaluation in case study format.
- Costs benefit analysis exercise with figures, even simple case studies. Source of financing RIA.

10b. Which workshop topics could be dropped in the future?

- Continued must be with financial topics in the public sector.
- No specific topic should be dropped. Only the scope of some was too long (e.g. CESR).
- The introduction part should be as short as possible.
- Case study on Italian banking sector.
- One good intro lecture on RIA concept and methodology would be sufficient.
- The team exercise to prepare as RIA could have been more interesting and challenging if new situations were assessed - the presentations tended to cover/repeat issues, process with the case studies presented by the experts.
- Nothing.
- More inter-active case studies - participants should participate in identification of the problem, defining the policy objectives (in all 9 steps).

11. Would you recommend this workshop to your colleagues?

86 % of participants answered "Yes" and 14 % "Yes, with minor adjustment".

12. Which department of your institution should be represented in future RIA workshop?

% of answers are Legal Department
25 % of answers are Regulation Department
16 % of answers are Financial Department
16 % of answers are Supervision Department
19 % of answers are Research/other Department

Other:

- Depends on the field activities.
- SME's associations
- Primary regulators and legislators should be involved.
- Financial Supervision Commission
- Security commission
- Ministry of economy, SME's associations
- Financial Supervisory Authority
- Central bank and MFIN should have been represented, but did not. Decision making officials were missing.

13. Which Authorities/Institutions, other than Central Bank and Ministry of Finance, should be represented in future RIA workshops?

18 % of answers are stock exchange
25 % of answers are supervision authority
23 % of answers are prime minister's office
16 % of answers are economic think-tanks
18 % of answers are private sector firm

Other:

- Depends on the field activities
- SME's associations
- Primary regulators and legislators should be involved.
- Financial Supervision Commission
- Security commission
- Ministry of economy, SME's associations
- Financial Supervisory Authority

-Central bank and MFIN should have been represented, but did not. Decision making officials were missing.

14. How soon do you expect to use the knowledge acquired in your work?

33 % of answers are Yes immediately in my regular workflow
38 % of answers are Partially, if I speak with my superior and colleagues
29 % of answers are No, but expect to use it in the future

15. Will in your opinion RIA implementation in your country improve the quality of regulatory activities?

76 % of participant answered "Yes, a lot" and 24 % "Perhaps".

2. Organizational Arrangements:

Participants evaluated organizational arrangements by the following categories, by scoring from 1 to 4, where 4 was the best:

Organization of the workshop	3.87
Reception by CEF	4.00
Accommodation and meal arrangements	3.82
Classroom	3.60
Lunch and coffee breaks	3.83
Length of the "school day"	3.66

Remarks:

- Everything is fine. I am extremely satisfied with my stay in Ljubljana. Thank you very much.
- Bigger classroom for large group of attendants.
- Actually the length of the school day was too long, too much information for one day. Also the quality of the lunch could be better. And definitely, larger classroom is recommended.
- Classroom was too small, additional desk space needed. Hotel room was with no daylight at all, but this was the only disadvantage. All other organizational arrangement were perfect.
- More days if possible instead of long days.

17. What are your recommendations for future workshops at the CEF that are not related to this topic.

Remarks:

- If you could attract participants from as many countries as possible, that would be helpful.
- Cross border financial services. Financial services (credit) consumer protection.
- I am most happy with all aspects and I have to be privileged to participate at future workshop at the CEF from my field of work.
- Market research, MIFID cases, seminars and workshops for SME's sector, such as legislations, financing, incentives, educations, SME's in Croatia: enterprise, crafts, cooperatives.
- More study cases.
- RIA workshops for SME'S financing.
- Continue with RIA workshop, strategic and financial planning, procedural and structural program of budget and financial planning, workshop of EU directives on procurement, procedures, general administration on managing of staff.

3. Application of RIA techniques to real regulatory making

18. To build better RIA awareness among your superiors and colleagues, would you suggest that Convergence helps design an in-country capacity building exercise tailored to your country's specific needs?

100 % of participant answered "Yes".

19. If you answered 'Yes' to the previous question, please make your choice for the specific elements of the capacity building program:

19.1. Length:

6 % of answers are 1 session for a total of 2 days
50 % of answers are 2 sessions for a total of 3 days
44 % of answers are 3 sessions for a total of 5 days

Remarks:

- In Romania a similar workshop was organized.
- Additional time to developed a case study, with real CBA example with figures, adjustment for a specific country - more exercise.
- The time of a one single session should be shorter than present session.

19.2. Content:

Participants were asked to evaluate listed by scoring from 1 to 4, where 4 was the best.

RIA techniques (e.g. methodology and procedures)	3.04
RIA case studies drawn from international experience	2.96
Application of RIA techniques to an existing domestic Regulation	3.11
Application of RIA techniques to a regulation still in draft	2.91

19.3. Participants:

24 % of answers are Ministry of Finance
21 % of answers are Central Bank
16 % of answers are other financial supervisors

Remarks:

- auditors, accountants, etc.
- auditors
- institutions involved in better regulation process
- financial supervision commission (non-banking, financial regulator)
- the supervision of whole financial market
- security com, insurance supervisory agency
- security regulators, insurance supervisors
- security commission of insurance regulator

5 % of answers is other local agencies

Remarks:

associations
regional development agencies
if relevant for the project

18 % of answers are private sector

16 % of answers are independent experts

23. Do you suggest that Convergence and CEF should contact your superior(s)/colleague(s) in order to illustrate to and design with them a possible tailor made RIA program?

89 % of participant answered "Yes" and 11 % "No".

24. How do you suggest that Convergence and CEF should discuss possible next steps with your superior(s)/colleague(s)?

50 % of answers are organization of a seminar

45 % of answers are setting up a working meeting

1 % of answers is other:

-Firstly, contact competent officials at institute of banking education in National Bank of Slovakia and make necessary arrangement.