



**DRAFT**

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## **TERMS OF REFERENCE**

### **Project: Unique and rationalized reporting system**

|                                |   |
|--------------------------------|---|
| <b>Project Owner:</b>          | <b>[Indrit Banka, Director,<br/>Supervision Department, BoA]</b>  |
| <b>Project Manager:</b>        | <b>[Miranda Ramaj, Deputy<br/>Director, BoA]</b>  |
| <b>Project Co- Manager:</b>    | <b>a bank representative</b>  |
| <b>Technical Anchor (TAN):</b> | <b>[TAIEX /World Bank/ABI]</b>  |
| <b>Project Working Group:</b>  | <b>Representatives of BoA<br/>Supervision and Statistics<br/>Departments and representatives<br/>of banks</b> |

### **I. - Background - Problem Identification**

The authority of the Bank of Albania in establishing rules for the reporting information necessary for the BoA to carry out its tasks and perform its functions is defined by the Law "On the Bank of Albania" (no.8269, dated 23.12.1997, amended in 1998 and 2002).

Article 27 of this Law states that “banks, institutions, juridical and physical persons shall be required to deliver statistical data in accordance with reporting system approved by the Bank of Albania, employing appraisal standards, and indicating the designation and classification presented herewith.”

Law “On Banks on the Republic of Albania” (Nr. 9662, dated 18.12.2006) also defines the relationship between the BoA and banks with regard to reporting. It establishes that the Bank of Albania defines the form, type, methodology, contents and the time of reporting to the Bank of Albania, of banks and branches of foreign banks.

#### **SPI Albania Secretariat**

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Commercial banks operating in Albania report to the Bank of Albania in accordance with the Unified Reporting System (URS) approved by the Supervisory Council of Bank of Albania decision nr. 75 dated 6 September, 2001.

Decision No. 58 of 15.10.2007 adopted the “Unified Reporting System – URS for foreign bank branches”. The unified reporting system for foreign bank branches stipulates the entirety of financial data and prudential indicators that a foreign bank branch should report to the Bank of Albania. The Statistics Department, in cooperation with the Supervision Department, drafted this system, pursuant to and in implementation of the Regulation “On operational risk management at branches of foreign banks”.

URS comprises reporting requirements and a database system for storage of and common access to the reported data. URS covers all reporting requirements to BoA as stipulated in different BoA’s regulations such as:

- Regulation “On credit risk management”, approved in 2004, amended in 2006.
- Regulation “On reporting the capital adequacy ratio”, approved in 1999, amended in 2001; 2002; 2003; 2004; 2005, and 2007.
- Regulation “On open foreign currency positions”, approved in 1999, amended in 1999.
- Regulation “On foreign exchange operations” approved in 2003, amended in 2003.
- Guideline “On reporting the foreign exchange operations”, approved in 2003.
- Guideline “On banks’ liquidity”, approved in 2000, amended in 2003.
- Regulation “On market risks”, approved in 1999, amended in 2001.
- Regulation “On consolidated supervision of banks”, approved in 2005.
- Regulation “On operational risk management at branches of foreign banks” approved in 2007.
- Regulation “On risk management arising from large exposure of banks” approved in 2008

The URS reporting was designed in conformity with the national accounting standards, regulated under the “Banking Accounting Manual”. This manual has been drafted by Bank of Albania and has been approved with the decision of the Council of Ministers on 30.12.1998. At the time of its drafting (with the assistance of foreign experts) and approval, it was largely in accordance with the international accounting standards (IAS) version disclosed in 1998. Since then, the standards have been enriched and the banking activity has become more diversified. Hence, introduction and implementation of IAS in Albania will require the modification of the reporting system.

Banks having foreign parent banks are now double reporting: according to national accounting standards to BoA and according to IFRS standards to their parent banks. Their costs with reporting would decrease through the introduction of a unique reporting system.

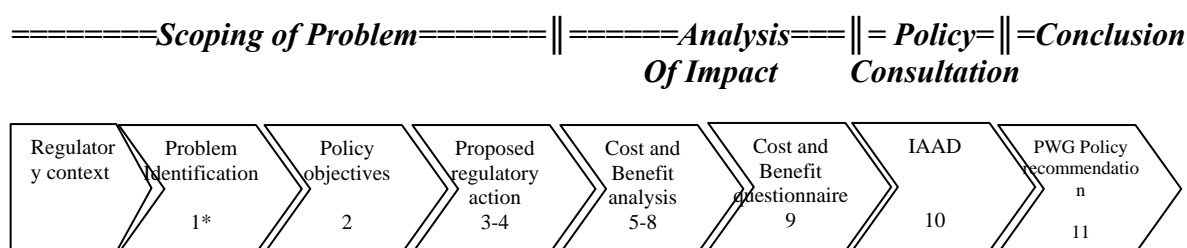
On the other side, a rationalized and unique reporting system would also ease BoA’s role in gathering and managing data, as well as would improve its capacity to supervise banks.

Therefore, both banks and BoA should look for a solution to ease the reporting burden while addressing also BoA's concerns on prudential and stability issues.

## **II. - Project Objective**

1. To assess the impact of IFRS implementation in banking reporting system to BoA;
2. To identify the report forms in the URS, which are affected by IFRS and need revisions;
3. To propose amendments to the affected regulations and reporting forms in order to bring reporting to Bank of Albania in line with IFRS requirements, and avoid double reporting.

## **III.- Intended Strategy-Description of the Better Regulation**



The project management group (Project Owner, Project Manager, Deputy Project Manager), supported by the SPI Secretariat, will act based on the mandate received from the SPI Committee to review the system of banks' reporting to the central bank and its divergences with IFRS reporting requirements.

In order to get a better understanding, the Project Working Group (PWG), with the support of SPI Albania Secretariat, will collect and analyze other countries' experience in adopting IFRS.

PWG will prepare a comprehensive list of the current reporting requirements according to the respective regulations. PWG will prepare also a list of reporting requirement according to IFRS. PWG will acquire an understanding on the qualitative impact and influence that changes brought by IFRS implementation will have in the banking reporting system.

Planned steps to achieve project's objective:

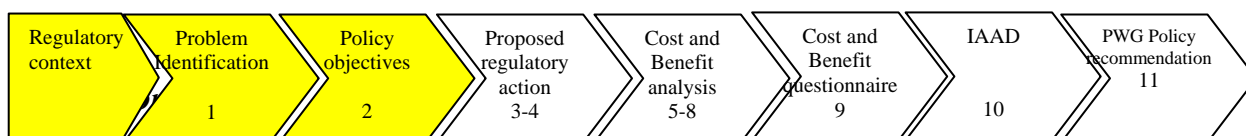
1. To identify the current reporting obligations for banks;
2. To identify the reporting requirements according to IFRS;
3. Based on the analyzed documents, to formulate a list of the reports that need modification in order to avoid double reporting;
4. To assess the possible impact of changing the reporting forms and to run consultations on the proposed amendments.

## **IV- Methodology: from kick off to the accomplishment of the project**

The Project Owner will appoint PM and Co-PM. SPI Secretariat will draft the invitation letter. The project working group members will be appointed by PM and by banks, following the invitation sent through AAB.

## **A. First PWG meeting**

### ***Preparation of PWG 1<sup>st</sup> meeting (PM/DPM and SPI Secretariat)***



PMG and SPI Secretariat will prepare: a) a background note on current reporting requirements; b) a note on reporting requirements according to IFRS and other countries' experience with adopting reporting according to IFRS.

After PMG clearance and before the 1<sup>st</sup> meeting, SPI Secretariat will send to PWG members the following documents:

1. Draft TORs;
2. Draft of “Scoping of Problem” document;
3. Background note on current regulatory framework;
4. Note on reporting requirements according to IFRS.

**Objectives:**

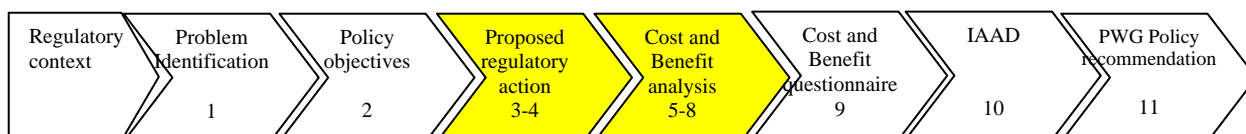
- To agree on the presented TORs prepared by SPI Secretariat and endorsed by PO and PM/Co-PMs;
- To understand the current context and the policy goals;
- To analyze the main changes brought by IFRS implementation in the banks' reporting system;
- To acquire knowledge on other countries' experience in reporting systems.

**Outputs:**

- Final ToRs
- Final “Scoping of Problem” document
- Approved background note on current regulatory framework
- Approved note on international experience

SPI Secretariat will prepare the minutes of the meeting

## **B. PWG 2nd meeting**



### **Preparatory works**

PWG members will send to SPI Secretariat the description of their main areas of concern regarding the reports that are reported differently with national accounting standards and IFRS. SPI Secretariat will collect individual inputs and will present them in a structured approach.

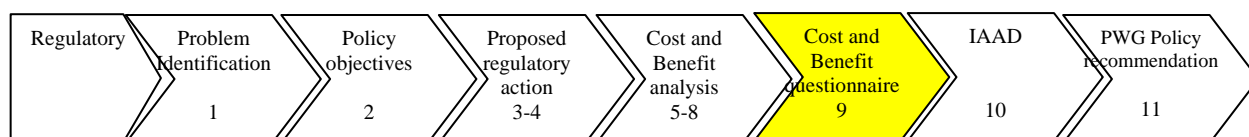
A core of the PWG, with SPI Secretariat support, will prepare a proposal for potential PWG recommendations to amend the current reporting requirements and forms.

- Objectives:**
- To finalize the list of the main changes brought by IFRS implementation;
  - To formulate recommendations;
  - To analyze the qualitative impact for banks and BoA.

- Output:**
- Proposed modifications / amendments of regulation and reporting forms
  - Approved IAAD document up to qualitative impact assessment

SPI Secretariat will prepare the minutes of the meeting

### C. PWG 3rd meeting



#### **Preparatory works**

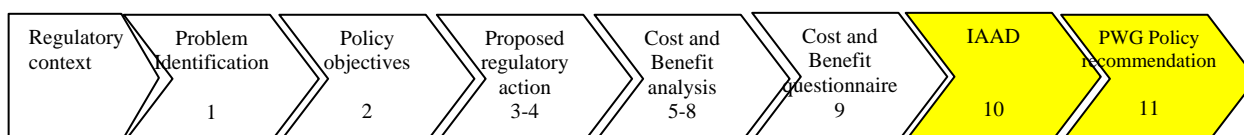
SPI Secretariat, with PMG support, will draft the questionnaire for data collection.

**Objective:** To discuss and agree on the cost and benefit questionnaire for assessing the qualitative and quantitative impact of the changes in the reporting requirements with the aim to avoid double reporting.

**Output:** Final questionnaire.

SPI Secretariat: will prepare the minutes of the meeting.

### D. PWG 4<sup>th</sup> meeting



#### **Preparatory works**

SPI Secretariat will collect data from PWG participating banks and will summarize questionnaire results, preparing the draft “summary impact assessment” for PWG discussion and endorsement.

PMG and SPI Secretariat: to draft PWG recommendations on reporting forms amendment proposals.

- Objectives:**
- To endorse Impact Assessment Analysis Document including “Summary Impact Assessment”;
  - To finalize PWG recommendations.

- Output:**
- IAAD
  - Final PWG recommendations.

***Following PWG 4<sup>th</sup> meeting:***

Preparation of the SPI Committee paper that will be approved by PMG.

**VI - Project Team**

The team is composed of:

- Bank of Albania
- Banks – all banks will be invited to appoint PWG members

Consulted documents:

1. Law "On the Bank of Albania", No.8269, dated 23.12.1997, amended in 1998 and 2002;
2. Law “On Banks on the Republic of Albania”, Nr. 9662, dated 18.12.2006;
3. Unified reporting system on branches of foreign banks, approved by the Supervisory Council Decision, No. 58, dated 15.10.2007;
4. Banking supervision regulations and guidelines currently in force, and related to banking reporting obligations;
5. Experiences of other countries in the region.

Attachment

| <b>The EU Better Regulation Approach</b>     |  |
|--|--|
| <b>Steps</b>                                 | <b>Purpose</b>   |
| <b>Scoping of problem</b>                    |  |
| 1. Problem identification                    | To understand if a market/regulatory failure creates the case for regulatory intervention. |
| 2. Definition of policy objectives           | To identify the effects of the market /regulatory failure to the regulatory objectives.    |
| 3. Development of “do nothing option”        | To identify and state the status quo.  |
| 4. Alternative policy options                | To identify and state alternative policies (among them the “market solution”).             |
| <b>Analysis of impact</b>                    |  |
| 5. Costs to users                            | To identify and state the costs borne by consumers   |
| 6. Benefits to users                         | To identify and state the benefits yielded by consumers                                    |
| 7. Costs to regulated firms and regulator    | To identify and state the costs borne by regulator and regulated firms                     |
| 8. Benefits to regulated firms and regulator | To identify and state the benefits yielded by regulator and regulated firms                |
| 9. Data Questionnaire                        | To collect market structure data to perform a quantitative cost and benefit analysis       |
| <b>Consultations</b>                         |  |
| 10. Policy Document                          | To learn market participant opinions on various policy options                             |
| <b>Conclusion</b>                            |  |
| 11. Final Recommendations                    | Final report to decision-makers, based on Cost Benefit Analysis and market feedback        |

Source: CESR-CEBS-CEIOPS 3L3 Guidelines, adjusted by the Convergence Program based on experience.