

# Regulatory Impact Assessment

## - Main Findings and Policy Recommendations -

Proposed Existing Guideline

*BoA Guideline No. 49, dated  
22.04.1999 "On the Transparency of  
the banking operations and services"*

Proposing Authority

Bank of Albania

Tirana

April 18, 2008

# Working Group Composition

	WG#2		
<u>WG Coordinator</u> Bank of Albania	Bank of Albania	Bank of Albania	Bank of Albania
Ms. Ermira Çurri	Ms. Miranda Ramaj	Ms. Elvana Troçe	Ms. Alba Fagu
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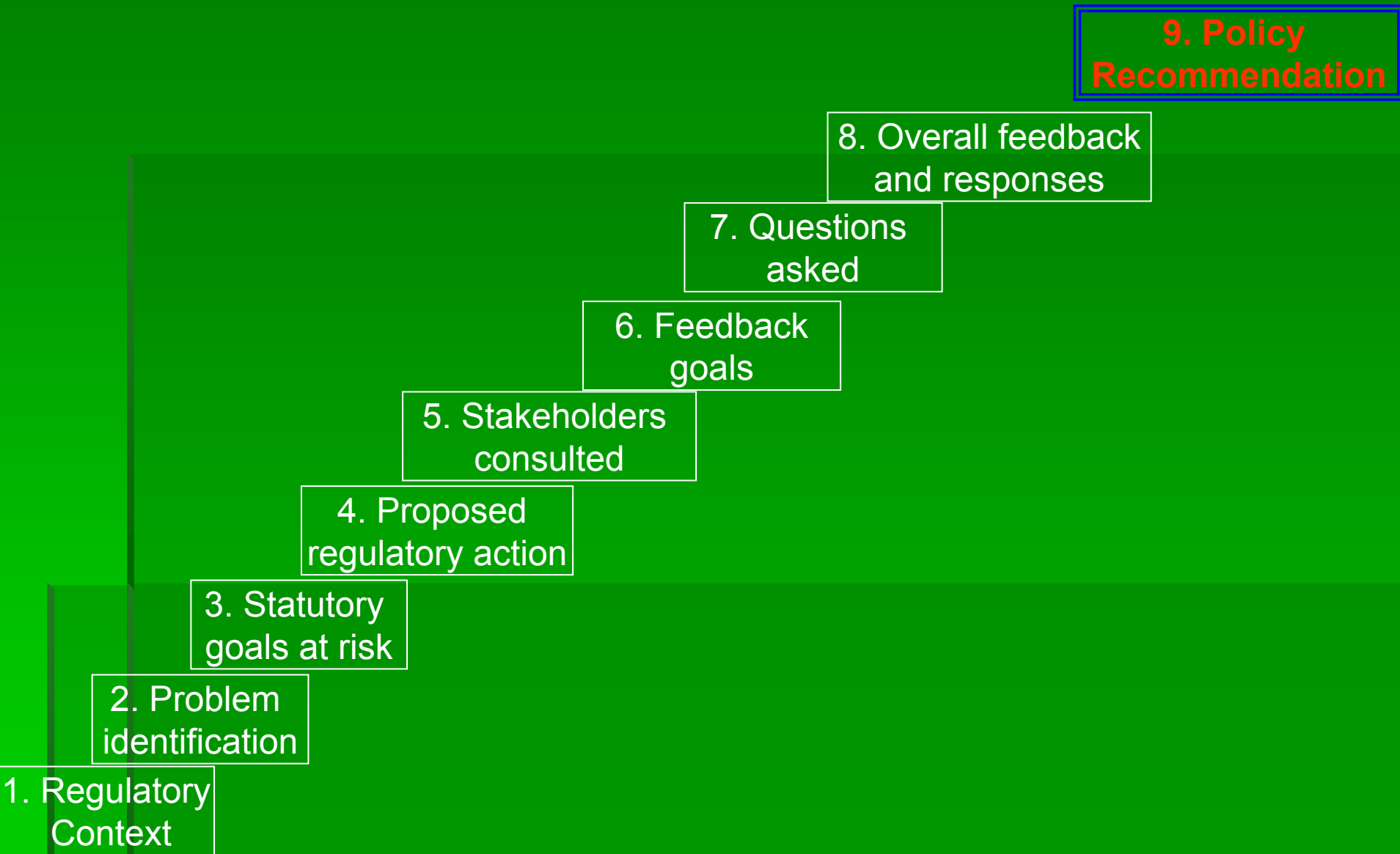
Facilitator

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# Impact Assessment Process



# Main Findings Overview

## 9. Policy Recommendation

Final step

8. Overall feedback and responses

Banks and Bank of Albania share the same opinion that the potential problems are manageable and costs are affordable

7. Questions asked

Focused mainly on market and regulatory failures on bank transparency issues, costs and benefits on consumers and banks as per the new regulatory framework on enhancing bank transparency

6. Feedback goals

Understanding: banks' point of views, implementation problems, readiness to bear the costs

5. Stakeholders consulted

Banks, nonbank financial institutions, SCA and their unions

4. Proposed regulatory action

Updating the guideline "On the transparency of the banking operations and services" and the new regulation on "Minimum requirements for disclosure of information by banks and foreign banks branches"

3. Statutory goals at risk

Consumer protection, financial stability and financial market transparency and reputation

2. Problem identification

Market failure and regulatory failure

1. Regulatory Context

"On bank transparency"

# 1. Regulatory context (bank client transparency)

- The project on reviewing (updating) the guideline No. 49, dated 22.04.1999 "On the Transparency of the banking operations and services" would provide:
  - ▶ *clearly defining of the minimum information to be disclosed to the customers on banking products;*
  - ▶ *tackling misleading information given by the banks, by determining basic criteria on marketing of banking products;*
  - ▶ *setting out a complaint procedure to be followed by the customer and the bank.*

# 1. Regulatory context (risk profile bank transparency)

- The project on drawing up the new regulation on “Minimum requirements for disclosure of information by banks and foreign banks branches” would provide:

- ▶ *disclosing the information by banks on 6 broad categories:*

- *organization structures of the bank and their main activities;*
    - *financial performance;*
    - *financial situation (capital, solvency, liquidity);*
    - *strategies and practices of risk administration;*
    - *risk exposures (credit risk, market risk, liquidity risk, operational and legal risk, etc.);*
    - *accounting policies.*

## 2. Problem identification

*As the transparency become more challenging and the scope of banks' activities expanded over the years, there is a call for better transparency by regulators and public, investors, market entities in Albania as well.*

The introduction of this project would focus on the following:

### ■ Market failure

- ▶ *asymmetric information between consumers and banks;*
- ▶ *negative externalities (market reputation)*

Findings: During the horizontal on-site inspection on some individual (6) banks of the system were depicted the problems related to bank transparency throughout banking operations and services to the clients as well as on the publication of financial position, risk profile and its management, policies and strategies, etc. - public disclosure.

## 2. Problem identification (cont.)

### ■ Regulatory failure

- ▶ *Firstly*, the existing guideline was outdated, as it has been effective since 1999 and the banks' activities have become more complex and dynamic;
- ▶ *Secondly*, there was not a specific regulation on disclosing the information by banks on their activity, financial conditions, progress, risk profile and its management, policies and their processes of administration, as well as accounting policies for the public and the market participants (the new Law "On banking" and international standards impose these requirements as well –Pillar III – Basel II Accord).



# 3. Statutory goals at risk

The WG identified the following objectives to be achieved through the projects introduced:

## *General objectives:*

- ▶ consumer protection
- ▶ financial stability
- ▶ financial market transparency and reputation.

## *Specific objectives*

- ▶ enhancing bank transparency by disclosing the appropriate information for consumers and the market participants

## *Operational objectives*

- ▶ ensure the appropriate information to consumers on banking services and products;
- ▶ ensuring compliance with the public disclosure standards on six broad categories of information (financial performance, financial position including capital, solvency and liquidity, risk management strategies and practices, risk exposures, accounting policies and basic business, management and corporate governance information);
- ▶ etc.

## 4. Proposed regulatory action (1)

- We as regulators (supervisors) do not believe that the market could be corrected the failure by itself because of the following reasons:
- According to the inspections findings, the banks has not always applied the requirements for transparency provided by the instruction in power;
- The number of the complaints of clients/customers against banks' practices has been increasing during the years;
- The Code of Ethics, which provides some basic elements for transparency, is not being observed and also these rules are not mandatory for the banks. The banks are obliged to follow only the acts issued by the BoA, as those ones (acts) provide for sanctions in case of failure of implementation and/or infringement of provisions;
- Article 124 of the Law "On Banks" provides for some conditions to be observed in order to protect the clients/customers, especially on information regarding loans or deposits. These conditions should be reflected in proposed project; and
- According to article 72, section 1, letter "b", of the same Law the process of supervising the banks is realized by the BoA, which is also competent to establish the respective regulatory framework.

# 4. Proposed regulatory action (2)

## Preamble

► *The BoA is taking into consideration the issuing of a new instruction (through updating the existing guideline and drawing up the new one), aiming the regulation of the market situation, as:*

- a) the new law on banks, providing new criteria on transparency in the bank-client/customer relations, bank risk profile and its financial situation as well, has entered into force;
- b) the BoA, through inspections, has detected that the mentioned instruction and the Code of Ethics are not always or only partially observed; and
- c) the banks' activities have become more complex and dynamic;
- d) the new international standards (Basel II Accord) define some elements that are crucial also for our market discipline – more specific requirements on disclosing the information by banks on financial situation and their risk profile to public and market participants.