

Convergence Romania Financial Sector Modernization

Special Projects Initiative Public-Private Steering Committee



TERMS OF REFERENCE

Project: Technical and regulatory requirements for improving clearing and settlement of checks, drafts and promissory notes

Project Owner: ... (on behalf of RBA)

Project Manager: ... (a TransFond's manager)

Deputy Project Manager: ... (a bank's manager)

PROJECT WORKING GROUP (PWG)

I- Background

The processing of debit instruments under the current regulatory framework is paper based. Currently, checks and other debit instruments are processed manually, while all the credit payment instruments are electronically processed. The physical exchange of the paper debit instruments takes place at the 41 local clearing houses of TransFond, which are maintained only for this purpose. The manual processing of debit instruments generates high costs for banks, which are reflected into final prices of bank products and services and implies a long settlement period. The current law does not allow the digital presentation of debit instruments.

Pending a change in the law, banks have worked, as an interim solution, on a proposal to centralise at TransFond headquarters, the physical exchange of paper-debit instruments by the banks head offices with a parallel electronic transmission of the data drawn from debit instruments.

Many in the banking industry feel that a permanent solution has to be found in order to address this issue, but different views exist among market participants as to what that “ultimate solution” should be.

One idea raised in the banking community is to eliminate checks. In order to implement such a solution, at least the following aspects have to be clarified: implementation period, the check users' opinion, the impact of such a measure, needed regulatory actions and alternative instruments.

Until now, no task force gathering all stakeholders' representatives has addressed the issue in order to facilitate the finding of a commonly accepted solution. The polarity of the checks market (where some banks make extensive use of checks while others do not use checks that frequently) and the relatively reduced number of processed checks prevents the banks from reaching a commonly agreed solution, making unlikely the elimination of checks in the short term.

NBR is currently working on two parallel initiatives:

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a) an interim solution – facilitated by an NBR norm regulating the RBA proposed interim solution;

b) a permanent solution – the amendment of the relevant laws in order to allow the electronic processing of debit instruments.

where you could have only paper less instruments

The interim solution is meant to address the concerns that the enactment of the permanent solution will take too long.

shorten the time span from interim to permanent

II - Project Objective

A comprehensive summary document representing a solution acceptable to all stakeholders, and that can serve as a guiding blueprint for the drafting of the revised law on debit instruments.

III – Intended Strategy

The working group should be structured so as to reflect all the stakeholders: banks (large and small), authorities (NBR, MOPF and Ministry of Justice), the payment system operator (TransFond) and the users (NACP).

In order to get to a solution on the debit instrument acceptable to all stakeholders, the PWG members will analyse relevant documents, studies and regulations and will point out the possible solutions. PWG members will analyse the advantages and disadvantages, the difficulties and prospects (technical and regulatory) of the identified solutions and express their views as individual opinions.

The solution will come out by centralizing the individual opinions and comparing advantages and prospects with disadvantages and difficulties. Each possible solution will be analysed from each stakeholder's angle.

For the identified common most acceptable solution, a Regulatory Impact Assessment will be performed in order to see if the agreed solution receives also a confirmation in terms of expected net benefits.

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

Preparation of PWG 1st meeting (PM/DPM and SPI Secretariat) - October (10 - 15)

Should decide how to structure the PWG 1st meeting in order to get the most relevant information:

- from the RBA subgroup dedicated to deal with this issue (part of the Settlement Technical Commission)
 - o Document highlighting intermediate solution envisaged by banks;
 - o Make available existing work on the issue.
- from TransFond

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- Document on options for processing debit instruments with updated evidence on the volume of checks processed at its local branches;
- from NBR (Payment Department)
 - Relevant documents including the draft law proposal on debit instruments and the proposed norm for the interim solution;
 - Laws and regulations on debit instruments.
- from NACP
 - What were the issues raised by consumers related to debit instruments, if any.

PWG 1st meeting - October (16-20)

1. PWG finalizes action plan;
2. PWG agrees on TOR;
3. PWG revises the documents, identifies additional information needed, existing problems and possible solutions.
4. PM/DPM establish **homework** for PWG members:

PWG members analyze the advantages and disadvantages, the technical and regulatory implications of the solutions discussed in the PWG 1st meeting and any other envisaged solutions. The individual positions will be sent to the PM/DPM and SPI Secretariat. SPI Secretariat will centralize the positions by identified solution and circulate a consolidated document right before the PWG 2nd meeting. PWG member from NACP consults with consumers (commercial companies) on the possible solutions highlighted in the meeting asking for their opinion.
5. **Homework** for PM/DPM (with support from SPI Secretariat): prepare questionnaire for data and other relevant information. The questionnaire is intended to gather information on the debit instruments processing cycle within each bank and in connection with Transfond.

Follow-up to the PWG 1st meeting

Send questionnaire to a relevant sample of banks. The RBA will gather and elaborate the data.

PWG 2nd meeting - November (6-15)

1. PWG members discuss the consolidated document;
2. PWG outlines all the possible solutions identified by members, debates the pros and cons of each of them from every stakeholder's angle coming up with the most acceptable solution as a basis for PWG draft position paper;
3. Share and discuss the non-RIA information gathered from questionnaires received.
4. **Homework:** PM/DPM draft the PWG position paper describing the debates on the identified solutions and outlining the arguments sustaining the most acceptable solution. The document is to be sent to PWG members before the third meeting. PWG members will provide information for RIA.

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PWG 3rd meeting - November 30 – December 8

1. PWG refines and approves the PWG position paper;
2. PWG discuss and validates RIA findings.

Follow-up to the PWG 3rd meeting

The final PWG position paper will be circulated.

V- Output

- individual opinions
- document with centralized opinions
- questionnaire
- document with non-RIA gathered information
- draft PWG position paper
- final PWG position paper

VI - Project Team

The team will be composed of:

- Transfond
 - 1 expert;
- National Bank of Romania
 - 1 expert with background in payments system regulations;
- Banks
 - 2 experts with background domestic payments, one from a large bank and one from a small bank;
- Ministry of Public Finance
 - 1 expert from (the Central Unit for the Harmonization of the Financial Management and Control Systems or from the General Department of the Public Accounting and of the Public Settlements System) with background in domestic payments;
- Ministry of Justice
 - 1 expert with background in commercial law;
- National Authority for Consumers' Protection
 - 1 expert from (the European Integration, Strategies, Partnership, Foreign relations Department) with background in financial products.

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The team will be chaired by the Project Manager (Mrs. Mirela Palade, Deputy Director of TransFond) and co-chaired by the Deputy Project Manager (a member of the RBA's Settlement Technical Committee).

PM/DPM have to report to PO at least after each meeting of the PWG.