

CONSIDERATIONS REGARDING THE APPLICATION OF THE INTERNATIONAL REGULATION STANDARDS IN THE ROMANIAN BANKING SYSTEM – BASEL III

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Abstract: According to the specialized literature, the organization and operation of the Romanian banking system were presented in this work, having the scope to establish if the NBR's role (the National Bank of Romania) is in accordance with the scope of the regulation standards required by Basel III, respectively the financial stability and if the commercial banks have the capacity to implement the regulation standards. The main requirements of the regulation standards that any bank must implement in every country, as well as the way in which the implementation of these standards in every country is followed, are synthetically exposed. The results indicate the requirements which will be harder and harder to be implemented, especially by the smaller banks (evaluated according to the criterion of the level of the assets – the market share).

JEL classification: E58, G20, G30, G38, M16, M42

Key words: banking system, standards, regulations, international framework

1. INTRODUCTION – THE CURRENT ORGANIZATION AND OPERATION OF THE ROMANIAN BANKING SYSTEM

The beginning of the NBR are inextricably related to the name of I.C. Bratianu, who, in his speech from 1861, claimed the need of a national bank, invoking as argument the limitation of the financial crises: “as long as we don't have a national bank, the financial crises will not disappear, and the government must come with a project of law as soon as possible for the incorporation of a discount and circulation bank”. In 1880, the same Bratianu submitted the project of law for the operation of the future national bank. In 1880, the Law for the incorporation of a discount and circulation bank, which had the privilege to issue bills, was published in the Official Gazette no. 90. The capital of the bank was Romanian and consisted in 1/3 state capital and 2/3 private capital.

The NBR fulfills the function of central bank. As time of appearance of the central banks in the world, the NBR is on the 16th place. The role of the NBR, released from its status, extends upon the following fields (table no. 1).

Table no. 1. The role of the National Bank of Romania (the NBR)

The role of the NBR	Fields and characteristics
1. The monetary emission: administrates the stock of bills, respectively the coins (in circulation, withdrawn from circulation).	-
2. The transactions with other credit institutions (Lombard, structural, auction, special credits); the discount of the commercial titles.	-
3. The transactions for the state	<ul style="list-style-type: none"> a. The coverage of the deficit; b. The granting of loans to provide the financial and monetary stability; c. The operations regarding the titles (the position, storage, transfer, payment of interests, main payment).
4. The financial stability	<ul style="list-style-type: none"> a. The coordination of the policies in this field; b. The prudential regulation and surveillance; c. The risks and vulnerabilities – their decrease.
5. The foreign currency transactions	<ul style="list-style-type: none"> a. The balance of the external payment; b. The dimensions of the foreign currency reserves; c. The exchange rates; d. The management of the international reserves.
6. The legislation for the financial institutions, etc., the alignment to the requirements of the Treaty of Maastricht;	-
7. The preparation of the passage to Euro;	-
8. The payment systems having the following elements in their consistency:	<ul style="list-style-type: none"> a. The no-cash means of payment; b. The discounting mechanisms; c. The REGIS system; d. The SENT system; e. The single Euro payment area (SEPA); f. The SAFIR system; g. The continuity of the business.
9. The prudence and surveillance	<ul style="list-style-type: none"> a. The credit institution and the subsidiaries of the credit institutions from abroad; b. The non-banking financial institutions (NFI); c. The payment institutions; d. The institutions issuing electronic coin; e. The agreements in the field of surveillance; f. The implementation of the international sanctions.
10. The monetary policy through the issuance of a monetary policy strategy	<ul style="list-style-type: none"> a. The direct objective: the inflation. b. Up to maximum 10% annual inflation rate; c. The NBR's independency obtained through the own status and the provisions of the Treaty related to the independency; d. The flexibility of the exchange rate of the Romanian leu.

Source: the NBR status, available at <https://www.bnr.ro/apage-Mobile.aspx?pid=404&actId=1>

The appearance of the banks in Romania was launched by a penury of the local capital, which mitigated the economy of the time, characterized as being excessively agrarian, which directed the banking environment to the mainly sustaining of this branch. In

the “natural” development of the market economy, the banking system is a consequence of the evolution of the national economy. Now, for the economies in transition, the obtaining of the maturity of the banking structures is the catalyzing factor of the social-economic progresses. The Romanian banking system was not a strong one, the bankruptcies being frequent during time and is marked by the banks, which appeared in the banking environment after 1990. The main commercial banks with foreign capital which influence the smooth running of the branches of the national economy are under the development of the information technology and communications, being obliged to diversify the area of the banking services, to hold sufficient capital and to be in accordance with the regulation framework.

In the last decade of March 2020, according to the NBR recordings – the section Banks, there were 23 active banks on the Romanian territory, out of which 3 had local capital and 20 of them had foreign / mixed capital. The more important banks in Romania, according to the assets, according to the data from 2018, the last NBR update, are presented in the table no. 2.

Table no. 2 Top 5 banks in 2018 according to the market share

Position	Bank	Assets (mil. lei)	Market shares according to the assets (%)
1	Banca Transilvania	74.354	16,48
2	BCR	67.909	15,05
3	BRD-SocGen	54.089	11,99
4	UniCredit	41.546	9,21
5	Raiffeisen	40.042	8,88
Total		277.940	61,61

Source: bnr.ro

The 4 banks had over 60% from the market share. The first Romanian bank in this classification is CEC Bank (position 7), with assets of 29.348.000 lei.

- **Banca Transilvania:** was incorporated in 1993 in Cluj-Napoca. The capital type is mixed, Romanian capital and foreign capital. It is a stock company, listed at the Stock Exchange in Bucharest since 1997. The market share was obtained by following a procurement policy of certain smaller banks. The business is structured on four levels: retail, small / medium enterprises, corporate and a division for physicians. It is to be underlined that the bank is having a subsidiary in Rome. For the Business sections, the following types of services are available: cards, credits, savings, insurance, private banking, leasing. The digital channels are relatively modern: IB, MB, PHB, being strongly secured.

- **Banca Comerciala Romana:** from the Decision no. 1195 from November 12th, 1990 regarding the organization of the Romanian Commercial Bank – S.A., certain aspects arise regarding the characteristics of this bank (table no. 3).

Table no. 3 – Characteristics of the Romanian Commercial Bank – S.A.

Registered capital	12,000,000,000 lei, out of which 7,000,000,000 lei paid-up	
Type of capital	Mixed (state -51% + private), 100% Romanian	
Company type	Stock company	
Shares	Ordinary, indivisible	
Market sections	Natural persons	Legal persons

Registered capital	12,000,000,000 lei, out of which 7,000,000,000 lei paid-up	
Term of activity	99 years	
Procurements	Bancorex	The key point, in the explosion of the market share, was in 1999 through the merger by absorption
Management structure	The RCB (Romanian Commercial Bank) management system is on two levels: the Executive Board, the Board of Surveillance	
Object of activity	The drawing of lei and foreign currency deposits, from natural and legal persons, from the country and from abroad, the granting of short-term, medium term and long-term credits, the making of banking services, the operations for the external trade activity and other banking operations	
Business area	BCR Leasing, BCR Asigurări de viață (life insurance), BCR Administrare Fond de Pensii (Pension Fund Administration) enter the Romanian market, BCR Banca pentru Locuințe (Bank for Dwellings)	
Digital channels	IB, MB, SEPA	
Privatization	The sale of the stock package to BERD and IFC; 2006 – The Austrian Bank Erste Bank is ending the procurement of the Romanian Commercial Bank. Erste Bank procured 61.8825%* from the RCB stocks from the Romanian Government, BERD and IFC after the payment of 3.75 billion Euro.	

Source: Decision no. 1195 from November 12th, 1990; bcr.ro; bvb.ro

• **BRD-SocGen:** is held by the French financial group Societe Generale. The French group took over a bank incorporated in 1923. The historic route of the BRD is having a few images which worth being reminded with the help of the table no. 4.

Table 4 – Characteristics of the BRD Bank – Groupe Societe Generale / BRD-SocGen

Names`	Successively: The National Company of Industrial Credit – The Credit Bank for Investments – The Bank of Investments – The Romanian Bank for Development	
Registered capital	12,000,000,000 lei, out of which 7,000,000,000 lei paid-up	
Type of capital	Mixed (state -51% + private), 100% Romanian	
Company type	Stock company	
Shares	Ordinary, indivisible	
Market sections	Natural persons	Legal persons
Listing since 2001	Bucharest Stock Exchange	
Object of activity	Practically, all the branches of the economy, the factoring service, the commercial bank, the capital markets and the investment banks are financed	
Digital channels	IB, MB, SEPA	

Privatizations	BRD-SocGen bought the package of shares from the Romanian state in tranches. The action was completed in 2004.	
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Source: *bvb.ro*; *brd.ro*

- **UniCredit:** UniCredit is a financial group with a relatively recent history – 22 years in the world. It is active on the Romanian market since 2005. The short characterization would be the following: stock company, with major stockholder UniCredit S.p.A. – 98.6% from the registered capital, quoted at the stock exchange, very large object of activity including leasing, insurances, management of the assets, modern distribution channels, complex market section variety.

- **Raiffeisen:** it was born in Romania after the merger through abruption of Raiffeisen Romania SRL with Banca Agricola, in 2002, thus obtaining an impressive market share, the BS being on the second place in Romania at that time. In the following years, the market share decreased because the bank sold many assets, moved the credit area to other branches, being majority to agriculture. New products were developed (the cards), new access channels for the customers were built. The territorial network decreased.

2. METHODOLOGY OF THE RESEARCH

The way of approach and drawing up of this article was a combination of studying the specialized literature referring to the Romanian banking system, respectively its evolutive history, thus the data was selected from the materials published in the books, newspapers, magazines and academic work documents in course. I examined the area of the banking services. I studied the documentation referring to the international regulation standards in the banking field – Basel Framework and I synthetized the information. I used documentation from different articles treating the relevant themes through the eyes of the objectives of this article.

3. THE INTERNATIONAL REGULATION FRAMEWORK FOR THE BANKS

The Board for banking surveillance from Basel elaborated and developed a bunch of requirements to support the banks, as a result of the crisis from 2007-2009, under the form of certain standards. The last version of the standards or the last update is published on December 15th, 2019, which is valid until 2021, also being very complex. This version referring to the international regulation framework includes the following major chapters mentioned in table no. 5.

Table no. 5 – The synthetic contents of the international regulation framework

Chapter	Subchapter	Subchapter
SCO Scope and definitions of the standards	The indicators to define the systemic banks	The principles for the identification of the systemic banks
CAP Definition of the capital	The criteria that the banking capital instruments must fulfill to	The adjustments that must be brought to the elements of the regulation capital to calculate the value of the capital resources of the bank which can be used to fulfill the prudential requirements.

Chapter	Subchapter	Subchapter
	be eligible, to satisfy the capital requirements	
	The prudent evaluation of the assets which are registered in the accounting at justified value	The calculation of the minor interests and of the transitory arrangements
RBS Risk-based capital requirements	Risk-based capital minimal requirements	The way of calculation of the risk-weighted assets
	The direction lines for the capital instruments which must be included in the transaction register	The reserves that the banks will have over the minimal capital requirements
	Additional capital requirements for the coverage of the large losses	
CRE RWA calculation of the RWA for the risk credit	The standard approach for the credit risk	The decrease of the credit risk in the standard approach
	The approach of the credit risk under the internal rating models	The calculation of the used risk components (for example PD, LGD, EAD, M) for each asset class + the projected losses
	Treatment of the losses and provisions	The calculation of the risk weight under the internal approach under the evaluations for the procured debts
	The minimal requirements for the approach of the risk under the internal rating models	The general, specific provisions according to the used approach type
	The calculation of the risk-weighted assets for the investments from the own capitals in the funds	
MAR Calculation of the RWA for the market risk	The calculation of the capital requirements for the market risk	The definition, the field of application and the coverage of the market risk capital requirements and the available methods for the calculation of the capital requirements
	Types of approaches	Decrease of the risk
OPE Calculation of the RWA for the operational risk	The calculation of the capital requirements for the operational risk	The basic approach
	The standard approach	The approach under the internal rating models
LEV The leverage ratio	The definition, the way of calculation	The additional capital requirements for the systemic banks
The additional capital requirements for the systemic banks	Definition, way of calculation, field of application	The assets with excellent liquidity
	Types of alternate liquidity approaches	Cash entries and exits

Chapter	Subchapter	Subchapter
<p>NSF Net stable funding ratio</p>	<p>The net stable funding ratio requires the banks to hold a stable financing profile in report with the componse of the assets and the assets outside the balance.</p>	<p>Definition, way of calculation:</p> <p>a. The necessary stable financing is a function of the liquidity characteristics and of the residual maturity of the different assets held by the respective institution, as well as of its exposures from the balance</p> <p>b. Calculation formula:</p> $\frac{\text{amount available for the stable funds}}{\text{necessary amount for the stable funds}} \geq 100\%$
	<p>Quarterly reporting</p> <p>The net financing report is sized to that to predict that the long-term stable liabilities are more stable than the short-term ones, also it is taken into consideration the fact that the short-term deposits and the sources originating from the small and medium enterprises and retail are more stable compared to the ones originating from other third parties having the same maturity.</p>	
<p>LEX Large exposures</p>	<p>The regulation regarding the large exposures limits the maximal loss a bank can deal with in case of a sudden failure of the counter party at a level which does not jeopardize the bank's solvability</p>	<p>The banks are required to measure their exposures to a single counter party or to a group of connected counter parties and to limit the dimensions of the large exposures in report with their capital.</p>
	<p>The regulation regarding the large exposures is a benchmark to the capital requirements based on risks, the framework of the large exposures must be conceived so that the maximal loss, that a bank must bear, if a single counter party or a group of joined counter parties might become bankrupt all of a sudden, should not jeopardize the continuity of the bank</p>	<p>The capital requirements are regulated at 25% for the large exposures for the non-systemic banks and at 15% for the systemic ones.</p>

Chapter	Subchapter	Subchapter
	The general principles of measurement of the large exposures, their value	
MGN The margin requirements	The minimal margin requirements for the derived instruments which are not liquidated in a centralized manner	
SRP The supervisory review process	The supervisory review process of the 2 nd pillar insures that the banks are having proper capital and liquidity to support all the risks from their activity, especially regarding the risks which are not totally captured by the process of the first pillar and encourages a good risk management.	The supervisory review principles The principle of the evaluation of the capital properness The supervisory review principles of the properness evaluations of the internal capital. The principle of the operation of the banks over the level of the regulation capital. The principle of the early supervisory
	The risk management	The risk of interest rate
	The credit risk	The market risk
	The operational risk	The risk of aggregation of the data and the reporting risk
	The monitoring of the liquidity	
DIS Disclosure requirements	Establishes the disclosure requirements, endorsing the encouragement of the market discipline	Establishes the requirements for the strategy, the evaluation of the bank management
	The comparison of the models used to the calculation of the risk-weighted assets for the credit risk	The consistency of the regulation capital, the main characteristics of the regulation capital instruments and for the important banks from systemic point of view, the consistency of the total absorption capacity of the losses and the credit hierarchies of the material subgroups and of the resolution entities.
	The distribution restrictions of the capital, on request imposed at national or local level	The information regarding the remuneration policy.
	The adjustment of the evaluation of the risk credit	The macro-prudential measures
Core principles for the effective banking supervision	The fundamental principles, the preliminary conditions for an effective banking supervision and the risk management from the banking system	The evaluation methodology and the conformity evaluation criteria

Chapter	Subchapter	Subchapter
	The evaluation of the fundamental principles	The compatibility with the standards from other financial sectors
	Preliminary conditions for the effective banking supervision	The evaluation of the methodologies
	The criteria for the evaluation of the conformity with the fundamental principles	The cooperation and collaboration (the laws, regulations or other arrangements providing a cooperation and collaboration framework)
	The permitted activities	The authorization criteria
	The transfer of the significant property (the regulator can review, reject or impose prudential conditions for the significant or control property transfer of the interests held by other parties directly or indirectly to the existing banks)	The regulator may approve, reject or impose prudential conditions for the major procurements or the investments of a bank
	Corporate governance	Properness of the capital to the risks
	The internal control and the audit	

Source: https://www.bis.org/basel_framework/index.htm?m=3%7C14%7C697

4. THE IMPLEMENTATION OF THE REGULATION STANDARDS FOR THE BANKS

Since 2012, the implementation of the regulation standard constituted a priority for the Board from Basel; thus, the program of evaluation of the consistency in regulation was initiated, developed and updated (the RCAP – Regulatory Consistency Assessment Programme).

The role of this program is to provide the integral, regulated and timely implementation of the regulation standards required by Basel III, having as scope the obtaining of a worldwide financial stability.

The monitoring technique, the examination reports are used, the measure in which the internal regulations are in accordance with the minimal requirements from Basel, and generally concern the aspects such as:

- ✓ The application of the capital risk-based standards;
- ✓ The liquidity coverage report (LCR);
- ✓ The systemic importance banking framework (SIB);
- ✓ The net stable financing report (NSFR);
- ✓ The framework of large exposures;
- ✓ The implementation of the Basel requirements on the level of each bank.

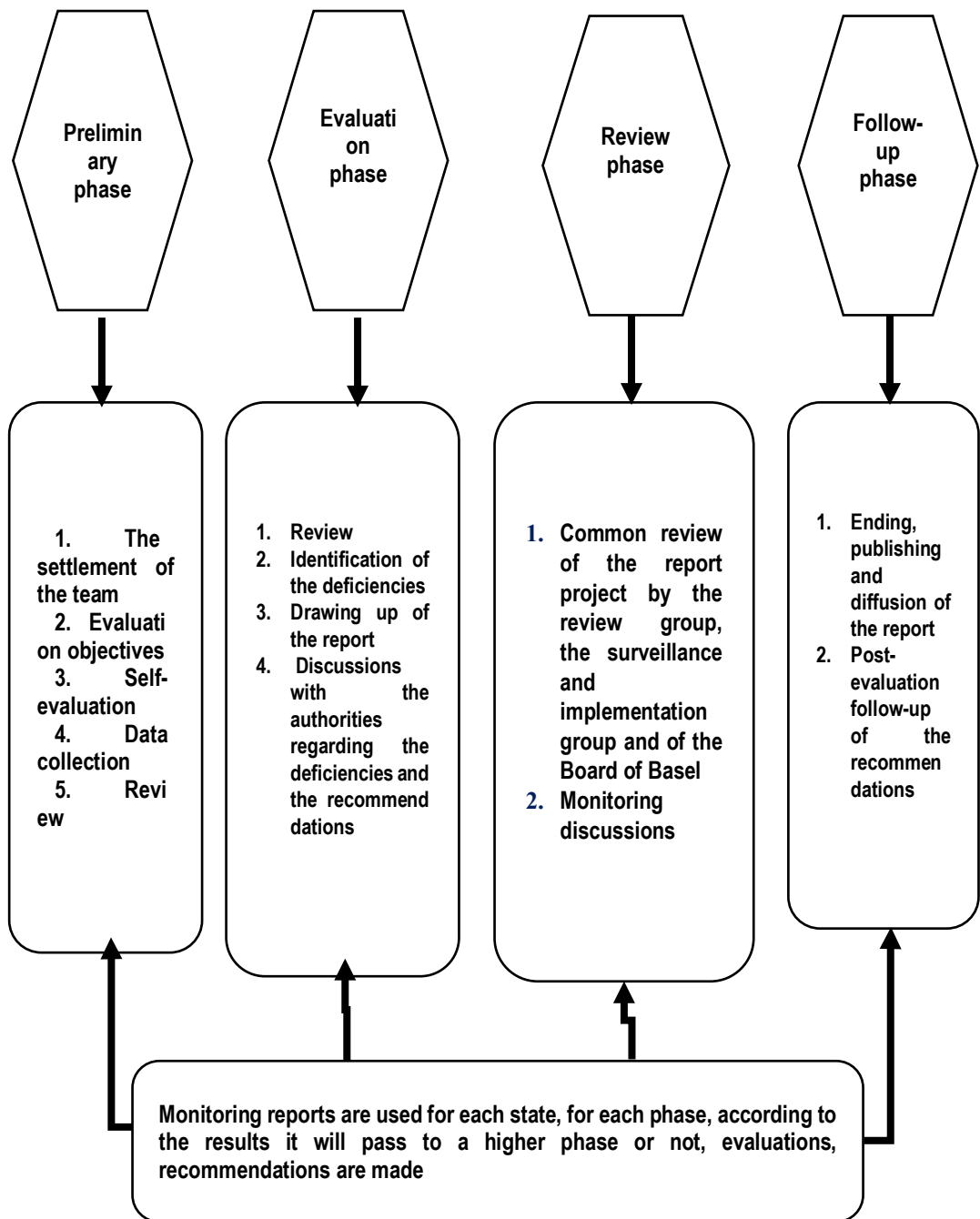


Figure no. 1 The phases of the evaluation program of the consistency in regulation

Source: Bank for International Settlements 2018 - Handbook for Jurisdictional Assessments, <https://www.bis.org>

5. CONCLUSIONS

The NBR's role will dilute in time. The responsibilities specific to the bank, from the perspective of passage to Euro will suffer transformations, or will be ended, will disappear, the disappearance of the monetary emission process will be eloquent in this way, its prerogatives being taken over by the European Central Bank. Another responsibility, for example the preparation for the passage to Euro will be finished. The ECB's role will be increased in Romania in the same context.

The trend of the Romanian banks is clear, of approach to the European system, because they are not large specialized banks, their objects of activities including all the branches of the economy. Although the commercial banks tried to keep the pace with the international evolution of the banking environment, respectively the diversification of the banking structure, the appearance of certain information transmission channels (the Internet Banking, the Mobile Banking, the Phone Banking), from the perspective of the development of the Romanian banking system, taking into account its trend, the registered banking bankruptcies, of international fierce competition, the international level of the development of the information technology and communications, to which the local banking system must raise, many problems will arise for many of the banks regarding the adaptation to the requirements of the banking market.

The international regulation framework for the banks is submitted to a debate process and permanent review. The importance of the framework results from the main objective and namely the financial stability worldwide and is supported by the fact that it provides a multitude of information to the banks related to: the capital requirements based on risks; the way of calculation of the risk-weighted assets (credit, market, operational); the ways in which the risks must be approached; the large exposures; the indicator of the lever effect; the basic principles for an effective banking surveillance.

For all these, the international regulation framework has very analytical information in order to constitute a more unitary vision upon the way of understanding and implementation of the requirements the standards are having. In order to follow how the regulation standards are implemented, a technique specific to the audit activity, respectively the follow-up is used by using a reporting system.

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