From:	Miroslav Nedelchev
To:	Basel Committee, Service
Subject:	Comments - Strengthening the resilience of the banking sector - consultative document
Date:	Friday 08, January, 2010 06:38:58
Attachments:	CURRICULUM VITAE-MN2010.doc

To: Secretariat of the Basel Committee on Banking Supervision
Re: Comments - Strengthening the resilience of the banking sector - consultative document

Dear Madam/Sir,

The Committee's reform programme is for member countries only. My comments are for crisis and lessons for Bulgaria (please keep in mind Bulgaria is a non-member country).

The crisis from 2007 matches with membership of Bulgaria in EU. The local bank system is dominated by parent banks from European Economic Area. Due to risk difference between EU (including Bulgaria) and EEA, the free capital from EEA was transferred to Bulgaria via intragroup transactions. The credit market bubbled. Most of banking staff was prequalified for credit desk.

Since August-September 2008 the situation in Bulgaria is changed. All capital, including accrued interest, was repatriated to parent banks. Most of banking staff was prequalified for deposit desk.

The crisis was transferred to Bulgaria via banks. As last point in the chain, my lessons for crisis in Bulgaria are according to SMART method:

- Shareholders: the dominated ownership, i.e. low transparency, may to reduce by listing all banks in stock exchange. in Bulgaria only 4 banks are listed and remaining 20 banks are nonlisted. But all parent banks are listed and meet OECD’s Principles for good corporate governance, i.e. high transparency.
- Managers: in Bulgaria all bank managers are subordinated to parent banks and are encouraged for higher risk. As per World Bank’s ROSC’08 the bank managers in Bulgaria does not understand their role in corporate governance.
- Auditors: the appointment of auditors is delegated to parent banks. The intragroup transfers to and from Bulgaria were opaque.
- Regulators: at the end of 2008 the Minimum Required Reserves are reduced and as per the decision of Bulgarian National Bank a gross amount was return to banks for credits, but in practice the same amount was transferred to parent banks.
- Tools: The ring-fencing, quoted in your paper, is workable if includes all countries, members and non-members, only.

The spillover effect reached Bulgaria. The second step is reversed: crisis from undercapitilised Bulgarian banks to parent banks.

The crisis is not only domestic matter. In this view your actions for member countries indirectly include non-member countries (all Bulgarian banks have parent banks from member country).

My proposals for your paper are: similar paper for non-member countries and respective comments; analysing effects of interconnections between Bulgarian and member countries’ banks.

Despite of my comments your paper is very useful for me.

Please take a decision does my comments are fit for publishing on your site.

Instead of to introduce myself I attached my CV.

Sincerely,
Miroslav Nedelchev, MSc, MBA, PhD, CDCS
