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**Statement by Ms. Shortino, Ms. Senich, and Mr. Westphal on FSAP Review  
(Preliminary)  
Executive Board Meeting  
May 12, 2021**

We thank staff for the helpful reports and bilateral engagement on the Financial Sector Assessment Program (FSAP) review. The Fund's financial sector analysis has evolved to become a key pillar of its surveillance work, and the FSAP review recommendations appropriately aim to better and more seamlessly integrate financial sector surveillance with the rest of the Fund's surveillance and capacity development work. **We generally support the proposed changes regarding FSAPs' scope, quantitative tools, traction, and participation.** We are particularly supportive of plans to increase focus on the elevated vulnerabilities arising from the pandemic, deepen staff's financial sector analysis related to climate issues, and monitor delays in implementation of key regulatory standards. At the same time, it is important that analysis of new challenges does not come at the expense of surveillance of traditional ones, and striking the right balance will require that FSAPs be well-tailored to address specific circumstances within each jurisdiction.

**We continue to emphasize the need to work with the financial sector standard-setting bodies (SSBs) and not preempt the development of international standards on emerging issues, including climate, cyber, and fintech.** As there are few or no international standards on certain emerging issues such as climate, cyber, and fintech, the Fund will need to convey clearly where its assessments are based on international standards and where they are not. Staff should also avoid making recommendations, particularly in the Technical Note (TN) and Financial Sector Stability Assessment formal matrices of policy recommendations, when no international financial regulatory standards exist, and staff should not hold authorities accountable for implementing such recommendations in future years. Such recommendations, particularly if made across a range of jurisdictions, risk front-running international regulatory standard-setting processes and could lead to conflicting policy guidance. IMF surveillance should be a useful input into international regulatory standard-setting processes but not a substitute for them.

## *Scope*

**We strongly support international efforts to gain a more detailed understanding of climate-related financial risks.** Toward that goal, we support the Fund's efforts to incorporate analysis of climate-related financial risks into FSAPs and to use standardized frameworks across countries to improve the efficiency and comparability of country results. Given that we are still in the early stages of developing data, metrics, and tools for assessing these risks and that many financial authorities are themselves developing and piloting such analysis, use of climate risk analysis in FSAPs should remain voluntary for now. Fund coordination with the Financial Stability Board and SSBs will be particularly important in efforts to develop and leverage common scenarios, analytical tools, and data sources, which will improve comparability and efficiencies in Fund surveillance across jurisdictions. It will also be important for the Fund to recognize and reflect the high levels of uncertainty involved in this analysis when presenting results, including those relating to bank resilience under its macro-financial scenarios, and to develop scenarios that consider reasonable expectations of the market and institutional adjustment to climate change on a plausible timeframe.

**We support the continued use of the three-pillar framework with increased flexibility, as well as the assessment of compliance with international standards.** Survey results find that the three pillars have helped staff to focus FSAPs on the most relevant financial sector issues, and these three pillars should also help to guide when to incorporate emerging issues into the reviews. We note that a majority of jurisdictions consider the principle-by-principle assessment of compliance with international standards to be among the most useful exercises in the FSAP, and we expect that staff will continue to prioritize these mappings as global public goods.

**We agree with staff's proposal to allow for greater focus on specialized topics when international standards and country risk profiles have not changed since the previous FSAP, but we would appreciate additional information about how this will work in practice.** For example, the Fund has written extensively about how financial sector vulnerabilities have risen in the wake of the pandemic, particularly in light of (1) elevated debt stocks; (2) feedback loops between corporates, banks, and sovereigns; and (3) the increased role of non-bank financial intermediation globally. Given these changes in most countries' financial sector risk profiles, we urge staff to prioritize the traditional mapping of standards and vulnerabilities during FSAPs in the near term. We agree that exit strategies from pandemic response policies will also be an important topic going forward, and we expect the Fund to collaborate closely with the SSBs on this issue.

**As mentioned in our previous grays on the FSAP review, we would appreciate additional tangible recommendations from staff to streamline the FSAP process and make it less resource-intensive for national authorities.** We note from our own experience that more focused FSAPs can still end up being incredibly resource-intensive for authorities, as our recent streamlined FSAP included 375 meetings – a 20 percent increase from the full FSAP five years earlier. We would once again recommend that staff place a ceiling on the number of meetings in an FSAP, tailored to the systemic importance and risks in a jurisdiction. This more focused FSAP also involved the maximum number of Full-Time

Employees allowed by the Office of Budget and Personnel. It is also important for staff to adhere to the scope jointly agreed with authorities. In particular, when staff pursue TNs instead of graded standard assessments, it will be important to select those TN topics early, prioritize meetings that will be relevant for those TNs, and stick with those TN topics throughout the FSAP process. Additionally, while we see value in the Fund performing stress tests for many jurisdictions, we would urge staff to make a clear assessment as to whether Fund stress tests will add sufficient value, particularly for those jurisdictions where it is widely recognized that they have already deployed comprehensive stress tests. It is important to weigh the high costs associated with staff and national authority time against the limited benefits of the additional stress tests.

### *Quantitative Tools*

**We support the proposals to develop new quantitative tools to measure financial stability risks, particularly to improve the modeling of interconnectedness and macro-financial feedback effects, as well as deepen the coverage of nonbanks.** We consider this work to be core to the Fund's mandate. We expect that future work on macroprudential policies (MPPs) will treat MPPs as one set of tools among many in the financial regulatory toolkit, particularly given the lack of clear track record and limited deployment of some MPPs.

### *Traction*

**We support the proposed operational steps to increase the traction of FSAPs by integrating the FSAP and Article IV processes, deploying new tools to help risk analysis by country teams, increasing cross-mission participation, and improving follow-up on FSAP recommendations.** We would appreciate more details on the potential timing for rolling out these recommendations, and we look forward to reviewing how the recommendations impact the traction of FSAPs over time. As stated previously, the proposals for additional resources seem ambitious, particularly the proposal for 50-75 additional FTEs to cover digital currency issues. We note that staff are not proposing to direct any additional resources to measures to increase traction. We will consider any such proposals as part of the broader request for a structural budget increase later this year.

### *Participation*

**We can support the hybrid approach that will add 15 countries to a 10-year mandatory FSAP rotation cycle.** We appreciate that this increase in mandatory coverage will fit within the flat real budget envelope. We continue to expect that MCM will be able to perform voluntary FSAPs for other countries that request them, and these voluntary FSAPs align with the Comprehensive Surveillance Review's proposal to blend the Fund's surveillance and capacity development work for smaller countries, LICs, and fragile states. We also strongly support pursuing donor-funded Financial Sector Stability Reviews on a voluntary basis for low and lower-middle income countries.