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Statement by Mr. Trabinski, Mr. Peter, and Ms. Wehrle on FSAP Review (Preliminary)
Executive Board Meeting
May 12, 2021

We welcome staff's extensive work aimed at preserving the high quality, value added, and effectiveness of Financial Sector Assessment Programs (FSAPs). FSAPs are a core and highly valued element of Fund surveillance. We also welcome the close coordination with the Comprehensive Surveillance Review. We nonetheless agree that some refinements are desirable, including to better capture new issues and risks that have arisen in recent years.

We support further strengthening the risk-focused approach to scoping financial stability assessments (FSAs). Customizing scope within the three-pillar framework allows to adjust the focus to evolving country-specific circumstances, risks and needs, e.g., to address both the effects of the pandemic as well as emerging risks from climate and technological change, where relevant. Similarly, on standards assessments, FSAPs should continue to use a focused and risk-based approach. A country-specific approach and careful scoping are warranted, also to limit costs and resources to both the Fund and the authorities.

We strongly support strengthening FSAP traction through better integration with Article IV consultations. Integration helps ensure continued financial surveillance, which is particularly important for fast changing risks. Explicitly reflecting the authorities' views in Financial Systems Stability Assessments (FSSAs) will help to improve ownership and clarify factors that may impede implementation, for instance, technical disagreements with staff. The participation by area department mission chiefs in FSAP concluding missions would also facilitate follow-up on FSAPs. In parallel, early engagement of the FSAP mission chief and MCM in the Article IV consultation preparations is also important.

We welcome the Fund's efforts to refine its quantitative toolbox on financial surveillance. We support efforts to (i) improve the efficiency of core risk analysis tools, (ii) foster dissemination and application of new standardized tools, and (iii) strengthen the

FSAP's quantitative tools, including for new risks, as feasible and as data permits. To increase the traction of policy advice, staff needs to carefully explain the methodologies for assessing systemic risk in their dialogue with national authorities.

On modalities, the FSAP remains a complex exercise that requires rigorous planning and an understanding of the authorities' legal and/or institutional constraints. The Fund needs to remain mindful of confidentiality issues. Engaging with the authorities in a timely manner is important to find solutions that take data confidentiality issues into account, and appropriately balance transparency and market sensitivity. In addition, we reiterate the necessity of prioritizing data needs based on thorough cost-benefit analyses and in line with the Fund's core mandate. It is key to rely on existing data to the extent possible. We support remote engagements as a complement to physical missions, in particular for the scoping mission. At the same time, face-to-face exchanges between authorities and FSAP mission teams remain important, given the complexity and intensity of, and issues related to confidentiality in, an FSAP.

On mandatory assessments and country participation, we would have preferred an even more risk-based approach with more differentiated assessment frequencies. In our view, this would have allowed a more effective identification and prevention of systemic risk. For countries now on a ten-year cycle, we encourage staff to closely monitor whether such a long frequency is adequate from a systemic risk-management perspective or whether it would merit to be shortened, for instance, to seven or eight years. In addition, we stress the need to keep sufficient resources for FSAPs conducted before the mandatory deadline and for voluntary FSAPs. We continue to support the well-defined criteria to prioritize such FSAPs, including the proposed refinement to one of the criteria. We also take good note of the flexibility provided by the pandemic-related *de facto* extension of the deadline for mandatory FSAPs by one year. Finally, we agree to the clarifications made on the participation of supranational authorities in FSAs.

Financial surveillance is core to the Fund's mandate and should be adequately resourced. In general, additional resources in financial surveillance should predominantly be used to strengthen financial surveillance in Article IV consultations. We thus positively note that that the expansion of mandatory FSAs to 47 jurisdictions will have limited cost implications, equivalent to an additional 1.5 FTEs per year.