

SU/21/59

May 17, 2021

**The Acting Chair's Summing Up
2021 Financial Sector Assessment Program Review—Towards a More Stable and
Sustainable Financial System
Executive Board Meeting 21/46
May 12, 2021**

Executive Directors welcomed the Financial Sector Assessment Program (FSAP) Review and its background papers. They noted that the FSAP has made an important contribution to Fund surveillance and capacity development. They also noted the potential strains facing financial systems across the Fund membership in the wake of the COVID-19 pandemic which have highlighted the significance of risks from the nonfinancial sector and vulnerabilities in nonbank financial institutions (NBFIs) and financial market infrastructures. In addition, the membership is facing important new opportunities and challenges, including from climate change and digitalization.

Directors emphasized that the three-pillar approach to conducting FSAPs—focusing on risk analysis, oversight, and safety nets—has worked well. The risk-focused approach to scoping Financial Stability Assessments (FSA) has provided flexibility to address relevant risks while helping to prioritize and contain the program's resource footprint in the face of increasingly complex financial stability challenges since the previous review. Going forward, greater use could be made of the flexibility within the framework when scoping issues for FSAPs, balancing current coverage with emerging risks and issues, with continued tailoring of FSAPs to country specifics, effective prioritization, and in close consultation with the country authorities. The risk-based approach would help decide whether to conduct a full standard assessment versus a focused review and leverage the findings of recent standards assessment to tailor the scope of FSAs. Directors endorsed the Key Attributes of Effective Resolution Regimes as the assessment benchmark for insurance resolution frameworks in FSAPs and stand-alone assessments.

Directors welcomed ongoing efforts to further enrich the FSAP's risk analysis toolkit. They stressed the importance of strengthening the development of tools to assess interactions between solvency, liquidity, and contagion risks, vulnerabilities among NBFIs, risks in nonfinancial sectors, interconnectedness, macrofinancial interactions, the macroprudential policy stance and new risks. Directors emphasized the importance of continued efforts to increase the efficiency, dissemination, and ease of use of the FSAP toolkit and to ease data constraints. They also stressed the need for continued efforts to strengthen the toolkit to enhance the assessment of financial vulnerabilities in low and lower-middle income countries.

Directors welcomed the proposals to improve the traction of FSAPs. While most FSAP recommendations were implemented, challenges arose when members faced political economy constraints or where there may have been differences in technical views. In this context, Directors welcomed the introduction of the authorities' views in FSSAs. Directors

also welcomed efforts to leverage the FSAP to develop risk analysis tools for use in bilateral surveillance and looked forward to further progress in this direction. They emphasized the importance of closer integration of the Article IV consultation process with the FSAP.

Directors welcomed the update and expansion of the list of jurisdictions with Systemically Important Financial Sectors (SIFS) that are subject to periodic mandatory FSAs, and a few Directors recalled that Fund policy requires the periodic review of the list and assessment frequency. They recognized that the cost of the FSAP had been broadly stable over time. Going forward, the slight cost increase from expanding the list of mandatory FSAs while maintaining space for voluntary FSAs could be accommodated within the current resource envelope.

Directors clarified the framework for expected periodic FSAs with supra-national authorities. A periodic FSA with a supra-national authority would be conducted if at least one member with a SIFS has delegated financial sector policies to the supra-national authority. The individual member country FSAs would be scoped to leverage the planned work on the supra-national FSA to avoid duplication.