FOR AGENDA

SM/03/86
Supplement 1

March 6, 2003

To: Members of the Executive Board

From: The Secretary

Subject: **International Standards—Background Paper on Strengthening Surveillance, Domestic Institutions, and International Markets**

The attached supplement to the paper on international standards—strengthening surveillance, domestic institutions, and international markets (SM/03/86, 3/6/03) provides background information and is tentatively scheduled for discussion on **Wednesday, March 19, 2003**.

The staff proposes the publication of this paper after the Executive Board completes its discussion, together with SM/03/86 and a PIN summarizing the Executive Board's discussion.

Questions may be referred to Ms. Metzgen (ext. 37863) and Mr. Al-Atrash (ext. 38432) in PDR.

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INTERNATIONAL MONETARY FUND

International Standards: Background Paper on Strengthening Surveillance, Domestic Institutions, and International Markets

Prepared by the Policy Development and Review Department

Approved by Timothy Geithner

March 5, 2003

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I. Introduction [1]

1. This paper provides supporting information for *International Standards: Strengthening Surveillance, Domestic Institutions, and International Markets* (SM/03/86, 3/06/03).[2] Section II reports on members' participation in standards assessments and reviews the structure and coverage of ROSCs. Section III describes the role of standards and ROSCs in surveillance. Section IV addresses the role of standards and ROSCs in strengthening institutions and capacity building. Section V describes outreach activities and feedback on the standards initiative. Finally, Section VI discusses private sector views and initiatives.

II. Overview of the Standards Initiative: Member Participation and the Structure and Coverage of ROSCs

A. Participation in the Initiative

2. **As of December 31, 2002, 343 ROSC modules had been completed by the Fund and World Bank, of which 243 were published** (Appendix I, Table 1). Modules have been completed for 89 economies. Over 47 percent of all Fund members have completed at least one ROSC module. While no member has completed ROSCs in all 12 areas,[3] several members are close to completing a full complement of relevant ROSCs (including Brazil, Bulgaria, the Czech Republic, Croatia, Egypt, Estonia, Hungary, Latvia, Lithuania, Philippines, Poland, Slovak Republic, South Africa, Sweden, and Tunisia).[4] No corporate governance, accounting and auditing, or insolvency[5]

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[1] The main authors of this paper are Ms. Metzgen, Mr. Al-Atrash, and Ms. Aylward, with input from Ms. Glennerster and Mr. Chi.

[2] For more detailed information on the main findings of ROSCs, see the other supplemental papers to SM/03/86 (circulated to the Fund Board): *Assessing and Promoting Fiscal Transparency: A Report on Progress* (SM/03/86, Supplement 2, 3/06/03); *Review of the Fund's Experience with the Data Module ROSC* (SM/03/86, Supplement 3, 3/06/03); and *The Standards Initiative: Resource Cost to the Fund* (SM/03/86, Supplement 4, 3/06/03). In addition, the World Bank has circulated *Background Paper on Standards Review: Assessing Progress and Lessons Learned from Bank-Led ROSC Modules* (circulated to the Bank Board). See also, *Financial Sector Assessment Program: Review, lessons, and Issues Going Forward* (SM/03/77, 2/25/03); *Financial Sector Assessment Program—Experience with the Assessment of Systemically Important Payment Systems* (SM/02/124, 4/22/02); *Experience with the Assessments of the IOSCO Objectives and Principles of Securities Regulation Under the Financial Sector Assessment Program* (SM/02/121, 4/19/02); and *Experience with the Insurance Core Principles Assessments Under the Financial Sector Assessment Program* (SM/01/266, 9/21/01).

[3] Not all ROSCs are relevant for all members given their stage of development. For example, securities ROSCs are not produced for members where the sector is small and neither raises stability issues nor is a development priority.

[4] In November 2002, Fund and Bank Directors respectively agreed to add Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) to the list of areas where ROSCs will be produced and the Financial Action Task Force 40+8 Recommendations as the associate standard. They also endorsed a 12-month pilot program of AML/CFT assessments. The pilot program will be done in the context of FSAP and mutual evaluations conducted by the Financial Action Task Force (FATF) and FATF-style Regional Bodies.

ROSCs have yet been produced for advanced economies, although the U.K. authorities recently requested such assessments.

3. **Participation in the standards initiative has generally been increasing, among members at all stages of development and in all regions of the world** (Appendix I, Table 2). Nearly 60 percent of industrial economies and over two-thirds of non-industrial economies with access to international capital markets have completed at least one ROSC.[6] About 30 percent of non-market-access economies—mostly low-income countries—have completed at least one ROSC. By region, 80 percent of Central and Eastern European economies and 58 percent of CIS countries have completed a ROSC (Appendix I, Table 3). In comparison, Asia is relatively under-represented, with 24 percent of countries completing a ROSC. Looking at the pipeline, the numbers for Asia are likely to increase, as 31 percent of countries in this region have either completed or committed to a ROSC.

4. **Turning to the distribution of ROSCs across the 11 areas endorsed by the Board for ROSC assessments in January 2001, Fund members have completed 343 modules including 32 data modules, 54 fiscal transparency modules, and 217 financial sector modules[7] as of end-December 2002**. In the areas in which the Bank is in the lead, as of end-December 2002, 22 corporate governance assessments have been completed, fifteen of which have been published. The Bank has also completed 12 accounting and auditing assessments and 6 insolvency and creditor rights assessments.[8]

5. **About 71 percent of ROSCs were published**. In general, the publication rate of non-FSAP ROSCs is higher than that for FSAP ROSCs perhaps reflecting the greater sensitivity about publishing FSSAs, which include the financial sector ROSCs derived from FSAPs, and the current policy of accepting either the publication of all ROSCs in the FSAP are none.[9] Nearly 90 percent

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[5] In April 2001, the World Bank Executive Directors reviewed the Bank's *Principles and Guidelines for Effective Insolvency and Creditor Rights Systems* and asked staff to prepare experimental ROSCs based on the Principles. In addition, the United Nations Commission on International Trade Law (UNCITRAL) will soon be completing a legislative guide that will include recommendations on the design of a domestic insolvency law. Staffs of the World Bank and Fund are working to ensure convergence of these principles.

[6] This definition extends the World Economic Outlook (WEO) category of emerging market economies to include economies with access to international financial markets. Market access economies are defined as all non-industrialized economies (according to the WEO definition) that have received external sovereign ratings from the two major rating agencies, Moody's and Standards and Poor's, as of 2001. See *Data Provision to the Fund for Surveillance* (Appendix III) (SM/02/126, 4/26/02).

[7] See *Financial Sector Assessment Program: Review, Lessons, and Issues Going Forward* (SM/03/77, 2/25/03). Out of the 217 financial sector modules, 24 have been done outside the FSAP, mainly in the pilot stage of the program.

[8] The World Bank combines assessments using the separate International Accounting Standards (IAS) and International Standards of Auditing (ISA) into a single accounting and auditing ROSC.

[9] FSAP missions nearly always undertake an assessment and ROSC of a members' observance of the Basel Core Principles and the Fund's monetary and financial policy transparency code. In addition, assessments and ROSCs are

of fiscal and data ROSCs had been published while the publication rate for financial sector standards as well as corporate governance, accounting and auditing and insolvency ROSCs averaged around 65 percent.

6. **Forty-six separately issued updates to ROSCs have been undertaken in the context of Article IV missions,** of which 45 were published. Most of these were conducted by area departments.[10] Staff have experimented with updates that went beyond the factual reporting of information.[11] These more substantive updates included a staff assessment and required more resources. In several cases, however, ROSC updates were not prepared.

B. The Structure and Coverage of ROSCs

7. This section focuses on the structure and coverage of ROSCs.[12] It is based on a review undertaken in April/May 2002 of 62 ROSCs and associated staff reports and summings up completed and discussed by the Fund Board between March 1, 2001 and February 28, 2002 and a survey of the Article IV mission chiefs.[13] Staff reviewed ROSCs to assess whether they adhered to Board and operational guidance regarding structure and coverage. The Board provided guidance to the staff in the January 2001 discussion on standards[14] and subsequently in the July 2001 discussion on the SDDS.[15] In line with this guidance, ROSCs are to provide a summary assessment

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produced in the securities, insurance, and payments systems areas as relevant. In some cases, corporate governance ROSCs have also been undertaken in the context of an FSAP.

[10] Most updates were a page or less. The length ranged from one paragraph to two pages. All were separate documents from the staff report although some had updates for several ROSCs in one document. Most updates were descriptive and reported on actions taken by the authorities to improve their observance of standards and codes and to respond to the recommendations in the ROSC. The updates, however, did not give a revised principle-by-principle assessment of whether the standard was met.

[11] Staff experimented with updates that went beyond the factual reporting of information (e.g., substantive updates) in the reports on the Czech Republic (fiscal) (SM/02/217, 7/12/02), Hungary (data) (SM/02/133, 5/7/02), Turkey (fiscal) (EBS/02/61, Supplement 1, 4/4/02), and Uganda (fiscal) (SM/03/30, 1/27/03).

[12] The substantive findings of ROSCs are discussed in *International Standards: Strengthening Surveillance, Domestic Institutions, and International Markets* (SM/03/86; 3/06/03). For more information on existing practices in preparing ROSCs, see the various supplemental and other papers cited in Footnote 2.

[13] The review starts with the implementation of Board guidance linking ROSCs to surveillance and ends with changes to the review and circulation of ROSCs following the Reducing Work Pressure decision (BUFF/01/181, 11/30/01 and Supplement 1 1/30/02). Appendix II provides details on the modalities of the review. As noted in the next section, staff also reviewed all data and fiscal ROSCs in the period March-September 2002 to assess the impact of measures to reduce work pressure on the content of ROSCs.

[14] See *Summing Up by the Acting Chairman on Assessing the Implementation of Standards—A Review of Experience and Next Steps* (SUR/01/13, 2/9/01).

[15] See *Summing Up by the Acting Chairman on Review of the Fund's Data Standards Initiatives* (BUFF/01/115, 7/31/01).

of a member's observance with the standard. ROSCs allow for different stages of economic development and institutional arrangements by providing context for the assessments, give credit for progress made by a country in implementing a standard, and describe the authorities' plans for further development. Notwithstanding the diversity of experiences with individual ROSC modules for individual countries and some unevenness across ROSCs, some common themes emerged across ROSCs.

Structure of ROSCs

8. Operational guidance on the structure of ROSCs indicates that ROSCs should follow a standardized format with a description of a country's practice; contain an assessment against all elements of the standard (i.e., the ROSCs should not just focus on areas of weakness); and provide prioritized recommendations. The authorities are also given the opportunity to provide their views on the assessment.

9. **Staff are following Board and operational guidance in the preparation of ROSCs, though there is some unevenness across ROSCs**. Most recent ROSCs, however, have specifically addressed some of these issues (see, in particular, Paragraph 15).

- **Nearly all of the reports in the sample (90 percent) covered the three prescribed areas** (country practices; assessment of those practices against the standard; and prioritized recommendations (see Appendix I, Table 4)). The remaining ten percent of the modules had a different structure/format.

- **However, there is room for greater prioritization of the recommendations in ROSCs**. Only 32 percent of ROSCs gave a clear indication of the priorities among the recommendations (see Appendix I, Table 4 and Appendix III). The remainder either provided no priorities (24 percent) or grouped recommendations in a bimodal structure (i.e., short-term/medium-term framework) without identifying the most critical reforms needed to meet the standard (44 percent). In general, fiscal transparency ROSCs provided clearer prioritization than other ROSCs.[16]

- **The length of ROSC reports (including annexes/appendices) has varied widely** from 3 pages (payments systems ROSC for Finland) to 120 pages (data ROSC for Chile).[17] The average length of ROSCs reviewed was 13 pages. Data modules were longest, averaging 46 pages, while the financial sector ROSC modules were shortest (7 pages) (Appendix I, Table 4). The length of data ROSCs has fallen sharply (to about 20 pages) since August 2001, when a decision was taken to try to limit the length of modules to 5-15 pages (excluding annexes and appendices).

[16] The finding that only 50 percent of corporate governance ROSCs provided prioritized recommendations should be treated with caution given that the sample only had 4 corporate governance ROSCs (out of 22).

[17] The data ROSC for Chile included a detailed assessment of data quality. Subsequently, these detailed assessments were reported in separate documents leading to an average reduction in the size of data ROSCs.

10. **With regard to the authorities' views on ROSCs, these have been reflected in a number of different formats**: a very brief description of the authorities' views can be included in the ROSC;[18] the authorities can prepare a separate right-of-reply document (often issued as a supplement to the ROSC); or their views can be reported in the Executive Director's buff statement.

- **The majority of ROSCs (60 percent) referenced the authorities' views**. This was particularly the case in financial sector ROSCs, of which about 80 percent indicated whether the authorities concurred with the recommendations and outlined how the authorities intended to proceed. In almost all cases, the authorities concurred with the recommendations outlined. In many instances, ROSCs reported that steps were being taken to address non-observance of the standard.[19]

- **In six of the cases reviewed** (i.e., data ROSCs for Estonia, Korea, South Africa, Sri Lanka, Sweden, and Uruguay)**, the authorities exercised their right of reply in separate documents, five of which were published.** These responses were supportive of the ROSC recommendations.

- **The authorities' views on ROSCs were also referenced in 6 buff statements in the context of Article IV Board discussions** (Brazil, Chile, Egypt, Estonia, Hungary, and Korea), two of which were published.

Coverage of ROSCs

11. Staff also reviewed ROSCs to assess whether they gave an indication of the significance of any weakness in the observance of the standard, i.e. whether ROSCs conveyed if shortfalls in observance are major rather than minor with a major shortfall being one that could raise concerns for policymakers (See Appendix II for a detailed description of the methodology used to assess the coverage of ROSCs).

12. **The key finding is that 74 percent of ROSCs in the sample indicated the significance of any weaknesses in the observance of the standard.**[20] This result was roughly similar across

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[18] This is comparable to the section in Article IV staff reports on the policy discussions.

[19] For details on the types of recommendations provided, see *Assessing and Promoting Fiscal Transparency: A Report on Progress* (SM/03/86, Supplement 2, 3/06/03), *Review of the Fund's Experience with the Data Module ROSC* (SM/03/86, Supplement 3, 3/06/03), *Experience with the Assessments of the IOSCO Objectives and Principles of Securities Regulation Under the Financial Sector Assessment Program* (SM/02/121, 4/19/02), *Financial Sector Assessment Program—Experience with the Assessment of Systemically Important Payment Systems* (SM/02/124, 4/22/02), and *Experience with the Insurance Core Principles Assessments Under the Financial Sector Assessment Program* (SM/01/266, 9/21/01).

[20] For a discussion of existing practices for preparing ROSCs, see *Assessing and Promoting Fiscal Transparency: A Report on Progress* (SM/03/86, Supplement 2, 3/06/03), *Review of the Fund's Experience with the Data Module*

different types of ROSCs, except corporate governance ROSCs, for which the share was much lower (Appendix I, Table 4).[21] Box 1 summarizes the type of issues of potential policy significance that were raised by different types of ROSCs.

The impact on ROSCs of measures to reduce work pressures

13. **Among several measures to reduce work pressures, Directors agreed in early 2002 to alter the review and circulation of ROSCs, except for those completed as part of the FSAP.** The Policy Development and Review Department (PDR) review of ROSCs, ROSC updates, and the terms of reference for ROSC missions was eliminated[22], as was the circulation to the Executive Board of hard copies of ROSCs that were to be published, except for financial sector ROSCs completed as part of the FSAP.

ROSC (SM/03/86, Supplement 3, 3/06/03), and *Background Paper on Standards Review:Assessing Progress and Lessons Learned from Bank-led ROSC Modules* (circulated to the Bank Board).

[21] Of the 74 percent reporting the significance of weaknesses, by type of country, most ROSCs (about 86 percent) for advanced and market access economies indicated whether any non-observance of a standard was minor or major while only 40 percent of ROSCs for developing countries provided such information.

[22] See *Management Statement on Proposals for Reducing Work Pressures* (BUFF/01/181, 11/30/01 (revised on 1/16/02)).

Box 1. The Coverage of ROSCs

Data ROSCs	Fiscal ROSCs	Financial sector ROSCs
Seventy-one percent of data ROSCs provided a sense of whether weaknesses in observance of data standards were of minor or major significance. The most potentially significant weaknesses were in the coverage and consistency of fiscal data.	Seventy percent of fiscal ROSCs commented on the seriousness of shortfalls in the observance of the fiscal transparency standard. For advanced countries, the significant areas of weak observance were often related to the need to develop a medium-term budget framework. For other countries, major weaknesses were in the areas of off-budget fiscal activities, intergovernmental fiscal responsibilities, clarity of tax policy and administration, and poor data quality.	Most financial sector ROSCs indicated when shortfalls in observance of a standard raised policy concerns. For BCP ROSCs, the discussion usually centered on the implications of non-observance (including in the areas of capital adequacy, risk management, and lack of independent supervision) for the vulnerability of the banking system. Non-banking financial sector ROSC modules generally gave a sense of the magnitude of non-compliance. In many developing economies where the non-banking financial sector was less central to the macroeconomy, ROSCs tended to focus on development needs rather than on the systemic implications of any non-observance.

14. During the Board discussion on these proposals, several Directors expressed concern that the discontinuation of review for non-FSAP ROSCs could weaken consistency and specificity of the reports, particularly given that the standards initiative is relatively new.[23] In order to assess the impact of these measures on the content and coverage of ROSCs, staff reviewed all data and fiscal ROSCs completed between March 1 and September 30, 2002.[24] In total, 14 ROSCs for 14 countries were reviewed.[25]

15. This review looked at the same criteria assessed above (i.e., whether these ROSCs covered the three prescribed areas of content; followed a standardized format; and conveyed if shortfalls in observance were minor or major). The results of the survey are:

- **There has been some improvement in the specificity of more recent data and fiscal modules, reflecting measures that the staff has taken to improve ROSCs.** Recent data and fiscal ROSCs have been more explicit about the significance of weaknesses in observance and have more closely followed operational guidance on the three prescribed areas.[26] There has also been a marked reduction in the length of data ROSCs (to about 20 pages). The steps taken to address the coverage of ROSCs, which include the introduction of templates that require explicit assessment of country practice against each element of the standard, have also helped to improve ROSCs.

- **At the same time, consistency of content and format across ROSCs has become more uneven after the measures took effect**. Data ROSCs completed during this period generally tended to have three pages of recommendations though, some ROSCs did categorize the recommendations as either short-term or medium-term.[27]

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[23] See EBM/02/06, 1/22/02.

[24] The former date is that of management's memorandum to staff on implementing proposals to reduce work pressures.

[25] Benin (fiscal), Botswana (data), Burkina Faso (fiscal), Costa Rica (data), Malawi (fiscal), Mauritius (data), Mexico (fiscal), Namibia (data), Nicaragua (fiscal), Philippines (fiscal), Slovak Republic (fiscal), Slovenia (fiscal), South Africa (fiscal), and Turkey (data).

[26] Specifically, 80 percent of data and 78 percent of fiscal ROSCs completed in March-September 2002 provided an indication of the significance of any weakness in the observation of the standard.

[27] In the period September-December 2002, four data ROSCs were issued and there was some improvement in coverage, particularly in prioritizing recommendations.

III. ROSCs and Surveillance

16. This section evaluates the use of standards and codes and ROSCs in Fund surveillance based on the review of ROSCs issued and the companion Article IV (or combined Article IV/UFR) reports discussed by the Executive Board between March 1, 2001 and February 28, 2002.[28] The review focused on (1) whether ROSC modules raised issues that were important to macroeconomic objectives or policy, and (2) if so, whether these issues were integrated into the Article IV report (See Appendix II). To provide context for the review, mission chiefs were surveyed on the contribution of ROSCs to surveillance, and there was another round of follow-up based on the survey responses. The assessment of the role of ROSCs in surveillance is inevitably subjective, notwithstanding the use of a template to provide some consistency in the review (see Appendix II). Once again, notwithstanding the diversity of experiences with individual ROSC modules for individual countries and some unevenness across ROSCs, some common themes emerged across ROSCs.

A. How Have ROSCs Influenced Surveillance?

Review of reports

17. **In about one-third of cases, the ROSC module raised issues that were important to macroeconomic objectives or policies** (Table 1). Fiscal and BCP modules most frequently raised issues that were important to surveillance. There were very few instances where ROSCs raised important macroeconomic issues that were not subsequently discussed in Article IV staff reports.

18. **About 78 percent of fiscal and BCP ROSCs raised issues of importance to surveillance and this analysis was reflected into Article IV reports and the staff appraisal** (Table 1). The issues included potential fiscal costs of banking weaknesses, budget execution, intergovernmental fiscal relations, and coverage of budget (including quasi-fiscal activities). The 2001 Article IV report on Mexico provides a typical example of the integration of banking supervision issues raised in the BCP ROSC: it urges continued strengthening of banking supervision and stricter enforcement of regulations to make the banking system more resilient to shocks.

19. **In comparison, only 5 percent of securities, insurance, and payments systems ROSCs raised issues important for surveillance, and monetary and financial policies transparency (MFPT) ROSCs raised macroeconomic issues in 11 percent of cases**

[28] All ROSCs issued and completed during this period were reviewed, with the exception of number of randomly-selected modules derived from FSSAs to correct for their over-representation. Their over-representation was due to technical reasons related to the fact that FSSAs, and hence FSSA-derived ROSCs, are always issued at the time of the Article IV report, while the completion of other ROSCs is not always timed to coincide with the Article IV report. In total 62 ROSCs and 24 Article IV reports were reviewed.

(Table 1).[29] Mission chiefs thought that the differences in coverage of financial sector topics might reflect the perception that banking supervision issues had a larger impact on the economy (see below).

20. **Over 40 percent of data modules raised issues that had macroeconomic implications** (Table 1). In some instances, data ROSCs were for countries with relatively good data systems where the issues did not have macroeconomic relevance (e.g., Chile and Sweden). In some other cases, data shortcomings were mentioned as hampering macroeconomic analysis and policy-making (e.g., Cameroon and Hungary).

Survey of mission chiefs

21. **Most mission chiefs observed that mission teams and the authorities generally found fiscal transparency and financial sector ROSCs particularly useful because they raised the profile of the issues covered by the relevant standards, often resulting in the implementation of measures to address identified shortcomings.**[30] Article IV teams also generally found that ROSCs helped clarify and pinpoint the most critical issues. The fact that transparency and institution building were discussed at the policy level was considered a noteworthy development by mission chiefs. However, about 40 percent of mission chiefs suggested that ROSCs should be more explicit on observance vis-à-vis the standard assessed and in presenting recommendations (Appendix II). They said that ROSCs needed to be more critical where shortcomings are serious and clearer about the problems identified.

[29] Discussion in these staff reports generally referred to the FSAP rather than the ROSC modules, with a number of Article IV reports containing a box summarizing the main FSAP findings. However, the discussion of the FSAP findings rarely picked up on the issues raised in the securities, insurance, and payments systems ROSCs.

[30] Twenty-three out of 24 Fund area department mission chiefs responded to the survey, which asked whether ROSCs raised important issues for surveillance; whether ROSCs helped increase the profile of the issues covered either in the Article IV consultation or the agenda of the authorities; whether Article IV teams were generally aware of the issues raised by ROSCs prior to the assessment; how to improve the effectiveness of ROSCs; issues regarding informational updates to maintain ROSC timeliness; and coordination with functional departments.

Table 1. Use of ROSCs by Staff and Authorities 1/
(In percent)

	ROSC Modules								
	Data	Fiscal	MFPT	Banking	Insurance	Securities	Payments	Corporate Governance	Overall
Use in Staff Reports									
Mention of ROSC									
In text 2/	71	80	89	100	86	86	89	50	84
In appendix 2/	29	20	44	44	43	43	44	...	22
In text or appendix 2/	86	80	100	100	100	100	100	50	92
In Summing Up	43	60	...	56	...	29	...	...	26
If in FSAP, only FSAP mentioned in Summing Up	NA	NA	100	44	100	71	100	50	58
Important Macroeconomic issues raised	43	80	11	78	...	...	11	...	32
Issues integrated into analysis	43	70	22	89	...	14	33	...	39
Authorities views on ROSC mentioned 3/	14	20	22	33	...	...	...	...	13
Issues reflected in staff appraisal 3/	29	60	11	89	14	...	11	25	32
Technical Assistance request or action plans related to ROSC mentioned	29	20	...	11	...	...	...	...	8

Source: Fund staff estimates.

1/ ROSC issued or completed and subsequent Article IV or combined Article IV and UFR completed between 3/1/01 and 2/28/02. In three cases, ROSCs were issued with stand-alone UFR reports and these reports were also included in the survey.

2/ Text includes stand-alone Article IV, combined Article IV/UFR, and stand-alone UFR staff report text and not the appendices and annexes. The appendix includes appendices and annexes of stand-alone Article IV and combined Article IV/UFR.

3/ Surveyed stand-alone Article IV and combined Article IV/UFR staff reports only.

22. **All respondents expressed concern about the perceived lack of resources and staff expertise (in some of the areas covered by ROSCs) to adequately update the ROSCs in Article IV missions.** Not all modules are being followed up in the context of Article IV consultations, per the Board's January 2001 guidance.[31] Another issue raised was the burden put on the authorities' scarce human resources of undertaking and updating ROSCs, particularly in program countries.

23. **The majority of area department mission chiefs surveyed said that Article IV reports reflected fiscal and banking ROSC modules more into the analysis than other ROSC modules, mostly because these had more macroeconomic relevance**. However, this view was not shared by a few mission chiefs who noted that data and non-banking supervision financial sector ROSCs in their experience also contained important information for surveillance.

24. Most Fund mission chiefs were generally satisfied with the coordination between area and functional departments in the preparation of ROSCs. However, the need for better coordination in the case of World Bank-led ROSCs was cited.[32]

B. Trends in Country Coverage of ROSCs in Staff Reports

25. **Article IV reports for industrial economies generally did not integrate ROSC issues into the analysis.** This is mainly because the ROSCs for these countries for the most part did not raise issues with macroeconomic implications (Table 2).[33]

26. **Over one-third of Article IV reports for market access countries integrated issues raised in ROSCs in the analysis.** Most noteworthy, 60 percent of fiscal ROSCs and all BCP ROSCs were integrated into the analysis of Article IV reports.

[31] Twenty-four factual updates to ROSCs in the context of the Article IV consultation were done in the first half of FY2003; given Board guidance (SUR/01/13, 2/9/01), it would be expected that 121 factual updates would be produced for the fiscal year as a whole.

[32] *International Standards: Strengthening Surveillance, Domestic Institutions, and International Markets* (SM/03/86, 3/06/03) reports that a mechanism for exchanging views between Fund and Bank staffs on priorities is being established.

[33] Financial sector ROSCs for the advanced countries suggested that financial institutions and markets were generally well regulated and compliance with standards was high. It should be noted, however, that this result is based on a small sample.

Table 2. Staff Report Coverage of Macroeconomic Issues in ROSCs by Economy Classification and Standard Assessed 1/
(In percent)

	Data	Fiscal	MFPT	Banking	Insurance	Securities	Payments	Corporate Governance	Overall
Important Issues Raised 2/									
Industrial	...	100	...	50	...	...	...	...	17
Non-Industrial Market Access	25	60	25	75	...	...	25	...	28
Non-Market Access	100	100	...	100	...	...	...	...	53
Overall	43	80	11	78	...	...	11	...	33
Issues Integrated into Analysis 3/									
Industrial	...	100	...	50	...	...	50	...	25
Non-Industrial Market Access	50	60	25	100	...	25	25	...	38
Non-Market Access	50	75	33	100	...	...	33	...	53
Overall	43	70	22	89	...	14	33	...	39

Source: Fund staff estimates.

1/ ROSC issued or completed and subsequent Article IV, combined Article IV and UFR, or stand-alone UFR staff report completed between 3/1/01 and 2/28/02. WEO definitions are used for Advanced, Developing, and Transition Economies. Market access economies are defined as all non-industrialized economies (according to the WEO definition) that received external sovereign rating from the two major rating agencies, Moody's and Standard and Poor's, as of 2001.

2/ Survey question: "If there were issues raised in the ROSC that is important to macroeconomic objectives/policy, were these reflected in the staff report?"

3/ Survey question: "Were ROSC issues integrated into the staff report analysis?"

27. Standards-related issues were widely covered and integrated in about one-half of Article IV and combined Article IV/UFR reports of non-market access developing economies (Table 2). In particular, all banking and three-quarters of fiscal ROSCs were integrated into the analysis. Where ROSCs indicate transparency weaknesses of significance to programs, steps to improve transparency or strengthen the underlying institutional framework have been incorporated in Fund-supported programs (see below).[34]

C. How Observance of Standards Was Addressed in Cases Where a Member Did Not Volunteer for a ROSC

28. At the time of the last review, "most Directors recognized that if a member does not volunteer to participate in a ROSC, other sources of information, if available, will need to be used to inform surveillance, including standards-related technical assistance, self-assessments on which the staff has conducted due diligence, or could be the result of work in the context of an Article IV mission. These Directors indicated that, where they considered a country's observance of standards to be poor or where the information available to them was insufficient, they would encourage countries to participate in a ROSC, including through the FSAP, as appropriate."[35]

29. The Board has explicitly encouraged three countries to volunteer for a ROSC in the Summing Up at the conclusion of Article IV consultation during the sample period.[36] In six other cases, Directors encouraged a member to volunteer for an FSAP, which would allow production of ROSCs.[37] In two of these cases, the Summing Up language went beyond "*encouraged*" or "*suggested*;" it "*urged*" early participation in an FSAP and the associated ROSCs. [38] Of the three countries that Directors encouraged to volunteer for a ROSC, one (Ireland) has not yet volunteered for the proposed ROSC; moreover two of the six countries that Directors encouraged to volunteer for an FSAP and financial sector ROSCs have not yet volunteered (People's Republic of China and the United States). In some instances, the authorities believed that a ROSC/FSAP assessment would be too resource intensive; in others, the authorities preferred to first undertake a self-assessment and address existing institutional shortcomings prior to undertaking a ROSC/FSAP.

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[34] In several cases, fiscal ROSC missions to highly indebted poor countries (HIPCs) were carried out in conjunction with missions focusing on improvements for tracking poverty related expenditures. The recommendations of the ROSC and HIPC assessments were made in parallel and were mutually supportive.

[35] See *Summing Up by the Acting Chairman on Assessing the Implementation of Standards—A Review of Experience and Next Steps* (SUR/01/13, 2/9/01).

[36] Ireland (fiscal), Israel (fiscal), and Mexico (fiscal).

[37] Antigua and Barbuda, People's Republic of China, Kenya, Japan, Spain, and the United States.

[38] See SUR/01/90 for Japan and SUR/02/33 for Kenya.

30. As suggested by the Board,[39] in those cases where Directors have said that an assessment in a particular area would be useful for surveillance but the member has not volunteered for a ROSC, staff has relied on other sources of information for surveillance, including existing standards-related technical assistance reports. For example:

- In the case of People's Republic of China, staff has relied on technical assistance findings and has focused on research work to strengthen its surveillance of financial sector standards.
- In Ireland, staff devoted more resources to fiscal issues to better clarify transparency issues.
- In the case of the United States, the staff has focused more on issues related to financial and corporate sectors standards.

IV. Strengthening Domestic Institutions

31. **ROSCs have proved useful in identifying and raising the profile of institutional weaknesses**. This section focuses on ROSCs and technical assistance. Appendix IV discusses ROSCs and Fund-supported programs.

32. **Standards and codes are one of the priority areas for technical assistance.**[40] In January 2001, Fund Directors made standards one of the filters for prioritizing technical assistance requests (BUFF/01/12) and in FY2001, there were 15 staff years of assistance under the standard filter. In FY2002, 14 staff years were devoted to follow-up technical assistance on standards and codes, and another 3.5 staff years to follow-up technical assistance on FSAPs, including assessments of observance of financial sector standards (see Box 2 on ROSCs and institution building).

33. **While there has been little explicit reference to technical assistance in either Article IV/UFR reports or ROSCs (except in data ROSCs), there is evidence that some members are seeking to redress identified weaknesses**. ROSC updates have generally noted that members have taken steps to implement the recommendations in ROSCs, and a quarter of transition and developing countries that have completed ROSCs or FSAPs have received follow-up technical assistance.

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[39] See *Summing Up by the Acting Chairman on Assessing the Implementation of Standards—A Review of Experience and Next Steps* (SUR/01/13, 2/9/01).

[40] See Summing Up by the Acting Chairman on the *Review of the FY2000 Annual Technical Assistance Report and Discussion on Alignment of Technical Assistance with the IMF Policy Priorities* (BUFF/01/2; 1/10/2001).

Box 2. ROSCs and Institution Building

Some ROSCs have been effective in highlighting areas where weaknesses exists. As illustrated below, this has assisted the authorities in strengthening institutions in the relevant areas.

Turkey: The update to the *fiscal* ROSC in April 2002 noted that significant progress had been made in addressing the shortcomings in fiscal transparency identified in the 2000 ROSC fiscal transparency module. The coverage of the budget had been broadened with the closing of 61 budgetary and 8 extra budgetary funds and the consolidation of 2960 revolving funds into less than 1500; the framework for dealing with both contingent liabilities and procurement had been strengthened with the passage of new laws that established comprehensive and more transparent systems; budget classification and accounting systems had been redesigned with the piloting of a new GFS-consistent chart of accounts and budget classification and the enhancement of the automated accounting system; and budget preparation had been improved. The update, however, added that additional efforts were still needed, in particular in eliminating or consolidating remaining extra-budgetary funds and in eliminating quasi-fiscal activities in public enterprises. The original fiscal ROSC and its update also served as a basis for a Fiscal Management Assessment report, which was prepared for Turkey as a pilot in June 2002 (SM/02/191, 6/20/02). This report focused on the institutional capacity for fiscal management, its relationship to fiscal policy design and implementation, and the implications for fiscal vulnerability.

Philippines: The December 2001 *accounting and auditing* ROSC noted that a meeting with a group of national stakeholders discussed the results of the ROSC with Bank staff and agreed to take steps to implement a number of policy recommendations. The meeting established an Oversight Committee with responsibility to follow-up, establish specific priorities and responsibilities, set timetables, and monitor progress of the implementation process. Agreement was reached on (i) strengthening capacity of the Board of Accountancy to regulate the accountancy profession; (ii) strengthening enforcement capacity of the regulatory bodies; (iii) taking steps to adopt international standards in accounting and auditing; and (iv) taking measures to improve auditors' performance.

The September 2001 *corporate governance* ROSC for the Philippines also mentioned that a joint public/private sector task force on corporate governance had been established with responsibility for developing a national strategy on corporate governance reform. The policy recommendations of the ROSC were discussed with the leading groups involved with reform in the Philippines, where improved corporate governance is seen to have potential for promoting competitiveness and broadening access to capital.

34. **A number of initiatives have recently been undertaken to coordinate technical assistance support of countries' observance of standards and codes.**[41] The Financial Sector Reform and Strengthening (FIRST) initiative, supported by the IMF, World Bank, U.K. Department for International Development, the Canadian International Development Agency, and the State Secretariat for Economic Affairs of Switzerland, was recently established to provide a mechanism to insure systematic follow-up of technical assistance from FSAP/ROSC efforts (and to provide financial support for the effort). Financial resources of about US$10 million a year over the next four years are available to support technical assistance under the FIRST initiative. In May 2002, the Executive Board endorsed the IMF's Africa Capacity Building Initiative, which is part of its response to the call by African leaders, including under the New Partnership for Africa's Development (NEPAD), to strengthen economic governance and domestic capacity of governments to carry out sound economic policies. As part of this Initiative, a first African Regional Technical Assistance Center was opened at end-October 2002 in Dar es Salaam, Tanzania. The opening of a second center in the near future is under consideration.

35. **In May 2002, the Bank, Fund and regional development banks launched a coordinated effort to support the implementation of standards and follow up the recommendations of ROSCs and FSAPs**. The World Bank is already putting in place an agreement with the Inter-American Development Bank (IADB) for the latter to help undertake assessments and provide technical assistance in the areas of corporate governance, accounting and auditing.[42]

V. Outreach and Feedback on the Standards Initiative

36. **Fund and Bank staffs have received increasingly positive feedback on the initiative from both public and private sectors.** This feedback was gained using a range of different instruments including outreach missions, conferences, and the Internet.[43] This section reports on the outreach activities and conferences organized by the Fund/Bank and others.[44] Staffs are considering the next phase of outreach based on the findings of the review and Board consideration of them.

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[41] See *Review of Technical Assistance Policy and Experience* (SM/02/180; 6/13/02).

[42] As the IADB does not produce accounting and auditing ROSCs, it has been agreed that, even if the IADB encourages and, on occasion, provides financial support for the preparation of accounting and auditing ROSCs, the World Bank bears the final responsibility for the new assessment.

[43] The majority of Fund website feedback on ROSCs (86 percent) indicated that ROSCs are useful or somewhat useful, although there were only 35 responses in total as of end-2002.

[44] Feedback was also obtained from a private sector survey and targeted meetings with key private sector groups carried out specifically for the standards review, which are reported on in the next section.

A. Fund and Bank Outreach Seminars

37. The outreach process on ROSCs began in Spring 1999 following the posting of the first round of ROSCs on the Fund's external website.[45] In September 1999, and again in January 2001, the Fund's Board encouraged the staff to conduct further outreach.[46]

38. A program of outreach seminars was launched in Summer 2000. Six rounds of seminars hosted by the national authorities have so far been held in 24 countries, with participants from about 35 countries (see below).[47]

Summary of Program of Outreach Seminars

Date	Sites
July 2000	Hong Kong, SAR China; Japan; Singapore; Thailand
September 2000	Czech Republic (Bank-Fund Annual meetings seminar)
November 2000	Argentina; Belgium; Brazil; Chile; Egypt and South Africa, United Kingdom
April 2001	Australia; Bahrain; (regional seminar); Hong Kong SAR China (follow-up seminar); Philippines
February 2002	France; Germany; Italy; Spain; Tunisia
August 2002	People's Republic of China; Hungary; Russia

39. Seminar sites have been chosen to cover major international financial centers, emerging markets, and transition and developing across regions of the world. The seminars have focused on the financial and the non-financial private sectors, and included government officials, media, and academics. The official sector has been well-represented and the participants from the private sector have included representatives of commercial banks, investment banks, and other financial institutions; professionals involved in country and credit risk assessment and ratings; funds managers; and equity analysts.

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45 The first phase of outreach was reported on in *International Standards and Fund Surveillance—Progress and Issues* (EBS/99/158, 8/17/99).

46 See *Summing Up—International Standards and Fund Surveillance—Progress and Issues* (SUR/99/12, 9/20/99) and *Summing Up—Assessing the Implementation of Standards—A Review of Experience and Next Steps* (SUR/01/13, 2/9/01).

47 The Fund and Bank have also conducted a program of outreach on the FSAP. Fund and Bank staff hosted an outreach meeting for officials whose countries had participated in an FSAP in FY2001 in Washington, D.C. in January 2002.

40. Key or common feedback and themes from seminar participants have been:

- National authorities have expressed the desire for adequate technical assistance to be made available to help them address weaknesses identified in standards assessments.
- The authorities of two countries thought that participation in the standards initiative had helped in establishing ratings or improved investors' perceptions of their credit quality.
- The authorities of four countries thought that knowledge of the importance of standards was thin among their private sectors. They welcomed outreach by staff as a way to explain the initiative to both the official and private sectors and to raise the profile of the initiative.
- Some national authorities thought that some standards were complex and were concerned about modifications in standards that introduced greater complexity.
- Some authorities questioned the accuracy of some private sector assessments and thought that the preparation of ROSCs would be important in providing accurate and comprehensive assessments of their compliance with standards.
- National authorities expressed concern about the resources required to collect the information requested by the assessors and to fully discuss the findings with missions.
- Both public and private sector participants pointed to the varying coverage of ROSCs.
- Participants urged the Fund to take steps to provide information on standards to a wider audience and to keep ROSCs up to date.
- Private market participants noted the changes that had been made in the credit risk analyses conducted by their organizations as a result of the work on standards.
- Reflecting that the private financial sector is not homogenous, interest in and knowledge of standards and codes has been greatest among the market participants who are actively engaged in conducting risk management. Traders, corporate bankers, and other financial agents tend to rely on the "bottom-line" output of the risk management and other analytical professionals in the financial sector and do not necessarily access the underlying detailed information, including ROSCs.
- Private sector users thought that ROSCs could be enhanced by being kept short, with a standardized format, and by broader country coverage.
- Private sector users attach a high priority to timely publication and to updates.

- Representatives of financial institutions said that ROSCs needed to distinguish between statutory support for good practices and effective implementation.

41. Fund staff have also solicited targeted feedback from key market participants. The results of this are summarized in Section VI.

B. Bank-Fund Conference on International Standards and Codes

42. In addition to the outreach program, in March 2001, the Fund and the World Bank hosted a Conference on International Standards and Codes.[48] The Conference brought together high-level representatives from member countries, standard-setting agencies, and others to exchange views.[49]

43. **A consensus has emerged that standards and codes provide useful guidelines of good practice for countries and help markets make sound investment decisions.** Participants remarked on the shift in attitude that had taken place on this point over the past two years, i.e., that the value of international standards is now taken as given, and is no longer a subject for debate. It was recognized at the Conference that, in order for international standards to strengthen the operation of markets globally, there must be common standards and codes and, in particular, consistency of definitions.

44. **However, concerns were also expressed in several areas.** Some country authorities urged greater participation by developing and emerging market countries in the development of international standards. While some standard-setting bodies already have wide membership or conduct consultation with non-member countries, participants at the Conference agreed that the views and needs of developing and emerging market countries needed to be better reflected. Some country representatives were concerned about a "one size fits all" approach to assessments that might not allow for consideration of the different stages of economic development, the range of administrative capacities, and the different cultural, institutional and legal traditions across countries. Some suggested that standards could be costly or burdensome for countries to implement and that the costs might exceed the benefits. Country representatives stressed that developing and emerging market countries should be given sufficient time and technical assistance to adopt international standards.

45. In response to these concerns, Fund and Bank staff have been working with the authorities (and standard setters) on appropriately sequencing the implementation of standards, recognizing that it would be unrealistic to expect low-income countries to observe all standards and all elements of standards in the near term while at the same time taking into

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[48] See *Quarterly Report on the Assessment of Standards and Codes—June 2001* (SM/01/200, 6/29/01).

[49] See "*Standards and Codes -- A Tool for Growth and Financial Stability Remarks by IMF Managing Director Horst Köhler, IMF/World Bank Conference on International Standards and Codes* " (3/7/01).

account the interdependence of some standards. Sequencing issues have been extensively discussed with staff of the African Development Bank (AfDB) in the context of NEPAD.

C. Annual Meetings Seminar on Standards and Transparency

46. A seminar on standards and transparency was held as part of the 2002 Bank-Fund Annual Meetings Program of Seminar in September 2002.[50] The seminar, chaired by Fund management, covered the role of standards and transparency in a market economy, with a panel representing four different perspectives: the head of a standard-setting body; the governor of the central bank of an emerging market country; the managing director of a leading ratings agency; and the president of an internationally-active Latin American bank.[51] The following are the main themes from the discussion.

47. **All of the panelists said that transparency and standards have been widely adopted and are beneficial to countries**. Members' participation in ROSCs indicates that they are "buying into" standards and transparency. It was also noted that standards and codes have been useful in revamping and developing national regulations in some emerging market economies, and providing a benchmark to persuade parliamentarians of the need for changes.

48. **There was a general consensus that, while flexibility is important, "standards must be standard" to be effective**. Emerging market and developing countries could be hurt by laxer standards if their level of institutional capacity (and other factors) render them more vulnerable to shocks than an advanced economy. Country-specific flexibility can be achieved through prioritizing the standards that should be assessed first for a given country, and ensuring that the resources needed for technical assistance to address priorities are available. Flexibility also derives from having principles-based (rather than rules-based) standards that allow for differences in the practices that are used to achieve the principles.

49. **The private sector extensively uses information on observance to standards and codes**. But, panelists also said that more needs to be done to increase use of the initiatives by both countries and the markets. To promote use and ownership, it was suggested that more analytical work was needed on the link between the implementation of standards and lower risk and interest rate spreads.

50. **Recent events demonstrate that corporate governance, accounting standards, auditing practices, and transparency and disclosure at the level of the individual firm are the building blocks of a stable national financial system.** Panelists said that the international community needs to focus on developing clear, internationally consistent, and enforceable standards in these areas. They also indicated that industrial countries also need to be assessed for observance of standards, and not just serve as "role models."

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[50] The transcript of the seminar is available at www.imf.org/external/mmedia/view.asp?eventID=134.

[51] See *Quarterly Report on the Assessment of Standards and Codes—November 2002* (SM/02/363, 11/26/02).

D. Other Outreach Activities Organized by the Fund and Bank

51. The Fund and the Bank have also held a variety of other outreach activities. A key recent example is the Fund's Managing Director's participation in a workshop on the role of standards and codes as part of his visit to five African countries in May 2002.[52] The workshop, organized by the AfDB in the context of its work for NEPAD, explored the timing and sequencing of implementing standards and their role in creating an enabling environment for investment and growth (Box 3). Fund staff hosted a briefing on standards and codes in July 2002 for a coalition of nongovernmental organizations (NGOs) called "New Rules for Global Finance" that focuses on the implications of international financial architecture reform initiatives for poor countries. Fund staff have also given presentations to senior legal experts in the context of a Legal Department Seminar on international financial architecture and to representatives from 11 developing and emerging market economies in the context of a program on risk appraisal organized by Duke University. The Fund has also conducted dialogues on standard assessments with the private sector through the Capital Markets Consultative Group.

52. **Missions and resident representatives can also play an important role in providing information to the public and in soliciting feedback on the initiative.** For example, staff missions to the Czech Republic (a country with a high number of ROSCs) regularly flagged standards and codes issues with the local press in press conferences. The resident representative for Hungary gave several presentations at conferences highlighting the initiative.

E. Outreach Activities and Conferences Organized by Others

53. The Fund and the Bank have participated in a wide array of seminars or meetings arranged by the Financial Stability Forum (FSF), multilateral development banks, standard-setters, the World Trade Organization (WTO), central banks of member countries, the private sector, and other bodies.

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[52] The Managing Director participated in a series of workshop discussions with the authorities, members of legislatures, civil society organizations, and academics on a range of topics of importance to Africa. See *IMF Managing Director Horst Kohler to visit Tanzania, Democratic Republic of Congo, Cote d'Ivoire, Burkina Faso and Ghana* (News Brief No. 02/37, 4/25/02). See also *Quarterly Reports on the Assessments of Standards and Codes—June 2002* (SM/02/192; 6/24/02).

Box 3. NEPAD and the Standards and Codes Initiative

Background: The New Partnership for Africa's Development (NEPAD) was inaugurated in 2001. It is open to all members of the Organization of African Unity/African Union. Its goals are to promote growth and sustainable development; to eradicate poverty; and to halt the marginalization of Africa in the globalization process. It emphasizes a comprehensive and integrated approach to development guided by the principles of responsibility, African ownership, regional integration, economic freedom, democracy, transparency, good governance, the rule of law, stability, conflict prevention and resolution, human rights, investment in people, fight against poverty and hunger, and facilitation of market access as fundamental for development.

Standards and codes. The promotion of Africa's integration into a globalized economy is one of the cornerstones of NEPAD. In this regard, African leaders in their articulation of NEPAD underscored the importance of adhering to internationally recognized standards in the conduct of policy. The NEPAD Steering Committee has asked the AfDB to lead efforts in fostering implementation of financial sector standards in African countries. They have asked the United Nations Economic Commission for Africa (UNECA) to lead efforts to foster corporate and public sector governance.

African Peer Review Mechanism (APRM). Implementation of the political and economic governance initiatives of NEPAD will be monitored through peer review, the modalities of which are presently under discussion within NEPAD and the African Union. According to a recent NEPAD declaration, "the primary purpose of the APRM is to foster the adoption of policies, standards, and practices that lead to political stability, high economic growth, sustainable development and accelerated sub-regional and continental economic integration through sharing of experiences and reinforcement of successful and best practice, including identifying deficiencies and assessing the needs for capacity building." Within the economic governance initiative, peer review is expected to extend to the codes of monetary and fiscal transparency the guidelines for public debt management, the principles of corporate governance, the international accounting auditing standards, and the core principles for effective banking supervision.

Sequencing the implementation of standards. NEPAD has stressed the importance of improving institutions over time, recognizing that it would be difficult for low-income countries in Africa to observe all standards and all elements of standards in the near future.

Outreach. The Fund and AfDB staff have recently held substantive discussions on ways to accelerate the implementation of standards in Africa. In April 2002, a visiting AfDB delegation held extensive discussions with staff on the initiative. Fund staff have also participated in a NEPAD ministerial seminar on standards in Ethiopia in May that discussed how to move forward the standards initiative, in particular a framework paper prepared by the AfDB on, *inter alia*, APR and sequencing issues. Moreover, the Managing Director, in his recent trip to Africa, took part in AfDB workshops on the standards and codes initiative.

54. The Fund and Bank joined in the two rounds of outreach conducted by the FSF Follow-Up Group on Incentives to Foster Implementation of Standards in Summer 2000 and Summer 2001. The second round of outreach in Summer 2001 found that the level of knowledge and sophistication of participants with respect to standards and ROSCs varied in different regions of the world, but was generally high, with participants in the U.S. financial markets displaying a detailed knowledge of the contents of particular ROSCs, and indicating that such information is used regularly in their credit analysis.[53]

55. Fund management spoke on the contribution of standards and codes to international financial stability at the Annual Meetings of the Inter-American Development Bank (IDB) in March 2002. The discussion on management's presentation focused on the appropriateness of international standards and codes for emerging market or lower-income countries. Fund and Bank staffs participated in a February 2002 OECD/Development Assistance Committee (DAC) Forum on Financing for Development, on integrating standards into development cooperation policies, and Fund staff updated a WTO Working Group on Trade, Debt, and Finance in April 2002 on the standards initiatives.[54]

56. Examples of other seminars or conferences on standards and codes include the Overseas Development Institute's June 2002 conference on "International Codes and Standards: the Developing Country Perspective," where speakers from governments, central banks, and financial institutions discussed the countries that have embarked on implementing standards and codes and the lessons to be learnt from their experiences. A key point flagged in the discussion was how to address the resource needs implied by the costs to lower-income countries of implementing standards and codes, which can be high.

VI. Private Sector Views and Initiatives

57. The first part of this section reports on the use by the private sector of standards and codes based on a survey and targeted meetings with key market participants conducted specifically for this review of the standards initiative. The second part covers private sector initiatives on standards and standard assessments.

A. Survey of Private Sector Views on Standards and Codes

58. **Since the beginning of the international community's work on international standards and codes, it has been recognized that the private sector's use of information on standards in its financial decision-making would constitute a key part of the initiative, as well as an indication of its effectiveness.** To supplement the feedback

[53] See *Quarterly Reports on the Assessments of Standards and Codes—December 2001* (SM/02/19, 1/11/02). The Fund Board also receives regular progress reports on the work of the Financial Stability Forum.

[54] See *Quarterly Report on the Assessments of Standards and Codes—June 2002* (SM/02/192; 6/24/02).

obtained through the outreach program, a survey of the private financial sector's awareness and use of information on standards was conducted by staff.

59. **A questionnaire was sent to major financial institutions in Asia, Europe, and North America** (see Appendix VI).[55] Responses from about 40 financial institutions were obtained, representing a large share of the internationally active financial sector in the countries surveyed. The respondents included Canadian, French, German, Italian, Japanese, U.K., and U.S. institutions. In most cases, the respondents to the survey were managers or analysts in the country or credit-risk rating functions within the financial institutions. Responses from the New York financial market tended to be from financial institutions with large global networks, covering operations and practices in other markets.

60. **The survey found that all institutions but one reported that international standards and codes were important for their financial decision-making.** Many respondents noted that their attention to standards had been heightened by the Asian financial crisis and the later crises in Argentina and Turkey; the events of September 11; the collapse of GITIC (Guangdong International Trust and Investment Corporation, the large Chinese investment fund), and, most recently, developments with Enron, WorldCom and other examples of accounting and auditing and/or corporate governance weaknesses. The majority (about 60 percent) of international financial institutions said they used ROSCs in their financial decision-making, and another 25 percent were aware of ROSCS, but said that they did not use the reports frequently. Use of ROSCs was greatest in the New York-based institutions and least among Japanese institutions. European institutions' use of ROSCs was mixed, depending on how international an institution's business was, and whether its country and credit risk rating work was carried out by a parent body.

61. **About half of the respondents reported that their use of information on standards assessments was increasing over time.** Of respondents who regularly used information on standards, the IMF and the World Bank external websites were reported as the major and most frequent source of information. For respondents who did not regularly use ROSCs, the most-reported reason was that they relied on the information provided by an external rating agency. Some of these respondents said that it would be desirable for information on countries' observance with international standards to be systematically and uniformly incorporated by the rating agencies.

62. **Most financial institutions reported that information on observance of standards provided qualitative background or indirect input to their financial decision-making.** Several New York and European-based institutions reported that information on adherence to standards was a direct factor in their country risk assessment methodologies. Moreover, as reported below, major U.S. credit rating agencies indicated that they used information on

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[55] Market participants were surveyed by Fund staff, with the assistance of the network of representatives of central banks and ministries of finance that had been previous members of the FSF Follow-Up Group on Incentives to Foster Implementation of Standards.

standards in establishing credit ratings, although to different extents. Several respondents mentioned that they used other sources of information provided by the IMF, notably Article IV staff reports, in forming their risk assessment of countries.

63. **Financial institutions' feedback on which ROSCs they found most valuable tended to reflect their main line of business and their approach to financial decision-making.** Institutions that focused on sovereign risk and macroeconomic conditions found the fiscal ROSCs particularly useful. Institutions that focused on counter-party risk were most interested in the corporate governance and the insolvency and creditor rights standards. In terms of country participation in ROSCs, some respondents said that they were only interested in ROSCs on emerging market countries, but European banks that mainly operated in Europe found ROSCs on industrial and European transition countries the most useful, indicating that ROSCs for aspiring European Union (EU) members would be especially helpful. Both European and Japanese banks regretted the paucity of ROSCs for countries in regions in which they tended to be active (i.e., the Middle East for European institutions, and Asia for Japanese institutions). These institutions indicated that their use of ROSCs would grow if more reports were published for countries in these regions. For several respondents, the lack of ROSCs for all or most of the countries that they cover was cited as an impediment to more systematically incorporating information on standards into their own financial-decision making methodologies or the analyses of external rating agencies upon which they relied.

64. **Respondents suggested a number of ways in which ROSCs could be made more useful.** In addition to extending the country coverage and rate of publication, respondents suggested that ROSCs could be updated more frequently, and be of a uniform structure and style of language to aid in cross-country comparisons. About 60 percent of respondents requested a country ranking, while others indicated that they would not wish to use a rating or ranking from any external source, since they rely on proprietary methodologies. Several respondents noted that the language in ROSCs needed to be clearer, to draw out weakness in a country's observance of a standard and its implications. Emphasizing the need for frequent updating and timely information, several respondents commented that the 1999 Argentine ROSCs (issued in the experimental phase of the initiative) were outdated.

65. **All respondents said that awareness that a country had undertaken but chosen not to publish a ROSC would negatively affect their appraisal of the country.** Respondents gave specific examples of country cases or other areas where information on standards or a lack thereof had affected the markets' perceived assessment of countries. For instance, one institution indicated that they had limited exposure to one country in reaction to a new nontransparent practice. Another institution noted that it had improved its assessment of a country when it resumed publication of currency reserves data.

66. **Additional feedback was obtained through targeted meetings in New York between Fund staff and representatives of major credit rating agencies and directors of**

country risk for the major financial institutions.[56] The rating agencies found ROSCs useful, in particular, the data and fiscal transparency ROSCs. Standard and Poor's indicated that these standards are explicitly considered in assigning a rating.[57] In comparison, Moody's leaves it to individual analysts to take into account the relevance of standards and codes. Fitch Ratings noted that the combined effect of working to improve implementation of standards and codes and publishing information about this can strengthen a country's credit rating.[58] Representatives from investment banks indicated that many used ROSCs and standards in their work, however, they were concerned that ROSCs did not always provide a candid assessment of institutional weaknesses.

B. Private Sector Initiatives on Standards

67. As noted in various *Quarterly Reports on the Assessments of Standards and Codes*, standards are increasingly used as an input into risk assessment and investment decisions of rating agencies, investment banks, and other financial decision makers.[59] A number of private sector initiatives by diverse institutions, including the e-standards Forum and Credit Lyonnais, are taking information on standards assessments and packaging it to provide ratings and cross-country comparisons. Others, including the California Public Employees Retirement System (CalPERS), attempt to fill gaps left by ROSCs—for example by covering countries that do not volunteer for Fund or Bank assessments. This engagement should help enhance the adoption of international standards and promote a wider dissemination and understanding of the issues related to their observance.

68. The e-Standards forum, a private sector body, has been setting up a subscription-based Internet database on countries' observance of standards.[60] Credit Lyonnais has

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[56] Staff from the Policy Development and Review Department (PDR) met with New York-based rating agencies on May 20, 2002 while staff from PDR and the International Capital Markets Department met with Directors of country risk assessors on June 12, 2002.

[57] See, for example "*The Importance of the IMF's Work on Standards and Codes*" by John Chambers, Managing Director of Standard & Poor's (www.standardandpoors.com).

[58] It also noted that governments that undertake reforms without permitting publication of reports risk losing the potential beneficial impact on perceptions of their country's creditworthiness. According to Fitch Ratings, the standards with the greatest potential to enhance the credit-worthiness of sovereign governments are those on data, fiscal and monetary and financial policy transparency and banking supervision. See *Standards and Codes—Their Impact on Sovereign Rating*, Summer 2002, http://www.fitchibca.com.

[59] See *Quarterly Reports on the Assessments of Standards and Codes—December 2001* (SM/02/19, 1/11/02), paragraph 12 and *Quarterly Reports on the Assessments of Standards and Codes—June 2002* (SM/02/192; 6/24/02), paragraph 17.

[60] This is a private partnership (including Oxford Analytica, the Wharton Financial Institutions Center, the Reinventing Bretton Woods Committee, and a private individual—Mr. George Vojta). Mr. Vojta is also president of the Financial Services Forum, which has endorsed the e-Standards Forum, and whose initial membership includes the chief executive officers of AIG, Allstate, American Express, Associates First Capital

assessed 20 countries' observance of the Fund's fiscal transparency standard. CalPERS, one of the largest pension funds in the U.S., uses measures of transparency (including ROSCs), corporate governance, and financial regulation among its criteria for determining the countries in which it will invest.

69. Other initiatives include Standard and Poor's assessments of firms' adherence to corporate governance standards. PriceWaterhouseCoopers (PWC), the international accounting firm, has produced an "opacity index"—an indicator to measure opacity based on some standards-related dimensions,[61] and takes into account corruption, legal systems, economic policies, accounting guidelines, and regulatory frameworks.[62] Deutsche Bank recently announced that it had developed a framework for analyzing key corporate governance issues across countries.[63] The Center on Budget and Policy Priorities' International Budget Project (IBP), which assists NGOs in developing countries or new democracies in analyzing and improving budget policies has developed a methodology for NGOs to assess the level of transparency and participation in the fiscal process in their country, drawing on the Fund's fiscal code.[64] Fitch Ratings has reported in an article published on its website in Summer 2002 "a highly significant relationship between the publications of ROSCs and changes in sovereign ratings over the last three years," while Standard & Poor's announced in September 2002 the completion of its 2002 "Transparency and Disclosure Surveys."[65] Finally, a Spanish consultancy firm has recently started to rank companies in the IBEX 35 according to their corporate governance and investor relations policies.

Corporation, Bank of America, Bank of New York, Bank One, Chase Manhattan, Citigroup, First Union, Fleet Boston, GE Capital, Goldman Sachs, Household International, J.P. Morgan, Merrill Lynch, Metlife, Morgan Stanley Dean Witter, and Prudential. See *Quarterly Reports on the Assessments of Standards and Codes—June 2001* (SM/01/200, 6/29/01), paragraph 11.

[61] See *Quarterly Reports on the Assessments of Standards and Codes—June 2001* (SM/01/200, 6/29/01), paragraph 11, and www.opacityindex.com for more information.

[62] Interviews were conducted with four different groups of respondents: chief financial officers of medium and large firms based in the 35 countries in the index; equity analysts familiar with the countries; bankers in the countries; and PriceWaterhouseCoopers employees residing in the countries. Responses were aggregated and converted using standard statistical procedures to obtain a comprehensive score for each country.

[63] See *Quarterly Reports on the Assessments of Standards and Codes—June 2002* (SM/02/192; 6/24/02).

[64] See *Quarterly Reports on the Assessments of Standards and Codes—December 2001* (SM/02/19, 1/11/02), paragraph 12.

[65] See *Quarterly Report on the Assessment of Standards and Codes—November 2002* (SM/02/363, 11/26/02).

Table 1. ROSC Modules Completed
(As of December 31, 2002) 1/

Economies	Data	Fiscal	MFPT*	Banking Supervision*	Insurance*	Securities*	Payments*	Corporate Governance+	Accounting & Auditing+	Insolvency+	Total
Albania	P										1
Algeria				P							1
Argentina	P	P	P	P						P	5
Armenia	P	P	U	U			U				5
Australia	P	P	P	P							4
Azerbaijan		P									1
Bahrain				U							1
Bangladesh	U										1
Benin		P									1
Botswana	P										1
Brazil		P	U	U	U	U	U	U, U	U	U	10
Bulgaria	P	P	P, P	P, P	P, P	P	P	P	U		12
Burkina Faso		P									1
Cameroon 2/	P	P	P	P	P		P				6
Canada		P	P	P	P	P	P				6
Chile	P										1
Colombia			U	U							2
Costa Rica	P										1
Croatia			P	P	P	P	P	P	P		7
Czech Republic	P	P	P, P	P, P	P	P, P	P	P, P		P	13
Dominican Republic			U	U	U		U				4
Egypt, Arab Rep. of		U	U	U	U	U	U	P	U		8
El Salvador			U	U			U				3
Estonia	P	P	P	P	P	P	P				7
Euro Area			P				P				2
Finland			P	P	P	P	P				5
France		P	P								2
Gabon			P	P	P						3
Georgia			P	P	P		P	P			5
Ghana			U	U	U	U	U				5
Greece		P									1
Guatemala			U	U			U				3
Guyana		U									1
Honduras		P									1
Hong Kong SAR of China	P	P	P	P							4
Hungary	P	P	P, P	P, P	P, P	P, P	P, P	U			13
Iceland			P	P	P	P	P				5
India		P	U	U		U	U	P			6
Iran, Islamic Rep. of		P	U	U							3
Ireland			P	P	P	P	P				5
Israel			P	P	P	P	P				5
Italy	P	P									2
Japan		P									1
Jordan	P										1
Kazakhstan		U	U	U	U	U	U				6
Kenya									P		1
Korea, Rep. Of	U	P									2
Kyrgyz Republic		P									1
Latvia		P	P	P	P	P	P	P			7
Lebanon			U	U, U							3
Lithuania	P	P	P	P	P		P	P	P	P	9
Luxembourg 3/			P	P	P	P	P				5
Malaysia								P			1
Mali		P									1
Malawi		P									1
Mauritania		P									1
Mauritius	P							P			2
Mexico		P	P	P	P	P	P				6
Mongolia	P	P									2

(conitnued)

Table 1. ROSC Modules Completed (continued)
(As of December 31, 2002) 1/

Economies	Data	Fiscal	MFPT*	Banking Supervision*	Insurance*	Securities*	Payments*	Corporate Governance+	Accounting & Auditing+	Insolvency+	Total
Morocco								U	P		2
Mozambique		P									1
Namibia	P										1
Nicaragua		P									1
Nigeria			U	U		U	U				4
Pakistan		P									1
Papua New Guinea		P									1
Peru			U	U			U				3
Philippines		P	U	U	U	U	U	P	P		8
Poland		P	P	P	P	P	P	P	P		8
Romania	P	P						U			3
Russian Federation	U	U	U								3
Senegal 2/ 4/	P		P	P	P	P					5
Slovak Republic		P	P	P	P	P	P		P	P	8
Slovenia		P		P	P	P	P				5
South Africa	P	U	U	U, U	U	U	U	U	U		10
Sri Lanka	P	P	U	U		U	U				6
Sweden	P	P	P	P	P	P	P				7
Switzerland			P	P	P	P	P				5
Tanzania		P									1
Tunisia	P	P	P, P	P, P	P	P	P				9
Turkey	P	P						P		U	4
Uganda	P	P	P	P							4
Ukraine		P						U	U		3
United Arab Emirates			U	U			U				3
United Kingdom	P	P	P	P							4
Uruguay	P	P									2
Yemen, Rep. of			U	U			U				3
Zambia		U	U	U			U				4
Zimbabwe								P			1
Total Completed	32	54	55	57	33	31	41	22	12	6	343
Total Published	29	48	34	34	26	22	24	15	7	4	243

Source: Fund staff estimates.

* ROSCs in these areas are usually assessed as part of the FSAP. The exceptions are for the following: Algeria-Banking; Argentina-Monetary, Banking; Australia-Monetary, Banking; Bahrain-Banking, Bulgaria-Monetary, Banking, Insurance; Czech Republic-Monetary, Banking, Securities; Euro Area-Monetary, Payments; France-Monetary; Hong Kong-Monetary, Banking; Russian Federation-Monetary; Tunisia-Monetary, Banking; Uganda-Monetary, Banking; United Kingdom-Monetary, Banking. Second-round assessments as part of FSSA-Updates include: Hungary-Monetary, Banking, Insurance, Securities, Payments; Lebanon-Banking; South Africa-Banking.

+ The following ROSCs were assessed as part of the Financial Sector Assessment Program: Corporate Governance-Czech Republic, Georgia, and Latvia; Insolvency-Slovak Republic.

P Indicates module was completed and published.
U Indicates module completed.

1/ ROSC modules not contained in an FSSA are considered complete once they have been circulated to Directors, and in the case of Bank-led modules, sent in their final form to the authorities. ROSC modules derived from an FSAP are complete only after the FSSA has been discussed by the Executive Board.
2/ In the case of Cameroon and Senegal's Insurance ROSC, an assessment was conducted for the regional insurance supervision council CRCA (Commission Régionale de Contrôle d'Assurance).
3/ As Luxembourg is a member of a monetary union, the module does not include an assessment of the monetary component of the standard.
4/ For Senegal's Banking ROSC, on an exceptional basis, a preliminary assessment was included in the FSSA.

Table 2. ROSC Modules Completed and Published by Economy Classification
(As of December 31, 2002) 1/

Economy Classification	Overall by Economies	ROSC Modules										
		Data	Fiscal	MFPT	Banking Supervision	Insurance	Securities	Payments	Corporate Governance	Accounting and Auditing	Creditor Rights	Total
Industrial 2/												
Total Economies	24											
ROSCs Completed	14	4	8	11	9	7	7	8	...	...	...	54
% of Economies	58%	17%	33%	46%	38%	29%	29%	33%	...	...	...	
ROSCs Published	14	4	8	11	9	7	7	8	...	...	...	54
% of Economies	58%	17%	33%	46%	38%	29%	29%	33%	...	...	...	
Non-Industrial Market Access 3/												
Economies	59											
ROSCs Completed	41	18	27	27	27	19	18	23	17	11	6	193
% of Economies	69%	31%	46%	46%	46%	32%	31%	39%	29%	19%	10%	
ROSCs Published	33	16	23	14	15	13	12	13	11	6	4	127
% of Economies	56%	27%	39%	24%	25%	22%	20%	22%	19%	10%	7%	
Non-Market Access												
Economies	103											
ROSCs Completed	34	10	19	13	15	5	4	9	3	1	...	79
% of Economies	33%	10%	18%	13%	15%	5%	4%	9%	3%	1%	...	
ROSCs Published	26	9	17	5	6	4	1	2	3	1	...	48
% of Economies	25%	9%	17%	5%	6%	4%	1%	2%	3%	1%	...	
Overall												
Total Economies	186											
ROSCs Completed	89	32	54	51	51	31	29	40	20	12	6	326
% of Economies	48%	17%	29%	27%	27%	17%	16%	22%	11%	6%	3%	
ROSCs Published	73	29	48	30	30	24	20	23	14	7	4	229
% of Economies	39%	16%	26%	16%	16%	13%	11%	12%	8%	4%	2%	

Source: Staff estimates

1/ Table does not reflect if an economy has had more than one full assessment for the same standard. Other than IMF member economies, includes Euro Area and Hong Kong SAR of China.

2/ Using the World Economic Outlook grouping of Industrial Country. Includes the Euro Area as an economy.

3/ This definition extends the World Economic Outlook (WEO) category of emerging market economies to include economies with access to international financial markets. Market access economies are defined as all non-industrialized economies (according to the WEO definition) that have received external sovereign ratings from the two major rating agencies, Moody's and Standards and Poor's, as of 2001. See Data Provision to the Fund for Surveillance (Appendix III) (SM/02/126, 4/26/02).

Table 3. Comparative Participation in Standards and Codes Initiatives 1/ 2/
(As of December 31, 2002)

	(1) Africa	(2) Developing Asia	(3) Central and Eastern Europe	(4) CIS and Mongolia	(5) Western Hemisphere	(6) Middle East, Malta, and Turkey	(7) Advanced Economies	(8) Total IMF Members
Number of Members	51	29	15	13	32	16	28	184
Initiatives:								
SDDS Subscriber 3/								
Number of members	2	5	9	0	9	1	23	49
GDDS Participant 4/								
Number of members	22	6	3	5	11	5	0	52
ROSC Modules, Completed So Far								
Number of members 5/	23	7	12	8	14	8	15	87
Percentage	45%	24%	80%	62%	44%	50%	54%	47%
ROSC Modules, Completed and Committed								
Number of members 5/	27	9	13	9	22	12	23	115
Percentage	53%	31%	87%	69%	69%	75%	82%	63%
ROSC Modules, Completed So Far								
Number of modules 6/	63	24	81	26	42	25	59	320
Percentage of total modules	20%	8%	25%	8%	13%	8%	18%	
ROSC Modules, Completed and Committed								
Number of modules 7/	108	46	96	53	100	48	110	561
Percentage of total modules	19%	8%	17%	9%	18%	9%	20%	

Source: Fund staff estimates.

1/ This table does not reflect if a member has had more than one full assessment for the same standard. This table does not include territories, special administered regions (SARs), and monetary unions.

2/ The regional groupings are based on the composition of World Economic Outlook (WEO) groups.

3/ The SDDS was established in 1996 to guide countries that have, or might seek, access to international capital markets in the dissemination of economic and financial data to the public. Table includes subscribers in full observance only.

4/ The GDDS was established in 1997 to encourage members to improve data quality, provide a framework for evaluating needs for data improvement and setting priorities in this respect, and guide members in the dissemination to the public of comprehensive, timely, accessible, and reliable economic, financial, and socio-demographic statistics.

5/ The number of members for which at least one ROSC module has been completed. ROSC modules not contained in an FSSA are considered complete once they have been circulated to Directors, and in the case of Bank-led modules, sent in their final form to the authorities. ROSC modules derived from an FSAP are complete only after the FSSA has been discussed by the Executive Board. ROSC modules are committed once a letter is receved from authorities' confirming commitment to produce a ROSC.

6/ On an exceptional basis, this includes one preliminary assessment ROSC module included in a Financial System Stability Assessment. One ROSC module performed for a country on a regional basis is also included.

7/ Unless the actual number of modules committed is known, it is assumed that for each country, an FSAP would produce, on average, four ROSC modules, as an approximation.

Table 4. Format and Contents of Sampled ROSCs 1/
(In percent unless otherwise indicated)

	ROSC Modules								
	Data	Fiscal	MFPT	Banking	Insurance	Securities	Payments	Corporate Governance	Overall
Length of ROSCs (Number of Pages) 2/									
Before Guidance	58.3	17.3	8.7	6.8	7.6	7.2	5.2	3.0	13.6
After Guidance	30.0	19.5	9.2	5.5	6.0	4.8	3.8	4.0	12.5
Overall	46.1	18.6	8.8	6.3	7.1	6.5	4.7	3.5	13.2
All 3 areas covered 3/	86	100	89	100	86	71	89	75	89
Recommendations prioritized	29	60	11	33	14	29	44	50	32
References implications of level of non-observance	71	70	78	78	86	86	78	25	74
References authorities' views	43	...	78	89	86	71	89	...	60

Source: Fund staff estimates.

1/ ROSC issued or completed and subsequent Article IV, combined Article IV and UFR, or stand-alone UFR staff report completed between 3/1/01 and 2/28/02. Includes annexes and appendices.
2/ Cut-off date: 8/3/01 for Data (STA), 8/6/01 for Fiscal (FAD), and 8/13/01 for all other ROSC modules (MAE). Dates represent when agreements were made with departments. Includes annexes and appendices. Excludes World Bank ROSCs.
3/ The three areas are: a description of country practice, an assessment of the extent to which practices are aligned with the respective standards and codes, and a list of prioritized recommendations for reforms to improve observance.

Analyzing the Coverage of ROSCs and Their Input to Surveillance

The assessment of ROSCs in Fund operations is based on a systematic review of ROSC and Article IV reports (or combined Article IV/UFR reports). To provide context to the review and to explain some of the results, 24 mission chiefs were surveyed (of these 23 responded) on the contribution of ROSCs to Fund operations. This was followed up with telephone conversations with mission chiefs/teams to discuss the survey results. The following elaborates on the modalities of the review including the survey of mission chiefs:

Review of reports

The analysis for assessing how the work on standards and codes has been used in the surveillance process is based on a review of 62 ROSCs issued and completed, and where the companion Article IV report was discussed by the Executive Board, between March 1, 2001 and February 28, 2002.

In total, 62 ROSC and 24 Article IV reports were reviewed (Appendix II, Table 1). Approximately two-thirds of the ROSCs were completed in the context of an FSAP.

While assessments of the role of ROSCs in surveillance are inevitably subjective, a template was developed to provide consistency. The template had three main sections, designed to capture information on (i) the content and structure of each ROSC document, (ii) how ROSCs were treated in Article IV documents, and (iii) whether ROSC issues were referenced in Summings-Up. Specific questions included the following:

- Did the ROSC indicate the significance of any weaknesses in observance of the standard; i.e., did it convey if shortfalls in observance are major rather than minor, with a major shortfall being one that could raise concerns for policymakers?

The answer to this question was yes if the ROSC clearly indicated the significance of the level of observance of the standard, i.e., whether any non-observance was minor or major. The answer was no if the ROSC indicated that the standard was not met but it did not say how substantial the deviation from the standard was. An example of a ROSC that did state the significance of the level of observance was Sweden's data ROSC; the report stated that while some fine-tuning could be made, the quality of Sweden's statistics are of very high quality and meets the SDDS requirements.

- Were there issues raised in the ROSC module that were important to macroeconomic objectives/policy? If yes, were these covered at the core of the Article IV report or only mentioned in passing?

The answer to the first question was yes if the ROSC raised issues that could affect macroeconomic stability. These issues could include, for example, the use of important quasi-fiscal operations (e.g., Uruguay), incorrect data methodology that results in substantial revisions to the balance of payments (e.g., Hungary), or weaknesses in the enforcement of banking regulations including on loan concentration and foreign exchange exposure (e.g., Ghana). In such cases, if the issues were discussed and analyzed (rather than mentioned in passing) in the Article IV report, the ROSC was considered reflected into the analysis. An example where the ROSC was considered reflected into the analysis was the 2001 Article IV report for Mexico which highlighted the need for continued strengthening of banking supervision and stricter enforcement of regulations in line with BCP ROSC recommendations to make the banking system more resilient to shocks. The Article IV report on Hungary notes that staff adjusted fiscal statistics in line with the recommendations of the fiscal ROSC module to measure fiscal policy on an SNA basis.

The issues reviewed and the results of the survey are reported in Tables 1 and 2 and Appendix I, Table 4. The reports reviewed are listed at the end of this appendix.

Survey of mission chiefs

To provide context and to explore the reasons for the results, the review of ROSCs and Article IV reports was supplemented with a questionnaire to area department mission chiefs asking for their views of ROSCs. This was followed up by telephone conversations with mission teams to discuss the survey results. In total, twenty-three out of 24 mission chiefs (or desks) responded to the survey.[66]

The questionnaire included the following questions:

- Did ROSC(s) raise important **issues for surveillance**? If yes, were you aware of them prior to the ROSC(s)? Were there important related issues that you were aware of that were not raised in ROSC(s)?

- If relevant, do you share the view that Article IV reports generally integrated banking and fiscal issues more into the analysis than other ROSCs? If yes, what are the reasons for this?

- Did the ROSC(s) help increase the **profile** of the issues covered either in the Article IV consultation or the agenda of the authorities? Did the authorities comment on the usefulness of the ROSC(s)?

- Any recommendations on ways to **improve the effectiveness** of ROSCs?

- The Board has asked for annual **updates** to ROSCs to maintain their timeliness. Are mission chiefs concerned about the resources or expertise to do annual updates?

- Was there close **coordination** between the area and functional departments in the preparation of ROSC(s)? Were you satisfied with the process?

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[66] Responses were received from the mission chiefs (desks) for the following countries: Armenia, Brazil, Cameroon, Chile, Czech Republic, Egypt, Estonia, Finland, Ghana, Hungary, Israel, Japan, Korea, Kyrgyz Republic, Latvia, Mali, Mexico, Mongolia, Philippines, Romania, Sweden, U.A.E., and Zambia.

While the questionnaire did not explicitly contain a question on whether ROSCs could be more explicit on observance vis-à-vis the standard assessed, six area department mission chiefs/desks indicated that ROSCs could be more clear or concrete about weaknesses and priorities for reform. As part of the follow-up, other mission chiefs were asked to express their views on the topic. About 40 percent of mission chiefs/desks said that ROSCs could be more critical where shortcomings are serious and were sometimes unclear about the problems identified. Some mission chiefs saw tension between the objective of ROSCs in identifying potential weaknesses with implications for surveillance and as a vehicle for building ownership for reforms among the authorities.

Table 1. ROSCs and Article IV Reports Sampled [1/]

Country	Transparency			Financial Sector 2/	Corporate Governance 3/
	Data	Fiscal	MFPT		
Armenia			*	*	
Brazil		*			*
Cameroon	*				
Chile	*				
Czech Republic			*	*	*
Egypt, Arab Rep. Of		*			
Estonia		*			
Finland			*	*	
Ghana			*	*	
Hungary	*	*	*	*	
Israel			*	*	
Japan		*			
Korea, Rep. Of	*				
Kyrgyz Republic		*			
Latvia			*	*	*
Mali		*			
Mexico			*	*	
Mongolia	*	*			
Philippines					*
Romania	*				
Sweden	*				
United Arab Emirates			*	*	
Uruguay		*			
Zambia		*			
Total	7	10	9	9	4

Source: Fund staff estimates.

1/ ROSC issued or completed and subsequent Article IV staff report completed between 3/1/01 and 2/28/02.
2/ Financial sector ROSCs cover banking supervision, securities regulation, insurance supervisory principles, and payments systems. There were 32 financial sector ROSCs.
3/ Corporate Governance ROSC modules for Brazil and the Philippines were prepared by the World Bank outside of the Financial Sector Assessment Program.

List of Documents Reviewed

Country	Title	SM #	Date
Armenia	Report on the Observance of Standards and Codes—Data Module	SM/02/3	January 3, 2002
Armenia	Staff Report for the 2001 Article IV Consultation and Request for Three-Year Arrangement Under the Poverty Reduction and Growth Facility	EBS/01/61	April 30, 2001
Brazil	Staff Report for the 2001 Article IV Consultation and First Review under the Stand-By Arrangement	EBS/01/212	January 3, 2002
Brazil	Report on Observance of Standards and Codes—Fiscal Transparency Module	SM/01/351	November 28, 2001
Cameroon	Report on Observance of Standards and Codes—Data Module	SM/01/168	June 13, 2001
Cameroon	Staff Report for the 2001 Article IV Consultation, First Review of the First Annual Program Under the Poverty Reduction and Growth Facility, and Request for Waiver and Modification of Performance Criterion	EBS/01/105	July 2, 2001
Chile	Staff Report for the 2001 Article IV Consultation	SM/01/185	June 25, 2001
Chile	Report on Observance of Standards and Codes—Data Module	SM/01/222	July 13, 2001
Czech Republic	Financial Sector Assessment Program—Publication of Detailed Assessment of Financial Sector Standards	SM/01/238	July 26, 2001
Czech Republic	Financial System Stability Assessment	SM/01/189	June 27, 2001
Czech Republic	Staff Report for the 2001 Article IV Consultation	SM/01/195	June 28, 2001
Czech Republic	Report on the Observance of Standards and Codes—Fiscal Transparency—Update	SM/02/217	July 12, 2002
Egypt	Staff Report for the 2001 Article IV	SM/01/303	October 4, 2001
Egypt	Report on Observance of Standards and Codes—Fiscal Transparency Module	SM/01/304	October 4, 2001
Estonia	Staff Report for the 2001 Article IV Consultation	SM/01/161	June 25, 2001
Estonia	Report on Observance of Standards and Codes—Fiscal Transparency Module	SM/01/170	June 15, 2001
Finland	Financial System Stability Assessment	SM/01/291	September 25, 2001
Finland	Staff Report for the 2001 Article IV Consultation	SM/01/288	September 21, 2001
Ghana	Financial System Stability Assessment	SM/01/177	June 19, 2001

List of Documents Reviewed

Ghana	Staff Report for the 2001 Article IV Consultation, and Third Review Under the Poverty Reduction and Growth Facility and Request for Waiver of Performance Criteria	EBS/01/88	June 14, 2001
Hungary	Financial System Stability Assessment	FO/DIS/01/52	April 20, 2001
Hungary	Staff Report for the 2002 Article IV Consultation	SM/02/128	April 30, 2002
Hungary	Report on Observance of Standards and Codes—Data Module	SM/01/142	May 3, 2001
Hungary	Report on Observance of Standards and Codes –Fiscal Transparency Module	SM/01/115	April 20, 2001
Israel	Staff Report for the 2001 Article IV Consultation	SM/01/214	July 9, 2001
Israel	Financial System Stability Assessment	SM/01/217	July 11, 2001
Japan	Staff Report for the 2001 Article IV Consultation	SM/01/221	August 1, 2001
Japan	Report on Observance of Standards and Codes—Fiscal Transparency Module	SM/01/207	August 29, 2001
Korea	Staff Report for the 2001 Article IV Consultation	SM/02/21	January 16, 2002
Korea	Report on the Observance of Standards and Codes—Data Module—Response by the Authorities	SM/01/355	November 29, 2001
Kyrgyz Republic	Report on the Observance of Standards and Codes—Fiscal Transparency Module	SM/01/342	November 14, 2001
Kyrgyz Republic	Staff Report for the 2001 Article IV Consultation and Request for Three-Year Arrangement Under the Poverty Reduction and Growth Facility	EBS/01/187	November 16, 2001
Latvia	Staff Report for the 2001 Article IV Consultation	SM/01/366	December 20, 2001
Latvia	Financial System Stability Assessment	SM/02/1	January 2, 2002
Mali	Report on Observance of Standards and Codes—Fiscal Transparency Module	SM/02/58	February 15, 2002
Mali	Staff Report for the 2001 Article IV Consultation, Third Review Under the Poverty Reduction and Growth Facility, Third Annual Program, and Request for Modification of Performance Criteria	EBS/01/204	November 30, 2001
Mexico	Financial System Stability Assessment	SM/01229	July 17, 2001
Mexico	Staff Report for the 2001 Article IV Consultation	SM/01/223	July 13, 2001
Mongolia	Staff Report for the 1999 Article IV Consultation, First Review Under the Second Annual Arrangement Under the Poverty Reduction and Growth Facility, and Request for Waiver and Modification of Performance Criteria	EBS/00/3	January 10, 2000
Mongolia	Report on the Observance of Standards and	SM/01/144	May 4, 2001

List of Documents Reviewed

	Codes—Data Module		
Mongolia	Report on the Observance of Standards and Codes—Fiscal Transparency Module	SM/01/329	November 8, 2001
Mongolia	Request for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility	EBS/01/166	September 18, 2001
Philippines	Report on the December 2001 Post-Program Monitoring Discussion	EBS/02/29	February 19, 2002
Philippines	Post-Program Monitoring	EBS/01/83	June 1, 2001
Romania	Report on Observance of Standards and Codes—Data Module	SM./01/321	October 29, 2001
Romania	Request for Stand-By Arrangement	EBS/01/175	October 17, 2001
Sweden	Report on Observance of Standards and Codes—Data Module	SM/01/274	September 18, 2001
Sweden	Staff Report for the 2001 Article IV Consultation	SM/01/257	August 15, 2001
United Arab Emirates	Staff Report for the 2001 Article IV Consultation	SM/01/233	July 19, 2001
United Arab Emirates	Financial System Stability Assessment	SM/01/292	September 26, 2001
Uruguay	Report on Observance of Standards and Codes—Fiscal Transparency Module	SM/01/84	March 6, 2001
Uruguay	Second Review Under the Stand-By Arrangement	EBS/01/164	September 21, 2001
Zambia	Report on the Observance of Standards and Codes—Fiscal Transparency Module	SM/01/325	October 31, 2001
Zambia	Staff Report for the 2001 Article IV Consultation and Third Review Under the Poverty Reduction and Growth Facility	EBS/01/178	October 24, 2001

Prioritization of ROSC Recommendations

According to operational guidance, a ROSC should contain "a list of prioritized recommendations for reforms to improve observance." It also says that "while the ROSC module can usefully indicate the likely timeframe over which recommendations can be implemented (short- medium- or long-term) it should also make clear what are the most critical reforms". In assessing whether every ROSC module in the review prioritized recommendations, reports were ranked according to the following criteria:

- A ranking of 1 or "highly prioritized" if five or less high priority recommendations were provided in the ROSC. Eleven ROSCs (or 17 percent) had "highly prioritized" recommendations.

- A ranking of 2 or "some prioritization" if recommendations were grouped as high, medium, and low priority or if six to ten priority recommendations were provided in the ROSC. Nine ROSCs (about 15 percent) contained recommendations with some prioritization.

- A ranking of 3 or "no prioritization" but the recommendations were split by time needed to achieve reforms (i.e., short-term versus medium-term). Twenty-seven ROSCs (about 44 percent) listed the priority in a short-term/medium-term framework without making it clear what are the most critical reforms needed to meet the standard.

- A ranking of 4 or "no prioritization" if there were over ten recommendations and no hierarchy of importance was assigned to addressing the recommendations. Fifteen ROSCs (about 24 percent) did not prioritize recommendations.

The results are shown in Appendix I, Table 4 where prioritized recommendations are defined as ROSCs with a ranking of 1 and 2.

ROSCs and Fund-Supported Programs

Of the 24 countries in the ROSC sample, there were 9 use of Fund resources (UFR) cases: six of the reports for these countries were combined Article IV/UFR reports and 3 were stand-alone UFR reports. These nine countries had 16 ROSC modules. Recommendations contained in 10 ROSCs were included as prior actions, structural benchmark, or structural performance criteria.[67] It should be noted that Fund-supported programs only respond to important vulnerabilities raised in ROSCs. Countries are not asked to come into observance with all elements of a standard or implement all the recommendations in ROSCs. This is consistent with the approach taken when weaknesses have been identified in the context of technical assistance.

The recommendations of fiscal ROSCs were most likely to be included in Fund-supported program. The stand-by arrangement for Uruguay included benchmarks on completing independent audits of a number of public sector financial and non-financial enterprises and to finish a study of quasi-fiscal operation of all public sector financial institutions—the results of which would feed into the second review of the stand-by. This study found that in one year quasi-fiscal operations in one bank represented over one percent of GDP.

There were also cases where recommendations of financial sector standards were incorporated into a Fund-supported program. The program for Ghana, for example, had performance criteria on (1) measures to eliminate central bank conflict of interest as a shareholder in banks and (2) the submission to Parliament of a revised central bank law to address, inter alia, enhanced operational independence, which related to recommendations of the country's Basel Core Principles (BCP) and Monetary and Financial Transparency Policies (MFPT) ROSCs that were carried out as part of the FSAP. However, other financial sector standard ROSCS carried out under Ghana's FSAP, that is, the IOSCO, IAIS, and CPSS modules, were not reflected in the Fund-supported program.

An example of corporate governance ROSC recommendations in a Fund-supported program could be found in the stand-by arrangement for Brazil. The arrangement included a performance criteria that the country complete a review of the difference between Brazilian and internationally-accepted practice for the use of external bank audits and the updating of regulations regarding the licensing of firms and individual to operate as officers of financial institutions, two areas covered in the corporate governance ROSC.

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[67] For a more comprehensive coverage of the extent to which ROSCs have influenced the design of Fund supported programs, see Assessing and Promoting Fiscal Transparency: A Report on Progress (SM/02/xx, Supplement 2, x/xx/02), *Review of the Fund's Experience with Data Module ROSCs* (SM/02/xx, Supplement 3, x/xx/02) and *Financial Sector Assessment Program: Review, Lessons, and Issues Going Forward* (SM/02/xx, x/xx/02).

IMF SURVEY OF THE PRIVATE FINANCIAL SECTOR'S AWARENESS AND USE OF INFORMATION ON STANDARDS SPRING 2002

A questionnaire was sent to major financial institutions in Asia, Europe, and North America. Responses from about 40 financial institutions were obtained, representing a large share of the major internationally active financial sector in the countries surveyed. The respondents included Canadian, French, German, Italian, Japanese, U.K., and U.S. institutions. The questionnaire and a summary of the responses appear below.

Financial Institution or Company Name:
Detailed description of company activity:
Name of respondent:
Location of respondent:
E-mail address and telephone number:
Specific job title/description of respondent (*please circle one or fill in the blank*):

accountant	commercial banker	corporate analyst
country risk rater or analyst	credit analyst	economist
financial analyst	investment banker	trader
treasury specialist		
other job description/title:		

If possible, please enter your answers electronically, either through editing this document by inserting additional space and your answer underneath each question, or by creating a separate document of answers that can also be returned by e-mail.

Q1. How do you take into account a country's record on transparency, financial regulation, and corporate governance when making investment, credit rating, or other financial decisions? If you do not factor these into your decisions, please explain why they are not relevant.

Q2. The IMF and the World Bank are assessing countries' implementation of standards and codes considered important for strengthening financial systems. Which of these areas of standards do you consider the most important to your risk assessments? Which do you consider the least important?

Q3. If you use information on standards in your work, please explain how it is relevant and how you might use it, including operationally.

Q4. If you use information on standards in your work, what are your current sources of such information? Have these changed over the past one to two years?

Q5. Are you familiar with the IMF-World Bank *Reports on the Observance of Standards and Codes* (ROSCs)? If so, has your use of ROSCs increased, decreased, or stayed the same over the past one to two years?

Q6. Do you use ROSCs in your investment, credit rating, or other financial decisions? Which ROSC reports—that is, on which countries and on which standards—are the most useful to you?

Q7. Please suggest ways in which the information ROSCs contain could be more useful to you. Would the fact that a country has undertaken a ROSC but not published the results color your credit or other financial judgment on that country?

Q8. Could you describe any private sector initiatives on international standards and codes of which you are aware?
(*For example, CalPERS (California Public Employees Retirement System, one of the largest U.S. pension funds) uses information on countries' observance of the Fund's fiscal and monetary and financial policy transparency codes. Another initiative is the e-Standards Forum, a subscription-based service that provides a summary of country compliance with standards.*)

Q9. How do you use, or how could you envisage using, private sector information on countries' observance of standards? What are your views about private versus public (official) sector information on a country's record on transparency, financial regulation, and corporate governance?

Q10. Please comment on any developments or events in the financial, corporate, or country economic sectors over the past year that have highlighted the roles of transparency, financial sector regulation, and corporate governance in your specific business area.

Table 1. Quantitative Summary of Responses to Selected Survey Questions [1/]

Question	Respondents					
	Japan 2/ (consolidated)	United Kingdom 2/ (consolidated)	All respondents, excluding Japan and UK 3/ (36)	Europe (23)	New York 4/ (11)	Canada (2)
Is information on transparency, financial regulation, and corporate governance used in financial decision-making?	Yes	Yes	97%	100%	100%	50%
Is information on standards used directly in risk assessment?	Yes	Yes, but extent of use varies widely	67%	65%	73%	50%
Is the institution aware of ROSCs?	Yes, but limited	Yes	83%	74%	100%	100%
Does the institution use ROSCs directly in risk assessment?	No	No	58%	56%	73%	0%
Is the institution aware of private sector initiatives on standards and codes?	No	Yes	42%	35%	64%	0%

Source: Fund staff estimates.

1/ The percentages refer to the proportion of affirmative responses among total respondents. The number of institutions surveyed appears in brackets under the country name.
2/ The Japanese and the UK members of the former Financial Stability Forum Working Group network surveyed, respectively, 98 Japanese and 5 UK financial institutions and prepared qualitative consolidated responses.
3/ Because the Japanese and UK responses were reported to staff in a qualitative form, they could not be included in the quantitative summary
4/ Ten individual major international financial institutions headquartered in New York were surveyed. In addition, a consolidated response was prepared for a number of other major institutions that attended an informal meeting with IMF staff on their use of standards and codes.