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Concluding Remarks by the Acting Chairman
Financial Sector Assessment Program—Progress Report
Executive Board Meeting 99/115
October 15, 1999

Executive Directors welcomed the opportunity to discuss the Financial Sector Assessment Program (FSAP) and to assess the early experience to date during the pilot period. They commended the staff of the two institutions on the useful set of documents for the discussion, which they recognized as essentially in the nature of work in progress that highlights the range of substantive and operational issues arising in this exercise. Directors recalled the support for the program provided by the International Monetary and Financial Committee (IMFC) and the Development Committee in their fall 1999 communiqués. They agreed that the program has an important role to play in bringing considerations of financial system stability further into the core of the Fund's Article IV surveillance of member countries, although we will need to give careful further consideration to the modalities for doing so. In this regard, Directors noted that the program would support an improved dialogue with national authorities on financial system strengths and vulnerabilities, and assist them in identifying the key steps required to strengthen their financial systems, and thereby reduce the likelihood of financial sector problems. Directors generally agreed with the objectives and components envisaged for the FSAP, as well as for the Fund's Financial System Stability Assessments (FSSAs).

Directors welcomed the continued strengthening of collaboration with the World Bank in financial sector work. Reliable assessments of strengths and vulnerabilities and the development of a common platform for policy responses and technical assistance will improve the design and delivery of support by both institutions for the strengthening of financial systems, and will also aid in making the most effective use of scarce expert resources. Directors looked forward at the time of the review next spring to further assessment by Bank and Fund staff on the experience with the enhanced collaborative process, including any difficulties encountered, the optimal division of labor in this area, and the extent of resource savings achieved.

In reviewing the procedural aspects of the FSAP, as well as of the Fund's FSSAs, Directors noted that the proposed coverage of the program is very wide, and thus has the potential to be resource intensive, for national authorities as well as for the Fund and the Bank. They, therefore, strongly encouraged the staffs of the two institutions to be selective in focusing their work on the key issues in each country that are necessary for an assessment of systemic strengths and vulnerabilities. Several Directors suggested that an added focus of financial sector assessments should be national authorities' efforts to combat money laundering. In the case of developing countries, where implementation of standards and other codes is still in its early stages, the FSAP could emphasize the development of the financial system and identify technical assistance needs. Several Directors also attached importance to the provision of technical assistance to help countries address the weaknesses identified in the financial sectors, while recognizing the limited pool of experts in some of these areas.

Some Directors considered that, in practice, there could be a trade-off between carrying out an assessment of systemic financial sector strengths and vulnerabilities in a cost-effective manner and assessing in detail the degree to which a country is observing or implementing the full range of international standards and codes of good practice. Other Directors, however, saw a considerable degree of complementarity—rather than trade-off—between these objectives, and suggested that the FSSAs could be incorporated into relevant transparency reports, while being mindful of confidentiality concerns. Directors generally agreed that decisions on which standards and codes should be assessed during an FSAP should be made on a case-by-case basis, taking into account the degree to which transparency and compliance issues are key to the assessment of strengths and vulnerabilities.

Given the comprehensive and technical nature of the assessments involved under the FSAP, Directors welcomed the cooperative nature of the program, which brings together experts from various national and international agencies in undertaking expert assessments and providing "peer review" of compliance with standards, and they appreciated the support from these agencies. They urged that further attention be given to addressing confidentiality and secrecy concerns related to outside experts, noting that this could encourage greater country participation.

Directors also recognized that specific confidentiality issues arise in respect of the FSAP, in large part because of the necessity in country work of obtaining and evaluating sensitive information, including that on individual financial institutions, in order to carry out effective assessments. They emphasized that strict arrangements to preserve the confidentiality of such information are essential, and they welcomed the prospective introduction of a protocol to address confidentiality issues. Several Directors emphasized that the authorities should have the opportunity to review draft FSAP reports and to indicate their preferences as to the wider circulation of the reports—including possible publication. On a related issue, a number of Directors underscored that confidentiality concerns should not preclude the Executive Board from having an opportunity to review the FSAP documents and from being made aware of the main vulnerabilities in a country's financial sector—given the central importance of such information for Fund surveillance. Clearly, we have before us a range of related issues on confidentiality, and we will need to reflect further on how best to take account of these diverse considerations.

Directors agreed that it would be desirable to include, on a voluntary basis, a range of countries in the FSAP pilot, with a wide regional representation and differing financial system characteristics. However, with an eye to resource considerations, a number of Directors suggested that—as for the Fund's work on standards—FSAPs be conducted first and foremost for those countries where such work is most needed for strengthening of surveillance.

Directors also noted that resource constraints may imply that FSSAs could be prepared only once every five or six years for each member country. Although a few Directors expressed reservations about directly linking FSSAs with Article IV consultations, many others called for the Fund to ensure adequate follow-up and monitoring of financial sector stability assessments in the context of the annual Article IV consultations. While generally supporting such an approach, some Directors underscored, nevertheless, that it was important to have regularly updated information, as the financial sector's situation could change significantly, even within a short period. Directors asked the staff, taking into account these various considerations, to examine further how to incorporate financial sector assessments more systematically into annual Article IV consultations.

Directors took note of the assessment of resource implications included in the staff report. They considered that it would be premature to draw conclusions at this stage, owing to the limited number of assessments that have taken place, and they proposed to review the resource implications in more depth at the end of the pilot period. Directors recognized that the FSAP is likely to be very resource intensive for both the Fund and the Bank if the program is to cover the entire membership with a reasonable frequency. They, therefore, emphasized the importance of selectivity, as noted above, with regard to both the choice of key issues and the choice of countries, but stressed the importance of including a broad cross-section of countries in the exercise. Resource savings could also be achieved through greater collaboration with agencies and the avoidance of duplication of work. The staff should also be mindful of the need to avoid overburdening the often limited resources of national authorities. To this end, they suggested that, to the extent possible, the preparatory work be undertaken prior to missions going into the field.

To conclude, I believe that this has been a most useful preliminary review of this exercise. Directors have made a number of thoughtful comments and suggestions that the staff and management will consider carefully—in consultation with other institutions and national authorities—in going forward with FSAPs and FSSAs. Overall, it is my sense that Directors see the FSSAs as developing into an integral component of the Fund's activities in the financial sector, especially in the context of surveillance. They have approved the initial procedural arrangements in the Fund, as indicated in the supplement to the staff report. It will be important to undertake a further review of the experiences with the program as a whole and its resource implications, drawing also on the reactions of the pilot countries, toward the end of the pilot period. By that time, we will be better placed to consider further the suggestion of several Directors that a report be prepared for the spring meeting of the IMFC.