

FOR
AGENDA

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To: Members of the Executive Board

From: The Secretary

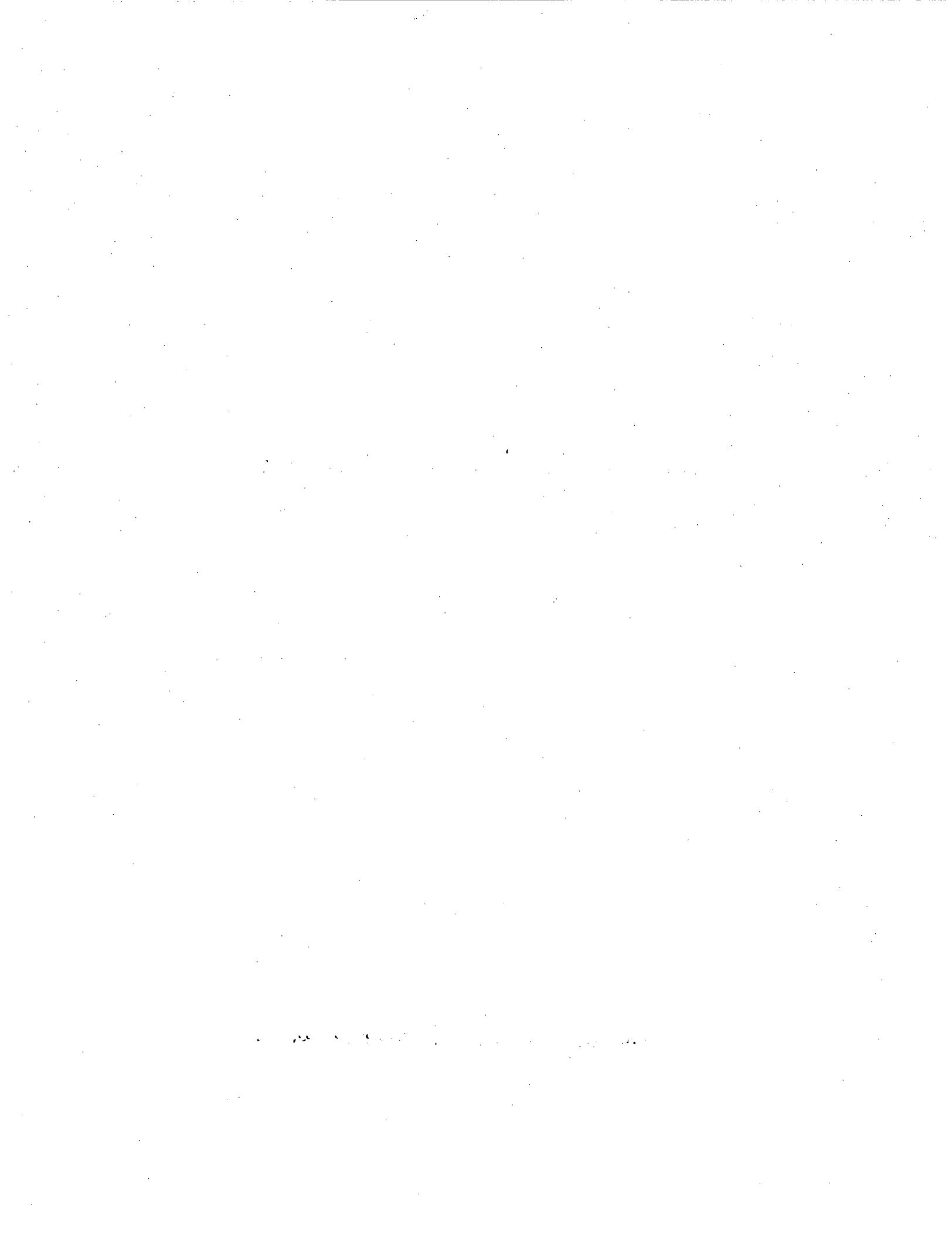
Subject: **Financial Sector Assessment Program (FSAP) and Financial Sector Stability Assessments (FSSAs)—Initial Procedural Arrangements in the Fund**

The attached supplement outlining initial procedural arrangements in the Fund for the Financial Sector Assessment Program (FSAP) and the associated Financial Sector Stability Assessments (FSSAs) has been prepared as background information. This supplement, together with the paper reviewing progress with the FSAP (SM/99/226, 9/13/99), will be brought to the agenda for discussion on a date to be announced.

Mr. V. Sundararajan (ext. 38573) and Mr. Leone (ext. 38628) are available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

Other Distribution:
Department Heads



INTERNATIONAL MONETARY FUND

Financial Sector Assessment Program (FSAP) and Financial System Stability Assessments (FSSAs)

Initial Procedural Arrangements in the Fund Supplementary Information

Prepared by the Staff of the Monetary and Exchange Affairs Department

Approved by Stefan Ingves

September 13, 1999

As part of the Article IV process, the Fund staff will prepare a Financial System Stability Assessment (FSSA) report for a country which will focus on the linkages between financial system developments and macroeconomic outcomes in the context of Fund surveillance, and help contingency planning, program design, and technical assistance. FSSA reports will be based on the Financial Sector Assessment Program (FSAP) reports which are prepared jointly with the World Bank, but they will differ in that they will contain less specific institutional information and will instead focus on financial system issues of significance for macroeconomic performance and policies. The FSSA report will be approved jointly by the directors of the relevant area department and the Monetary and Exchange Affairs Department (MAE) and will become part of the Fund's staff papers presented for Board discussion. Unlike the FSAP report, this Board report will be solely a Fund document.

A set of operational procedures has been developed for the integration of FSAP mission findings into the Article IV process through the FSSAs. These procedures, as applied in the Fund and approved by Fund management, are outlined below. Assuming that the FSAP moves beyond the pilot stage, the aim is to refine and extend the procedures to reflect the experience from the pilot studies.

- The managements of the Fund and the Bank have agreed on a joint financial sector assessment program (FSAP) to be conducted on a pilot basis in the context of the Fund's Article IV surveillance. In connection with this program, missions will be fielded consisting of financial sector economists and specialists, and with the participation of the Fund's area department, and other departments, as needed. These missions should normally precede the Article IV missions. FSAP missions will be led by senior staff from either the Fund or the Bank, with a deputy drawn from the other institution, except in industrialized countries, where the Fund will be solely responsible. The team will include MAE and World Bank staff, and experts drawn from national central banks and financial agencies, as needed.

- For joint missions, terms of reference will be prepared jointly with the World Bank. The terms of reference will be circulated for comments within the Fund and the Bank and will be cleared jointly by the Director of MAE in the Fund and the Vice President for Financial Operations in the Bank. In the Fund, the terms of reference also will need to be signed off by the relevant area department, and sent to management for information. The terms of reference will include a standardized text regarding coverage of the mission and should also seek to identify priority issues and the broad lines of recommendations.
- An aide-mémoire containing preliminary assessments and recommendations will be prepared in the field and left with the authorities, subject to review at headquarters when missions return. In addition, a draft report will be prepared that will be reviewed by other relevant departments within the Fund and by relevant units of the Bank. The draft report will be discussed with the authorities during the Article IV mission. An MAE staff member will join the Article IV mission to participate in these discussions. In addition, a World Bank staff member may also participate.
- The conclusions of the draft report of the FSAP mission will feed into the briefing paper for the Article IV consultation discussions. This briefing paper will be subject to the normal clearing process within the Fund and will flag the implications of the FSAP mission report.
- After the conclusion of the Article IV mission, the report will be finalized as a joint IMF/World Bank staff report to be reviewed by the area/region and other relevant departments in the Fund and the Bank, cleared by the Director of MAE in the Fund and the Vice President for Financial Operations in the Bank, approved by managements of both institutions, and transmitted to the authorities. This will be a confidential report.
- Also, after the conclusion of the Article IV consultation discussions, MAE staff in collaboration with the area department concerned will prepare a Financial System Stability Assessment (FSSA) report, which will be based on the final FSAP report sent to the authorities, but will delete certain market sensitive information. The FSSA report will be approved jointly by the directors of the relevant area department and MAE and will become part of the IMF staff papers presented for Board discussion. This Board report will be a Fund document (not a joint Bank-Fund document), but will acknowledge Bank staff contributions.
- The key appraisals and recommendations of the FSSA report will be included in the Staff Report for the Article IV consultations.
- These procedures will be reviewed within a year on the basis of the experience gained in conducting these assessments in a group of pilot countries.