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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 01/10

10:00 a.m., January 29, 2001

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Decisions Taken Since Previous Board Meeting

Executive Board Attendance

E. Aninat, Acting Chairman

Executive Directors	**Alternate Executive Directors**
S.M. Al-Turki	A.S. Alosaimi
A. Barro Chambrier	D. Ondo Mañe
T.A. Bernes	P. Charleton
	K. Ongley, Temporary
	W. Szczuka
	W.-D. Donecker
	G. Schlitzer, Temporary
D.I. Djojosubroto	Low K.M.
V.L. Kelkar	
	S. Zádor, Temporary
	Å. Törnqvist
	J.M. Abbott, Temporary
J.-C. Milleron	B. Couillault, Temporary
	M. Daïri
A.V. Mozhin	
	F. Varela
	M. Walsh, Temporary
M. Portugal	
C.D.R. Rustomjee	
A.S. Shaalan	A.F. Al-Faris
Wei Benhua	
J. de Beaufort Wijnholds	Y.G. Yakusha
	H. Toyama
A.G. Zoccali	G.R. Le Fort

A.S. Linde, Acting Secretary
Z.R. Ahmed, Assistant
N.M. Hairfield, Assistant

Also Present

ECB: H. Hatanpaa. IBRD: A. Bhattacharya, P. Bermingham, A. Peuker, Poverty Reduction and Economic Management Office. Asia and Pacific Department: Y. Horiguchi, Director; A. Singh, Deputy Director, R.A. Elson. L.E. Molho, C.M. Towe. European I Department: R.A. Feldman. European II Department: P.M. Keller. External Relations Department: M.W. Bell, W.W. Camard. Fiscal Affairs Department: T.M. Ter-Minassian, Director; P.S. Heller, Deputy Director; M. Cangiano. Legal Department: W.E. Holder, Deputy General Counsel; P. De Boeck, S.C. Ho, H.W. Krull. Middle Eastern Department: A. Jbili. Monetary nd Exchange Affairs Department: S. Ingves, Director; V Sundararajan, Deputy Director; S. Geadah, M.B. O' Brien. Policy Development and Review Department: J.T. Boorman, Director; M. Allen, Deputy Director; L. Aylward, N.R.F. Blancher, S. Dodzine, R. Glennerster, J. Hicklin, D.G. Jones, G.R. Kincaid, Y.A.. Metzgen, A. Matzen. Research Department: M. Mussa, Economic Counsellor and Director. Secretary's Department: S.J. Anjaria, Secretary; S. Bhatia, L. Hubloue, T. Turner-Huggins. Statistics Department: R.G. Di Calogero, C.H. Dziobek, C. A. Enoch, C. Liuksila. Western Hemisphere Department: C.A. Paiva. Office of the Managing Director: A. Bauer, E.-A. Conrad, N. Sachdev, S. Sheybani, T. Wolde Semait. Advisors to Executive Directors: M. Beauregard, M.P. Bhatta, P.R. Fenton, A. Fidjestøl, O.A. Hendrick, O. Himani, N. Jadhav, M. Kabedi-Mbuyi, Liu F., J. Milton, S. Rouai, C.-P. Schollmeier, M.R. Shojaeddini, S. Thiam. Assistants to Executive Directors: A.S. Al Azzaz, S. Alcaide, S.A. Bakhache, S. Bonomo, J.G. Borpujari, G.M. Campos, M. di Maio, S.N. Kioa, E. Kornitch, T.-M. Kudiwu, R. Manivat, J. Nelmes, P.A. Nijsse, S. Riach, A.Y.T. Wong.

1. ASSESSING IMPLEMENTATION OF STANDARDS—A REVIEW OF EXPERIENCE AND NEXT STEPS

The Executive Directors considered a staff paper on assessing the implementation of standards—a review of experience and next steps, prepared by the staffs of the Fund and the World Bank, along with background papers on Reports on the Observance of Standards and Codes (ROSCs), and Corporate Governance Modules for India, Malaysia, Republic of Poland, and Zimbabwe (SM/01/11, 1/12/01; Sup. 1, 1/17/01; and Sups. 2-5, 1/19/01).

Mr. Callaghan and Ms. Ongley submitted the following statement:

As early proponents of the ROSC exercise, we are encouraged by the findings outlined in the papers. The case studies to date have clearly been valuable and have provided a wealth of lessons to help guide the future direction of the ROSC exercise. It is on that issue that we focus today.

Looking ahead, it is perhaps useful to keep in mind the broad objectives for conducting ROSCs and implementing standards—namely the maintenance of macroeconomic and financial stability. Developing standards and codes provides a guide for policymakers and assessments of a country's observance of standards should help policymakers identify weaknesses and vulnerabilities. In addition, public assessments of observance should facilitate the market's assessment of the risks associated with investing in that country, and as such can provide "market discipline" with respect to the adoption of appropriate economic policies. It is, therefore, not just the information that assessments provide which is of interest, but the impetus they give to implementation. This provides a useful reminder. Assessments of observance of standards and codes are not an end in themselves, but rather a means to an end. In line with this, the staff papers focus appropriately on how best to bring the results of ROSCs—and standards assessments more generally—into Fund surveillance, program design, and provision of technical assistance. These, of course, all have the same end objectives.

Before turning to the specific issues for discussion, we believe it appropriate to clarify the status of this 'experiment'.

To date, ROSCs have essentially been conducted on a 'trial' basis, which implies that, depending on the results of these trials, we may not continue with work on standards and codes. It may be valuable to clarify what is the 'experimental' nature of this work. The Fund's assessment of policies and practices against certain benchmarks or standards is not a new development. It is noted in paragraph 23 of the main paper that some mission leaders found it difficult to measure precisely the contribution of ROSCs to surveillance in the short term, because in many instances the staff have already been addressing some of the issues on an ongoing basis. In many ways, the ROSC is just a different way (albeit more detailed and focused) of advancing what the Fund has always been trying to achieve—sound economic policies/economic stability. We should not think that we are still experimenting whether the Fund should be involved with standards and codes nor should we see the ROSC exercise as a new dimension to the Fund's activities, but rather a change in the degree and mode of approach.

At the last Board discussion on ROSCs, it was agreed that case studies conducted over a longer time frame would provide a more solid basis for evaluation. We think we are now at that point and we have in front of us clear operational proposals for the future. The standards we assess and the modalities by which they are assessed will necessarily evolve over time as we gain greater experience, but perhaps we should no longer refer to our work on standards and codes as an experiment. ROSCs have become a firmly established feature of our work plan.

We support fully the selective approach to the selection of standards and elements of individual standards that the Fund will assess, with due reference to individual country circumstances. Further, we support the Fund's stance in resisting the private sector's preference for simple country ratings. We therefore are in broad agreement with the approach outlined in Box 2, although there are a number of aspects that we regard as essential and would emphasize.

We place particular importance on the voluntarism of the ROSCs. This will help impose a discipline on the Fund to ensure that ROSCs add value and, to the extent this occurs, provide a clear incentive for members to participate in a ROSC. The quality and consistency of the information in a ROSC is paramount to the integrity of, and participation in, the process. If the quality of the information released is at all suspect, it will not only bring into question the integrity of the Fund, it can do measurable harm to the prospects of the country concerned.

With ROSCs, and individual standards reviews, we have underscored the importance of avoiding a pass-fail approach. What is important is to be adaptable and avoid a checklist approach to assessing a country's performance against any given standard, but rather to provide a descriptive commentary of where a country lies in terms of implementing that standard. The choice of standards to be assessed is crucial, not only in terms of ensuring that they are relevant to the member's stage of development and circumstances, but also in terms of ensuring that resources are deployed towards the Funds core responsibilities.

We will return to one or two of these issues in the context of exploring the links with surveillance, and ownership and participation.

We have no objection with the list of standards and codes identified in Box 3. We were, however, somewhat surprised that more weight was not given to the parallel work of the Financial Stability Forum in developing its list of 12 core standards.

Importantly, the list draws the distinction between those standards that are the responsibility of the Fund (group 1) and those that fall within the World Bank's bailiwick (group 3). Although the division of responsibilities is somewhat more gray in the areas of joint Fund/Bank responsibility in the FSAP exercise (group 2), it is imperative that ROSCs, which the Fund conducts and is directly responsible for, concentrate on its areas of core responsibility. This is not only in terms of the resource intensive nature of ROSCs, but in order to preserve their quality. There is a reasonable probability that any new standards will be outside the IMF's core mandate (e.g., e-commerce), which would require external resources, expertise, and additional coordination.

As we move forward, there is a need to ensure that standards continue to be appropriate and there are clear lines of responsibility. While standards implementation should have primacy, it is perhaps also important that the ROSC process not become slavishly devoted to implementation, and that there continues to be the questioning of the appropriateness and ongoing relevance of individual standards. We would therefore favor a review of this list in two years (in addition to the consideration of FATF's 40 recommendations in the upcoming joint paper). But this should focus on the appropriateness of the various standards, rather than simply being seen as an opportunity to expand the list.

A related issue is access by industrial countries to standards assessments within the Bank's mandate. While we would not want to preclude this and agree that staff should consider options to allow this, it would seem a lower priority given the scarce resources and likely relatively greater needs of other members for assessments in these areas.

When undertaken efficiently, ROSCs should be able to make a positive contribution to Fund surveillance. ROSCs provide a mechanism or framework for a more detailed assessment of policy issues which should be central to surveillance and option 2 proposed by staff would seem an appropriate way to facilitate that. But what does this mean in practice for ROSCs and for surveillance?

At first glance, the universality of surveillance may seem to be at odds with the notion of voluntarism for ROSCs. In fact, at times, the paper gives the impression that the link with surveillance implies de facto compulsory participation in ROSCs, both across the membership and across the range of standards. We were therefore particularly pleased to see the clarification in

Box 4 that "like economies would need to be treated alike, but not all economies would be treated identically, as the standards relevant to individual countries would differ over time as their economic circumstances change". This is in keeping with a principle spelt out by this Chair and some other Directors during the August 1999 external evaluation of Fund surveillance. That is, that allowing flexibility and judgment as to the relevant issues on a case-by-case basis, does not raise a uniformity of treatment issue. The key is to ensure that members meet their obligations under Article IV, not to undertake an identical number and types of standards assessments.

For those countries that choose not to participate, we should not automatically assume that non-ROSC surveillance will be insufficient. This is, after all, the status quo.

Presumably, there will be cases where a ROSC may not provide additional insights, or where the marginal benefits do not warrant the considerable additional costs. For these cases in particular, care should be taken not to place undue pressure on countries that have exercised their discretion not to participate in the ROSC process, especially by making surveillance overly reliant on ROSC modules.

But, of course, there will also be circumstances where a member may have substantially benefited from a ROSC. In this regard, likely weaknesses in the surveillance process could be identified in the Article IV report, much the same as we do with data or statistical limitations.

This raises an important issue that was not drawn out in the staff paper. The link between ROSCs and surveillance is not a one-way street. While ROSCs feed into surveillance, the reverse also applies. In addition to the criteria identified in the FSAP review for prioritization, the Article IV process, by identifying weaknesses, can play a useful role in identifying the need for ROSCs in particular countries and/or areas. This concept is alluded to at the end of Box 4, but we think it could usefully be made more explicit.

We are satisfied with the steps that have been taken to address concerns about ownership and process, and will be interested to see how these mechanisms play out in practice.

While we think the current pace of ROSCs is reasonable, it is likely that efforts to address ownership, participation, and understanding will provide a supply- rather than demand-driven response to the question of the appropriate pace.

Realistically, voluntarism means that not every member will undertake ROSCs in one or more of the eleven identified standards, at least in the short-term. Therefore, high quality and high credibility ROSCs will be particularly important in encouraging members' participation and thus the exercise gaining momentum.

As to whether this level of activity falls short of private sector expectations, we would make several points:

ROSCs should not be process-driven; if they do fall short of private sector expectations, presumably this will lead to mounting pressure on members to participate—that would seem a more appropriate means of determining 'output'; and a more thorough assessment of private sector expectations and the role that ROSCs play in meeting those expectations would be helpful; for example, if these needs could be met in part by periodic updates and/or self-assessments.

While we have no objection to the publication policy as proposed, we wonder whether there could be any perceived differences between ROSCs released with Article IV PINs and those issued as part of a quarterly cycle.

Another important issue we think needs to be kept in mind is giving national authorities the opportunity to respond to recommendations of the ROSC when it is published. In the past, we have advocated the desirability of providing authorities with this opportunity as it is consistent with the idea that a ROSC should be catalytic to policy improvements. We are therefore very supportive of the comments in the staff report regarding assisting in the preparation of authorities' action plans and cross-referencing these plans with the publication of ROSCs.

We agree with the desirability of a unified policy for the transmittal of ROSCs to external organizations in line with that currently applicable to Article IV documents.

Mr. Toyama made the following statement:

Assessing the implementation of international standards through ROSCs is an effective means of checking an institutional and operational framework of a country's economic management and its financial sector. Assessment by third party experts can produce professional and objective results, provide the assessed country with a basis for planning future reforms, and give market participants useful information for investment decisions, all of which eventually help the country in question gain or strengthen access to markets. It is true that we have yet to see a clear case for ROSCs' effectiveness in stabilizing a country's economic management and contributing to crisis prevention, partly because ROSCs completed to date only cover countries that have relatively good performance against standards, as pointed out by staff. I hope a widening of this coverage will empirically demonstrate the effectiveness of ROSCs.

In order for ROSCs to play their expected role to the fullest extent, it would be ideal to exercise assessment of all standards immediately following member countries' request to the Fund, and to continuously update them. However, to create ROSCs is resource intensive work. Given the limited resources available, it becomes prerequisite to solve various issues, including what countries should be given priority, what standards should be assessed, what modality should be taken, and how updating should be exercised in a way that would meet the Fund's goal as much as possible. For financial sector standards, almost half of the total ROSC numbers, assessment will be conducted through FSAPs. The Board meeting last December decided to increase the annual number of FSAPs to up to 30 and give priority to systemically important countries, among others. The remaining issues, therefore, are at what pace we should proceed with other standards and whether priority should be given to a particular group of countries for these standards. Considering a possible bias in the completed ROSCs, this chair thinks it appropriate to consider an efficient and effective modality only after we have had sufficient experiences with a wider coverage of countries in terms of implementation of standards. At this point we are not informed as to how many countries have expressed interest in participating in the ROSC assessment.

The modalities for preparing ROSCs shown in Box 2 B are appropriate as long as we can judge based on current available information. However, we should not hesitate to adopt a new modality flexibly when a more effective one is devised from experiences with a wider coverage of countries.

The list of international standards in Box 3 is appropriate in light of the Fund's goals of strengthening a member country's institutional and operational framework of macroeconomic management and its financial sector, and contributing to crisis prevention. However, it is very likely that other international standards increase their importance of the Fund's goals, along with the development of international financial markets and the change in the nature of risks. On money laundering, this chair can go along with the proposed work order that the pros and cons of a particular code, assessment methodology and assessors should be studied first jointly by the Fund and Bank staff. If the joint work concludes that the Fund—perhaps along with the FATF—should assess implementation of money laundering standards, however, we should not have to wait for the next review in two years, but add them to the list immediately.

The mitigating measures described in paragraphs 33, 34, and 36 are aimed at addressing concerns that international standards do not reflect the views of developing countries without compromising the integrity of the standards. When the recognition that compliance with international standards enhances macroeconomic stability of a country becomes prevalent, such concerns will recede spontaneously. With little empirical evidence, however, market response may not be mature enough. Accordingly, due consideration should be paid so as not to apply the standards in a mechanistic manner, as pointed out by staff. Mechanical application would only impair the standards' credibility. Meanwhile, it is essential to take a cautious approach in which the Fund would seek the authorities understanding of the significance of standards and encourage reforms in line with the country's economic situation and implementation capacity.

The approach in Option 2 is appropriate. While ROSCs expose institutional and operational facets of a particular country at the time of assessment, discussion on surveillance should deepen to the extent institutions and operations affect the macroeconomic performance or risks in the financial sector. Having said that, I cannot support any compulsory element in collecting information. The decision on how to manage a country's economy should be that country's responsibility. Whether to use ROSCs as leverage for reforms should be included in that responsibility. Once the recognition that ROSCs are effective to strengthen economic management becomes widely shared and the private sector attaches importance to ROSCs in evaluating the risks of a particular country, the Board, with little effort, can then reduce the frequency of recommending countries to take ROSC assessment.

The publication policy described in paragraphs 66 to 69 is appropriate. From the viewpoint of ownership, it is important that publication is voluntary. In order to maximize ROSC's achievements, however, publication is useful in that it would effect favor of investment decisions by the private sector to the extent it reduces the risk premium caused by shortage of information and gives leverage to the authorities' efforts for reforms. With an increase in assessed countries, ROSCs will be made known to the public. However, it is recommended that staff should take proactive actions to gain more recognition.

Since half of ROSCs are crafted through FSAPs, the Board decision to speed up the pace of FSAPs means a parallel increase in ROSCs on financial sector standards. Regarding other standards, a sensible approach would be to maintain the current pace for a while and when sufficient empirical evidence is accumulated, to step up to the next phase, where a newly devised, effective, and efficient modality, including an increased pace and prioritization of countries, is applied.

Mr. Shaalan and Mr. Himani submitted the following statement:

The initiative on the implementation of standards and codes undertaken by the Fund since the onset of the financial crisis in 1997 is maturing. Significant experience has been gained in the preparation of the Reports on the Observance of Standards and Codes (ROSCs), and the work of the Fund and Bank staffs has covered a wide array of countries as well as types of standards. This is therefore an appropriate time to take stock of recent experience and decide on the scope and direction of future work.

We can all agree that ROSCs have proven to be a very useful tool by assisting the authorities of individual members in assessing their compliance with international standards and codes, and in prioritizing work in those areas where weaknesses are detected. Staff draw out a number of useful lessons in this well written set of papers, and we find ourselves in broad agreement with the general conclusions. Based on the analysis, modalities for preparing ROSCs in the future are proposed in Box 2 of the main paper. These modalities, in our view, strike the appropriate balance between two key principles of the exercise, namely ensuring consistency and comprehensiveness in undertaking different assessments, and being mindful of the very important differences in the needs and priorities of different members. We also appreciate the staff proposals to allay some of the concerns of Directors, including this Chair, on the one-size-fits-all approach to the development and implementation of standards.

In reviewing the papers before us, it is important to bear in mind management's views on conditionality, including the all-important area of ownership, and on the need to focus the work of the Fund on core activities. We certainly share the views of management on these issues, and strongly believe that this institution can significantly increase its effectiveness by according importance to these views in policy formulation. Against this background, while we are in agreement with much of the staff analysis and conclusions, we have some concerns on a number of the issues raised in the paper:

First, we find that the paper places too much emphasis on ways to establish a formal—and mechanistic—link between assessments of compliance with standards and codes and Fund surveillance. Compliance with standards and codes and the preparation of ROSCs are voluntary. Surveillance, on the other hand, is an obligation for all members. While ROSCs can help inform surveillance discussions, we should not attempt to regularize the link. A formal link between the two exercises risks bringing some standards closer to being obligations for members.

Second, on a related issue, we are also particularly uneasy with staff arguments on the basis for the provision of information regarding standards by national authorities in paragraphs 37 to 39. To the extent that the compliance with standards is voluntary, and the assessment of compliance is a choice of individual countries, the authorities would presumably be prepared to provide all the necessary and relevant information to the Fund. Against this background, both Options 1 and 2, as presented by staff are, in our view, counterproductive. By requesting such information from all members, we would be treating standards as though they were obligations. We would therefore prefer an "Option 3," namely, maintaining the status quo, unless it can be shown that this latter option has shortcomings relative to either of the first two.

Third, although the paper pays attention to the very important question of ownership, we would place greater emphasis on the need to enhance ownership by encouraging self-assessments by countries, and ensuring that recommendations resulting from ROSCs are not used to further burden conditionality. This issue is particularly important at a time when management has argued for more streamlined conditionality. Ownership will be further enhanced when sufficient technical assistance resources are available to enable countries to improve their capacity to observe standards and codes.

Fourth, we appreciate the candid assessment of staff on the potentially very high resource implications of this exercise. This is not only true for the Fund and Bank, but also for the individual country authorities that have to provide the necessary staff to work with the Fund and Bank missions. Furthermore, each ROSC assessment would create resource demands into the future, as the Fund needs to provide follow-up assessments, and the authorities need to implement the recommendations. Against this background, and given the very high increase in the budget of the Fund in recent years, it is important for the Board to have an in-depth analysis and estimates of the totality of such costs, including the potential implications for technical assistance, before a decision is made on future work in this area. While we can certainly agree that the exercise has been beneficial for the membership as a whole, we need a clearer idea of the implications for technical assistance in capacity building and other key areas before we can agree on the proposals for both the direction and scope of future work.

Fifth, we find the formulation of a list of standards and codes useful for Bank and Fund operational work, along the lines of what is presented in Box 3, to be very appropriate. This is particularly important for the Fund, at a time when we are striving to refocus our work on the institution's core mandate. Group 1 includes the areas that are of relevance to the work of the Fund, while Group 3 clearly covers areas that are only of tangential relevance to the Fund. However, we have some doubts on the need to include the areas listed under Group 2 as priorities for the Fund. We can agree that the inclusion of such assessments in an FSAP may be useful. Clearly, however, it is not appropriate to devote scarce Fund resources for stand-alone assessments in these areas.

Sixth, we do not see the need to pursue staff suggestions for cooperation by the Fund and Bank with other institutions, such as the FATF, for two reasons. Cooperation itself is resource-intensive, and it is not clear that the quality or scope of the work of the Fund or Bank is being affected in any material way by the absence of such cooperation. Furthermore, the areas of the work of the FATF that are relevant to the work of the Fund are already covered by the Basle Core Principles. Other work of the FATF is related to law enforcement and other areas that are well beyond any relevance to the mandate and expertise of the Fund and Bank.

Finally, we are somewhat uncomfortable with the heavy emphasis being placed on the role of the private sector in this process, when the market impact of this exercise is not at all apparent. As staff note in paragraph 26, “there has been no measurable market impact on members so far.” Furthermore, “private sector representatives have indicated that a critical mass of ROSCs will need to be published, along with frequent updates, if they are to utilize them as fully as they would like to.” We do not feel it is up to the Fund to dramatically increase the production of ROSCs in order to satisfy some market participants. This will make the work of the Fund akin to that of a rating agency. Rather, the primary focus of the standards and codes exercise should be on assisting the authorities of individual member countries in implementing better policies.

Mr. Törnqvist and Mr. Fidjestøl submitted the following statement:

The assessment of the compliance of the legislation and supervisory practices with internationally recognized standards and codes is a valuable exercise given the strong ownership of the authorities. It provides a standardized framework for the formal assessment of the financial policies and, like stress testing, models should have a pivotal role in the policy discussions. The two countries in our constituency which have participated in this exercise so far, have found the considerable time end effort put into the exercise to be well invested, reflecting the very useful results which came out of the assessment.

The very essence of every standard and code is twofold: they should be introduced in laws and regulations; and these principles should be effectively implemented. Therefore, the assessment of the observance should focus on both the legislation and implementation. In this context, we agree that the assessment of standards and codes in isolation is not particularly useful; neither for purposes of the peer review, nor for the vulnerability analysis. The compliance analysis should look not only at the formal introduction but, even more, at the practical implementation of the principles.

While the application of all core principles is the end goal, the importance of separate principles may vary by country, and prioritization of the introduction and enforcement, in that respect, is essential. It might be much more important to implement some essential standards properly, and not to stress the speedy introduction of others, if the preconditions of effective implementation are rarely met and the standards concerned are not immediately critical, given the state of financial sector development or other conditions. This should also be reflected in the consequent action plan, where applicable. Naturally, that is highly dependent on the particular country concerned.

We agree with the modalities and priorities for ROSCs as set out in boxes 2 and 3 of the staff paper. As countries and financial markets evolve over time, a periodic review of the assessed standards and codes, and of the cooperation on these issues between the IFIs and the standard setting bodies, is warranted. However, the proposed list of the most useful standards and codes for the Bank and the Fund, as presented in the staff paper, is intended to cover the most relevant issues for financial sector stability. Furthermore, the list has also gained broad international political acceptance, e.g. in the Financial Stability Forum. In order not to undermine the credibility of the standards and codes selected for the list, frequent and substantial changes in the list should be avoided.

Another important standard is the FATF standard on money laundering. Implementing this standard is important for financial stability, since money-laundering activities undermine the confidence in a country's financial system.

As ROSCs are a joint Bank-Fund exercise, and available expertise is scarce, we can accept that Bank experts also prepare assessments for selected industrial countries. Furthermore, our understanding is that FSAP missions for industrial countries already comprise Bank experts so it would be consistent to also do so in the ROSC context.

We support option 2 as presented in box 4, as this is best related to surveillance and is based on voluntary participation and flexible periodicity. We also find that ROSC assessments provide useful information for the surveillance discussions, because they point to specific weaknesses that call for reforms.

Keeping assessments current by periodical updates is critical for them to remain useful. Therefore we support the idea of descriptive updates to ROSCs as a part of Article IV discussions.

The outlined voluntary publication policy seems appropriate. Also, the same publication policy should apply to ROSC updates. Especially, we encourage the posting of ROSCs to the Fund’s website as quickly as possible. The growing number of hits on ROSC modules is very promising, and providing timely reports can strengthen the positive trend. As a broader issue, all efforts should be made to increase the public interest and knowledge about the standards and codes, because this will put pressure on countries to improve their implementation.

We are in favor of adding to the publication package the authorities' views on an assessment as a right to reply. This would promote the authorities' ownership in the process and encourage the publication.

We have been in favor of a maximum of 24 FSAPs per year, which means that a member will be assessed every 7-8 years. As the current pace of preparing ROSC modules is in line with the FSAP frequency, we are reluctant to raise the number. As the staff paper states, the work on standards has significant resource implications. Accordingly, there is a need for more selectivity in the undertaking of assessments than under the pilot. Priority should be given to systemically important countries and the most vulnerable cases. The resource implications should also be addressed in budget discussions.

We expect the next assessment cycle to shorten as more experience is gained and initial assessments are completed. The Fund should also more actively use the potential of standard-setting bodies and other partners. In most cases, self-assessment is useful as a first step and some assessments could be made partially or fully on the basis of available information.

Finally, a question. The Supplement contains an interesting table on page 29. The interesting point is the difference in the number of hits between countries. Does this reflect differences in the comprehensiveness or clarity between the ROSCs for different countries, or does it reflect that certain ROSC-modules are more interesting than others? Comments from staff would be welcome.

Mr. Djojosubroto made the following statement:

In the past few years, there has been increased recognition of the important role standards play in strengthening macroeconomic management and capacity building with the ultimate aim of preventing a crisis. We thank staff for the concise paper on the review of experiences in the implementation of standards and their thought-provoking recommendations. We would like to underscore our continued support for the Fund's work on the development of standards. We believe this is an important area of the Fund's work to fulfill its mandate to promote macroeconomic and financial system stability. We would, however, like to make a number of comments with regard to the processes in ensuring wide acceptability of the standards amongst Fund membership.

As noted by staff, the purpose of standards is to "help national authorities in their efforts to strengthen domestic economic and financial sector policy frameworks, highlight potential vulnerabilities and provide information to enhance market discipline." The Fund's assessment of how well a country satisfies any of the standards is therefore not the ultimate test. Instead, the market would have to be the final judge as their investment and lending decisions would have to be based on their assessment of the strength of a country's economic and financial sector policy frameworks as well as the potential vulnerabilities. In short, the ultimate aim of standards should be to enable the market to make appropriate distinctions between countries and enforce discipline and accountability on a country's policy decisions. Any assessment of the usefulness of the standards that the Fund had developed is therefore not complete without a survey of market feedback on the value they attach to the standards in their investment and lending decision-making processes. We are therefore disappointed that the staff paper falls short of providing such an assessment, other than information on the public awareness of ROSCs and standards promulgated by the Fund. Given the extensive resources that have been channeled into developing the standards, they could end up being merely a theoretical exercise if in the end, the market finds that they serve little purpose in helping them "better discriminate between competing opportunities and thereby contribute to better-informed investment and lending decisions."

Following from the above, perhaps the ultimate "push factor" for countries to seek to progressively raise their level of observance of standards is the market discipline that can be exerted on them for their failure to observe particular standards. The force of market discipline can be far greater than any amount of official insistence. Perhaps this underscores why we should continue to maintain the voluntary nature of standards to encourage wider participation and ownership from Fund members. While the Fund has done excellent work in developing the standards, a country's level of observance of many of the standards is best assessed by the private sector. The private sector is in a better position to decide which particular standard or standards are important for a particular country, and this would be based on the scope of their investments in that country. What is critical in one country may be less important in another.

In the same vein, we question the proposed link between the implementation of standards and Fund surveillance activities. The implementation of standards is voluntary, while Fund surveillance is a mandatory obligation of membership. We believe the more logical linkage of the observance of standards would be with Technical Assistance, which would provide a far greater incentive for countries to volunteer for an evaluation of their observance of standards. Given its resources and expertise, the Fund would, however, be in the best position to provide or organize appropriate Technical Assistance to help a country identify and implement remedies to shortcomings that are considered important to the private sector.

Given the above, we do not see the need for either Options 1 or 2 as proposed in the staff paper. We do not think a strong enough case has been made to alter the status quo to allow for information relating to the observance of standards to be furnished as part of the Fund's surveillance activities. Staff has not indicated that in the ROSCs that had been undertaken so far, there had been difficulties in obtaining information from countries. As staff has noted throughout the paper, observance of standards is voluntary and it would be contrary to this principle if the observance of standards were incorporated in any way into the mandatory surveillance activities of the Fund. If such a linkage is established, we fear that the degree of ownership by countries on the observance of standards and hence their readiness to volunteer information to the Fund in this regard would be significantly compromised. As mentioned above, if the standards do indeed serve the purpose they were intended to, market discipline would be brought to bear upon countries that fail to observe those standards that are considered important by market participants.

With regard to the proposed list of standards in Box 3, we are in general agreement that it provides a rather comprehensive list of applicable standards that countries could pay attention to. We have no difficulties accepting those in Group 1, and to a limited extent those in Group 2, as those within the Fund's direct operational focus and should be covered in ROSCs and FSAPs. However, we wonder about the relevance of those standards listed in Group 3 to the Fund's core activities and in what way can the Fund contribute to their wider acceptance given the already scarce resources of the Fund. We would appreciate staff's comment on this.

On the more specific details of the implementation of ROSCs, we generally agree that the modalities outlined in Box 2 are appropriate. Participation in the exercise and publication of ROSC modules should continue to be voluntary; the choice of standards to be assessed and the sequence in which they are assessed should be based on the countries' circumstances, given their different stages of development and level of institutional capacity. Furthermore, preparing the modules in a collaborative approach would ensure the comprehensiveness of the report and better coverage and quality of the assessment in the ROSCs based on each institution's comparative advantage. Given the recognition that countries are at different stages of development and have different level of institutional capacity, we support the development of a multi-track approach that provides different options to reflect the different stages of development of different countries. This would go some way to address members' reservations of a "one-size-fits-all" approach. An example of this is in the area of data dissemination where a differentiation between the SDDS and the GDDS was made.

Having said that, however, we note that the SDDS was not only multi-track, but also multi-phases, as the set of indicators turned out to expandable. Countries were then faced with adverse repercussions if they withdrew from the SDDS because of the significantly more stringent obligations imposed upon them after they have agreed to participate. Also, it would be sending inappropriate messages to the market for a country to be judged to have met the standard initially and in a few years later, have that judgment overturned because of the incorporation of significantly more stringent obligations in the standard. We would appreciate it if staff can clarify whether any of the standards listed in Box 3 has a tendency to be “revised upwards,” i.e., more stringent obligations could be added to the standards in the future. We would also appreciate staff’s comment on how we could address the consequences to countries that already adopted the standards prior to the “revision” or “expansion.” While we should regularly update and enhance standards, perhaps it would be more palatable to incorporate such enhancements through the adoption of “version upgrades” rather than revising the existing standards themselves. Countries that are ready to adopt the “version upgrades” could be free to do so, but those that are not yet ready, could continue to be assessed by the “older version” of the standard.

The concerns that have been expressed by some members about the ownership, and direction of the work on standards are real and deserve appropriate remedies. We are encouraged that staff proposes to conduct research on the relationship between implementation of standards and macroeconomic and financial stability development. As noted above, we would be very interested to know how the market is incorporating the assessment of standards in their decision-making processes.

For fairness of treatment among countries, we agree that the industrial countries should also be assessed against standards for which the Bank is the lead. We would therefore encourage both the Bank and Fund staff to explore various possibilities for preparing assessments for industrial countries in areas within the Bank’s mandate.

On the transmittal policy for Fund Board documents in Appendix III, we would be grateful for staff’s explanation on the rationale behind the different transmittal schedule for the European Central Bank and the World Trade Organization when both are in the same category of institutions, i.e., those authorized to send observers to Board discussions.

Ms. Lissakers and Mr. Abbott submitted the following statement:

Taken together, the papers for today’s discussion make a compelling case that codes standards are, as we had hoped, steadily developing into an important foundation of the international financial architecture. There is a growing consensus that adherence to standards helps national authorities strengthen domestic economic and financial sector policy. The focus on standards is helping to highlight potential vulnerabilities, to enhance market discipline and to support crisis prevention. Having an international benchmark against which to evaluate country practices motivates national reform efforts. It also sharpens priorities and is spawning support for a broader technical assistance effort.

Assessments are an important component of the international work that is underway to foster adherence to internationally accepted economic and financial standards. The modalities for our ROSC assessments have developed rapidly and constructively. Certainly experience with ROSCs is still limited to a few countries and, within these countries, to a few participants. Markets have only recently begun to take on board the significance of the work in which we are engaged and the scope of the assessments that have already been completed. Indeed, area departments in the Fund do not seem to have fully internalized the significance of the work on standards and codes. There are still numerous issues and details that we need to sort out regarding how we go about our assessment work. All this said, however, we think the positive experience to date with standards and with assessments of standards justifies pushing this agenda energetically. We need to be judicious, but the record does not justify hesitancy.

Box 2 is generally acceptable as a baseline for the modalities for preparing ROSCs. Judgment is needed about which standards are relevant, about how particular standards should be interpreted in individual circumstances and about the quality of information. But a major effort has gone into trying to draft the standards themselves at a level of generality that would give them widespread applicability. Tailoring assessments to local circumstances should not imply that standards are reinterpreted country by country. Prioritized recommendations should be part and parcel of the assessment process if it is to support progressive improvements.

Box 3 covers 11 of the 12 standards that the Financial Stability Forum has identified as particularly important. We believe that it will be useful to add to this list, and issue ROSC modules on, the FATF 40 recommendations. The upcoming discussion of the joint paper on financial abuse will be an appropriate time for the Executive Board to consider this issue. Once the Board has reached a conclusion on how to incorporate the FATF 40 Recommendations in Fund and Bank work, the list in Box 3 could be amended to incorporate such decisions without waiting two years for the next review of the ROSC program. We understand this is the intention of staff, but we would appreciate confirmation.

Concerns about lack of participation in standard setting and about “one size fits all” are understandable, but the experience to date indicates that these concerns are being taken into account. Many of the standards already incorporate gradations of expectations or can be readily interpreted to incorporate local circumstances. Many of the standard setters have engaged in a broad process of outreach and consultation. This should continue as standards are reviewed and updated and implementation and assessment methodologies developed. The objective should be to set and adhere to, or exceed, high quality standards that have international applicability.

The issue of fair treatment between industrial and developing countries that is mentioned in paragraph 33 does not appear to have much operational significance. The Bank proposes to do about a half dozen assessments annually in each of the areas for which it has lead responsibility: accounting, corporate governance and insolvency regimes. If it will only be possible to do six of these each year, we believe priority should be given to the Bank's borrowing members. Extending these assessments to members of the IMF who do not borrow from the IBRD is an issue that can be reconsidered at the next biennial review of the assessment process. We support incorporating assessments more fully into the surveillance process. We agree that ROSCs as well as any updates, though voluntary, are effective means of preparing a structured assessment to help guide and inform the surveillance process. We believe the inclusion of ROSC modules in Article IV staff reports is a welcome development, as is the experimentation with Article IV mission teams updating ROSC modules. In furthering this effort, we believe the Board should encourage (Option 2 in paragraph 39) rather than require the provision of information as part of the Article IV process.

On the publication of ROSCs, we believe that the dissemination of information on countries' adherence to international standards, in and of itself, can be a useful market incentive. We agree with the suggestion in paragraph 68 that the intention should be to maximize disclosure and that publication should be allowed upon the completion of a module with the member's agreement and after prior notice to the Executive Board. Separate disclosure standards for different ROSCs strike us as bizarre. We do not understand why ROSC modules that arise from an FSSA should be withheld until the completion of an Article IV review. Any ROSC module should be published upon completion as long as the member agrees.

We believe that the current pace of assessments is a minimum; we should strive to increase the pace. To be valuable to market participants, and to the authorities themselves, information in assessments should be as current as possible.

We welcome the papers' emphasis on Bank/Fund cooperation. The day-to-day work of assessing standards has provided an experience base that is greatly expanding the collaborative capacity of the Fund and the Bank. The codes and standards initiative is a complex undertaking, requiring a broad range of talents not just from our two organizations but also from numerous other bodies. In this regard, we think it is worth highlighting the work of the Financial Stability Forum in energizing this initiative through its identification of the 12 key standards, by promoting greater outreach around the globe and by helping to shape incentives for wider adherence to high internationally accepted standards.

With respect to technical assistance, we support the suggestion in paragraph 61 that the activities of all TA providers be cataloged. Prioritization is important and the international community should concentrate its efforts on systemically important countries that are likely to exhibit the greatest potential vulnerabilities and development needs. We should also consider more fully the potential role of outside experts and the potential contribution of national regulatory or supervisory agencies from major countries. The suggestion in paragraph 59 that TA-based assessments be issued as ROSC modules and incorporated into Article IV reports can move this process forward.

The final product could be improved by providing a sharper focus on key priorities for the country being assessed. We agree that it would be inappropriate to assign "ratings." However, to best support national reform efforts and to be useful outside the official sector, reports should contain frank judgments by experts in the relevant fields.

We support the proposal in paragraph 69 to provide the Board (and the public) a quarterly wrap-up of modules that have been published. It would be useful for this report to recount briefly developments in the ROSC program itself, rather than just cite reports that have been published.

Further research into the relation between implementation of standards and economic and financial stability, as proposed in paragraph 34, will be important both for enriching our understanding of such relationships and for broadening ownership of the codes and standards initiative.

Mr. Daïri and Mr. Rouai submitted the following statement:

We continue to see a role for reliance on internationally agreed good practices to help members in the formulation of policies and in strengthening their credibility with market participants and the public at large. Access to reliable and timely information, transparency of the decision-making process, and implementation of sound regulatory and supervisory practices could go a long way in strengthening the resilience of financial markets to external shocks and preventing crises.

From the onset of Board discussions on this subject, it was agreed that adherence to standards should remain voluntary, that implementation should depend on members capacities and circumstances and that the Fund should support members' request for technical assistance to help in strengthening their capabilities in this area. It was also agreed that standards should not be used as a checklist against which members' performance should be assessed. In fact, in the early phases of our work in the area of standards and codes, the intention was to avoid involving the Fund in assessing members' observance, which was to be left to market participants. Moreover, there was no agreement that observance of standards and codes would be part of Fund surveillance or conditionality.

Our chair is satisfied with the overall progress achieved in producing ROSCs and by the result of the voluntary participation of some of our countries in this exercise. The lessons drawn by the staff from the review of experience are appropriate, and we can endorse them. In particular, we continue to favor the voluntary nature of the participation and the emphasis on differentiating between members on the basis of their stage of economic development and administrative capacity when selecting those standards against which members are to be assessed and when reviewing progress. We are satisfied with the range and diversity of participating countries and the level of modules produced and published so far. We agree that self-assessments can be valuable when carried out on the basis of a clear methodology. While it is useful to maintain consistency in ROSCs assessments and to ensure uniformity of treatment, this should not lead to one-size-fits-all approach or to overburdening members with limited capacities.

The ROSCs should not be viewed as an isolated exercise but must be considered as one of the elements of the new architecture of the international monetary system. As such, the ROSCs, like other initiatives including, the FSAP and the SDDS/GDDS are resource intensive both for the Fund and, more importantly, for national authorities. The need to coordinate between these initiatives and to adjust staff resources and the level of technical assistance should always be kept in mind when deciding on any of the elements of this architecture. Moreover, it is important to discuss with members the resource implication of the implementation of standards and monitoring of their observance.

We take note of the comments made by private sector users regarding the usefulness of ROSCs for their own risk assessment exercise. However, while we encourage the staff to continue this outreach program in order to raise the level of awareness, we caution against adopting "a faster pace of production and publication of ROSCs" simply to enhance the potential usefulness of ROSCs to the private sector. We need therefore to strike the right balance between the objective of improving the decision making in the private sector and achieving a smooth functioning of markets on the one hand, and containing the cost for the institution and its members, on the other. In any case, we agree with staff that assessments should not turn into "quantified" ratings, which should be left to private sector specialists. We are pleased to note that some private organizations have started to make their own standards assessments and hope that this could gradually reduce the burden on the Fund and the Bank.

We agree that the list of standards and codes in Box 3 is useful for the operational work of the Bank and the Fund. Group 1 (data dissemination, fiscal transparency, monetary and financial policy transparency, and banking supervision) are obviously at the core of Fund activities and we agree that they could continue to be assessed, on a voluntary basis, under ROSCs. Group 2 (securities, insurance, and payments system) could be assessed in the context of FSAPs, also on a voluntary basis and when they are of particular relevance for the conduct of macroeconomic policy. Group 3 (corporate governance, accounting, auditing, and insolvency and creditor rights) are clearly outside Fund's core activities and their assessment should be an issue to discuss between members and the World Bank.

We agree that this list should be revisited within two years, not necessarily to expand it but also, if warranted, to exclude areas where Fund/Bank assessments turn out to be of little relevance or usefulness to the membership or market participants. We are particularly perplexed by the indication that Fund/Bank staff have identified 60 areas of potential interest to the two institutions and we caution against a potential mission creep. We agree with staff that in the periodic review of the list, the main criterion for inclusion in the list should be the relevance to macroeconomic and financial stability. Some clarification of the proposed criterion of relevance to capacity building is welcome.

While we agree with the principle of reviewing individual standards, we cannot support the proposal to conduct such reviews outside the above-mentioned biannual review. Staff proposal would overburden the Fund at a time when we need more streamlining. Moreover, submitting standards to frequent reviews would significantly erode their credibility with members and market participants.

We share the concerns expressed by some Bank and Fund members regarding the ownership and direction of the work on standards. Participation of developing and emerging market members in development of several standards has been limited and even when they did participate they may have lacked the expertise or negotiating power to have their views taken into consideration. This further strengthens the case for safeguarding the voluntary nature of the exercise and allowing members to prioritize their efforts according to their particular needs and capabilities. Like Mr. Shaalan and Mr. Himani, we share the Managing Director's views on the need to refocus the Fund on its core activities, to streamline conditionality, and to enhance ownership. We do not support extension of conditionality to the area of standards and codes.

We do not support the general proposition that standards should inform surveillance; this proposition was included in the Umbrella Report of September 2000. We appreciate some clarification by staff on the context in which this proposition was agreed to by the Board. The linkage between standards and surveillance should be limited to inclusion in the staff report of

Article IV consultation of a general assessment of observance for countries that have adopted standards and that have requested Fund assessment under ROSCs or FSAP.

We are not in favor of adding to members' obligations with respect to provision of information for surveillance purposes to facilitate standard assessments. First, there is no indication of any reluctance on the part of members to provide information in the context of ROSCs or FSAPs. Second, the Fund could agree with members that have adopted standards and requested Fund assessment on the information necessary to make such assessments. Provision of information would be linked to the conduct of the assessment and not to the conduct of surveillance and there would be no need to change present policies with respect to the latter. Like Mr. Shaalan and Mr. Himani, we support neither of the two options proposed by staff and would be more in favor of maintaining the status quo under a so-called "option 3."

As highlighted by the IMFC, "Article IV surveillance promotes the appropriate framework within which to organize and discuss the implication of assessments of certain standards with national authorities." This view of the IMFC in consistent with the voluntary nature of the adoption of standards and codes without extending surveillance to this area. We understand it as indication that if assessments are to be discussed by the Board, such discussions are better undertaken in the context of Article IV discussion. Consistent with the voluntary nature of standard assessments and in order to avoid undermining members' ownership of the process, we do not support staff proposal for the Board to encourage members to seek the preparation of ROSCs or FSAPs.

On the operational modalities, and from our own experience, we do not encourage the preparation of the initial ROSCs during the Article IV consultation mission. The exercise is by itself very resources intensive, particularly from the authorities perspective. The Article IV vehicle should however be used when updating the ROSCs. In this case, the authorities should be approached prior to the Article IV mission to provide the necessary information so as to allow the staff to update the ROSC document. We need to realize, however, that if the ROSCs updates are to be made by area departments, there will be a need to provide them with the necessary staff and expertise.

Finally, we can support the staff proposal regarding publication and transmission of ROSCs documents and their updates.

Mr. Pickford and Mr. Walsh submitted the following statement:

We are grateful to the staff for these well written and useful papers. In our opinion, the papers provide a comprehensive and balanced assessment of experience to date with managing the assessment process for codes and standards. They also identify what we believe to be the key issues for the Board to address. Our comments are grouped under four main headings and cover the issues for discussion identified in the staff report: the modalities and coverage of codes and standards assessments; publication policy; the links between assessment and regular Fund surveillance; and the appropriate pace of assessment.

We welcome the staff's extensive review of the experience to date with the preparation of ROSC assessments and we share their positive analysis based on the three rounds of experimental case studies now completed. We strongly believe that the ROSC process should now be established as the permanent and principal tool for the preparation of assessments of observance of codes and standards. While ongoing efforts could and should continue to refine and strengthen where necessary the process, we see no reason for a fourth experimental round of assessments. Establishing the ROSC process on a permanent footing would, we believe, materially enhance the external credibility of codes and standards with market participants.

We agree that the modalities for the preparation of ROSC modules set out in Box 2 of the staff report represent a suitable organizing framework for current and future codes and standards assessments.

Facilitating effective prioritization according to individual country-specific economic circumstances and stages of development is a crucial part of the assessment process. We strongly agree on the need for consistent international standards which all countries should aim towards. But the approach taken by both the Fund and Bank in producing assessments of observance needs to recognize that the path to implementation will vary for different countries. In our view, the modalities described in Box 2 of the staff report under which assessments are based on a progressive, targeted and modular approach and are qualitative rather than based on simplistic pass / fail judgments, is an effective means of facilitating this. We also welcome the meeting that Fund and Bank management will host in March 2001 with representative members to explore some of the issues related to specific standards and the pace of implementation.

The assessment process must be comprehensive and cover the range of codes and standards relevant to macroeconomic and financial stability. The codes and standards identified in Box 3 are, we believe, an appropriate list against which members could be assessed. We support the staff's proposition that the main criteria for the inclusion of new standards should be their relevance to macroeconomic and financial stability and to capacity building. In this context, we believe that there could, in the future, be a good case for including the guidelines on debt and reserves management, subject to the outcome of the Board discussion of the guidelines. We also look forward to our forthcoming discussions on the IMF's role in Money Laundering, against the background of the Forty Recommendations of the Financial Action Task Force.

Effective external coordination between the Fund, the Bank and the other standard-setting bodies will be crucial in ensuring the efficient operation of the assessment process. We believe there would be significant advantages in the establishment of a regular mechanism for ensuring coordination between the Fund and the other relevant bodies on a range of issues including the experience with using certain standards and assessment methodologies and the mobilization of resources and expertise to carry out individual assessments. We would strongly support the staff considering a possible mechanism for ensuring that this coordination takes place on a regular basis.

To ensure that the modalities and coverage of the ROSC and FSAP processes remains appropriate we agree that the list of key standards and experience of collaboration with other institutions should be reviewed periodically by the Fund and Bank Boards. However, we believe that it would be appropriate for the Boards to consider this again much sooner than the bi-annual timetable proposed in the report. Instead, we propose a further review of these issues in time for the results to be reported to the Spring 2002 meeting of the IMFC.

Transparency of members' degree of observance of codes and standards is crucial to the effective operation of codes and standards. Enhanced disclosure of information can help to ensure that market participants are able to make informed lending and investment decisions and assist in delivering greater stability in international capital movements. We have the following specific points.

The report includes a number of helpful recommendations for increasing the level of disclosure and awareness of assessments within the current voluntary publication policy. In our view, several steps would be particularly welcome, including the application of ROSC publication arrangements to any future update notes, enabling the advance publication of all completed ROSC modules (including those derived from FSAPs) prior to the completion of Article IV discussions, allowing the publication of the detailed assessments of observance of codes and standards contained within FSAP reports.

We encourage the staff to maintain and build upon their existing efforts to enhance private sector awareness of the significance of codes and standards and of the modalities and coverage of the assessment process. We strongly support the proposal for more proactive notification of potential users of the publication of Fund-prepared ROSC modules and hope that this approach can be mirrored for those modules currently under production by Bank staff.

We agree with the staff's conclusion that it would be desirable to establish a uniform policy in the Fund and the Bank for the transmittal of all ROSCs to external organizations which should be based on the policy already agreed for Article IV documents.

One issue not addressed in the paper is that of transparency about transparency. We should consider whether it would be helpful for the Fund and the Bank to publish a list of all ROSCs that have been conducted.

Information on observance of codes and standards can play an important part in further strengthening IMF surveillance and in increasing its effectiveness as a tool for crisis prevention. We agree with staff that a member's implementation of identified standards is a material element of the general economic situation and economic policy framework of the member, and is therefore crucial to the conduct of comprehensive analysis for surveillance. We welcome the staff's proposals for how this information could be effectively linked into the Article IV process and broadly agree with the modalities of Option 2. We would emphasize the following points.

All Article IV reports should include a section containing details of observance of codes and standards. We agree that the appropriate coverage should correspond with the list of codes and standards set out in Box 3.

Where ROSC and/or FSAP information on a member's observance of codes and standards exists, this should be used routinely to inform Article IV surveillance. To ensure such information remains current, we agree that short updates could be prepared in the context of an Article IV consultation.

Where no such ROSC and/or FSAP information exists, the Article IV report and the associated PIN should routinely include, where appropriate, recommendations on areas for future assessment and should record the authority's intentions with regard to undertaking any such assessments in the future.

In our view, attempts to derive information on observance of codes and standards from sources other than ROSCs and/or FSAPs could provide a misleading picture of a member's true level of observance and risk undermining support and demand for ROSC and/or FSAP assessments. While we discourage this approach, we agree with staff that where appropriate Article IV reports could also record and comment on the results of any self assessment carried out by a member, provided staff had been able to conduct due diligence of the member's own conclusions.

Determining the appropriate pace of assessment is of critical importance given the implications for the level of private sector awareness of codes and standards and the degree to which information on observance can be used to inform and strengthen the IMF's surveillance function. We agree that maintaining the current level of ROSCs output is the minimum necessary to strengthen surveillance. However, we strongly believe that an increase in the pace of assessments by both the Fund and the Bank is desirable. While we accept that this would require a reallocation of resources to ensure delivery, we regard the need for broader coverage and greater periodicity in codes and standards' assessments as a high priority element of the IMF's work program. We believe this should be reflected in the forthcoming discussions of the Fund's budget.

Mr. Bernes submitted the following statement:

I welcome today's discussion. This is an area where there has been much important work, and it is a good time to take stock and chart a course for going forward. I would like to express our appreciation to staff for their significant efforts.

This statement is organized broadly along the lines of the issues for discussion.

We agree with the modalities set out in Box 2. We would emphasize in particular that participation in ROSCs should be voluntary as should be the publication of ROSC modules. Priorities in implementing standards should depend on country circumstances. We also support ensuring better coverage of quality issues, including efforts to investigate data quality.

The standards listed in Box 3 are relevant for the Fund's mandate and constitute the set of critical standards that all countries should endeavor to comply with over time, and against which the Reports on the Observance of Standards and Codes (ROSCs) (and Financial Sector Assessment Programs (FSAPs)) should be prepared. This core list of standards should help countries prioritize their implementation efforts and also guide the Fund and the Bank in the provision of technical assistance.

On collaboration, in principle I have no objection to extending formal collaboration in the preparation of ROSCs to other institutions besides the World Bank. Indeed, for the Fund to maintain its focus on standards relevant to macroeconomic and financial stability, such collaboration will likely have to be enhanced in some areas. Nevertheless, enhanced formal collaboration with institutions other than the World Bank brings up a host of important issues relating to coordination, process, and ownership.

The specific case of enhancing collaboration with the Financial Action Task Force provides good examples of some of the coordination and process challenges that can arise. First, some of the FATF 40 recommendations relating to law enforcement are not within the Fund's competency. Second, and perhaps more importantly, the FATF has a process that is tied very closely to negative incentives and threats of sanctions. It is clear that the Fund should not allow the credibility of its ROSC process to be used directly to bolster punitive indicatives of tertiary organizations. It also follows that outside institutions, such as FATF, should not be allowed to adopt complete ownership and control over the production of ROSCs. The Fund could not, therefore, simply invite the FATF to prepare a ROSC module on members without participating in a significant way. Finally, there are issues related to co-operation with the FATF regional bodies, such as the Caribbean Financial Action Task Force.

This does not mean, however, that the Fund should not move forward in devising a ROSC module related to money laundering and the FATF recommendations. In fact, I believe that for many countries, there would be real value-added in undertaking such an assessment led by the IMF, including the opportunity to publish the resulting ROSC. Issues of co-ordination will have to be thought through thoroughly, but once this has been done in a satisfactory way, like Mr. Toyama, I think that such a ROSC could be undertaken before the next review of the standards process.

On balance, therefore, I support the staff's proposals for considering how collaboration with outside institutions in the preparation of ROSCs could be taken forward. In particular, I look forward to the forthcoming paper on this topic.

I agree with a review of the list in two years. In addition to considering the relevance of new standards, the review should seek to weed out or modify existing standards that have not proven effective in reducing financial vulnerabilities. I also think it should be possible to modify the list in the interim, however, if the Board decides that it is desirable to do so.

We think that it is essential to promote widespread ownership of these standards. To that end, we welcome a framework for decision making centered in the Executive Boards of the Fund and the Bank. We also think that it is important to address the "one-size-fits-all" concern. Indeed, we thought there had already been important efforts in this regard such as making "good" rather than "best" practice the benchmark for some standards and by deciding priorities with due regard to country circumstances and keeping the country context in mind in the assessments. In any event, I hope that we will have a better appreciation for these concerns and how they might be addressed as a result of the meeting on standard setting to be hosted by the Bank and Fund in March. (We appreciate the difficulties of scheduling such events, but it would have been helpful to have held it before this Board meeting.) We also support staff's proposal to include the authorities' views on ROSC assessments as a right of reply—this should enhance country ownership.

In addressing the "one-size-fits-all" concern, we should not lose sight of the fact that for international standards to be effective they have to be applied with consistency across countries. This logic also suggests that modalities should be found to enable the Bank to prepare assessments for industrial countries for standards within its mandate.

We also see considerable merit in staff's suggestion to undertake more research on the relationship between the implementation of standards and macroeconomic and financial stability. Countries will be more willing to commit scarce resources to the implementation of standards if the evidence of a payoff is convincing. Similarly, this information can be used to inform decisions on whether or not to dedicate more resources to standards-related technical assistance (TA), relative to other areas of TA. And it will be more apparent to market participants that they should use ROSCs in their risk assessments. On this latter point, using a standard template for ROSC write-ups would make it easier for multilateral surveillance institutions and financial market participants to make cross-country comparisons and risk assessments.

Finally, there is also a need to promote ownership among area departments and mission chiefs. The agenda for Article IV consultations is becoming increasingly crowded and it is important to ensure that follow-up to ROSCs (and FSAPs) are accorded their appropriate place.

We agree with the approach described in Option 2 and that the relevant areas for surveillance are those listed in Box 3.

On the frequency of the preparation of ROSCs, as staff note, ROSCs have heavy resource implications for the Fund, the Bank and participating members. As a result, prioritization is essential. And we should bear in mind that a "one size fits all" approach may not be appropriate for individual standards. There are two dimensions to the question—how fast are countries policies changing and how fast are the standards changing. Some of the standards such as Fiscal Transparency and MFTP may change very slowly, and for these a review every 7 or 8 years may be appropriate. Other standards may change more quickly and a review every 5 years may be preferable as was decided in the case for the Board meeting on FSAPs. Priorities for stand-alone ROSCs (i.e., done outside of a FSAP) for the financial sector should be the same as for FSAPs. For the data dissemination standards, priority should be given to emerging economies—after all the SDDS is designed for countries that have, or intend to gain, access to international capital markets.

On keeping ROSCs current, there should be follow-up as necessary in Article IV consultations. In cases, where countries have introduced lesser changes, a simple description should suffice. However, in cases where serious problems have been identified and/or the country is engaged in a significant program of reform, the mission chief should request that "expert" resources be included in the team so that the staff report can provide an assessment as well as a description of the changes.

In countries that do not volunteer for a ROSC, the Fund still has a surveillance obligation for these areas. Other information sets should be used and in cases where the observance of standards is assessed to be poor, the Board should encourage the country to participate in a ROSC.

I agree with the proposals described in paragraphs 66-69. And I agree that ROSCs should be transmitted to other organizations on the basis of the same policy as for Article IV documents.

Mr. Mozhin and Ms. Kornitch submitted the following statement:

In our opinion, quite substantial progress has been achieved in the Fund in establishing and developing international standards as well as in working out modalities for assessing their implementation in the member countries. We welcome this opportunity to discuss the current stage of the pilot project and further prospects for the initiative, including its possible contribution to Fund surveillance, program design and TA provision.

We strongly support the collaborative approach adopted by the Fund and the Bank in the standards assessments work. We believe that cooperation between our two institutions in the field of international standards should be continued on the basis of taking responsibility and being accountable for the assessments in the areas of respective mandates of each institution. We do not oppose the view that other institutions could be also invited to collaborate in preparing ROSCs either to extend the range of standards covered or to ensure more effective country coverage for those standards currently assessed. However, we strongly believe that the Fund can only be involved in monitoring those standards that are directly related to its mandate and should refrain from extending its responsibility to non-core areas.

The Fund and the Bank have completed the three rounds of the experimental project of preparing the ROSCs for countries representing different stages of economic development and administrative capacity as well as different cultural and legal traditions. So far, our assessment of this experiment has been rather positive, as the usefulness of ROSCs for the Fund and the Bank, for member countries and for the private sector is evident. The modalities for preparing ROSCs adopted by the Fund and the Bank at an earlier stage have been working well and the value of the modular approach have been reaffirmed. Thus, we think that there is no need at this stage to change a general approach to preparing ROSCs. The main features of this approach should remain as they are described in the Box 2:

Participation in the ROSC as well as the publication of ROSC modules should be voluntary; the choice of standards to be assessed, and the sequence in which they are assessed should be based on individual country circumstances; assessing country ratings or pass-or-fail grades should be avoided; and the recommendations provided to the country in the context of ROSC should be prioritized taking into account country circumstances.

While it is right that the Fund and the Bank have attempted to avoid the “one size to fit all” approach, there is still some risk of insufficient response to specificity of a particular country while preparing ROSC. Thus, better understanding of institutional capacity and other country circumstances is required from the Fund and the Bank to ensure appropriate prioritization and greater selectivity in the choice of standards to be assessed. At the same time, the authorities’ views on an assessment can be reflected in ROSCs as a reaction to the assessment.

The information on progress in implementing standards is important for the Fund surveillance. In order to make ROSCs informative for the Fund surveillance, we support practices proposed by the staff under Option 2 and described in the Box 4.

We support the view that voluntary approach to publication of ROSCs should be preserved. The same voluntary approach should apply to any updates to the initial ROSCs.

Finally, we believe that there is no urgent need for the acceleration in the pace of implementation of the ROSC initiative in terms of broadening its coverage. The fact that the current pace may fall short of the expectations of the private sector is not a material argument, since the main purpose of the initiative is not to satisfy market participants, but to assist members in implementing better policies.

Mrs. Zádor submitted made the following statement:

The Fund has accumulated much valuable experience since its first steps in this area with the "Code of Good Practices" for fiscal, monetary, and financial policies. This was the beginning of an international effort by the Fund, the World Bank, and many other financial institutions to establish universal standards, which by now has produced and tested "standard modules" covering 11 different aspects of the financial sector. The Fund and World Bank have developed an analytical framework for monitoring observance, the "Report on Observance of Standards and Codes" (ROSC), also called Transparency Reports. The work remaining to be done includes strengthening the link between ROSC and surveillance, convincing country authorities of the benefits joining the exercise, and a higher public profile for transparency reports. Inasmuch as the report did not find measurable market effects for good or ill, it would seem too early to draw firm conclusions. My comments will follow the order of the issues for discussion.

The procedures presently used to prepare ROSCs generally seem to work well and should continue to follow the principles outlined in Box 2. The modular approach has been quite successful. The wide range of modules and flexibility in setting priorities makes it possible to tailor standards to individual country circumstances. The framework for collaboration with the World Bank also works well, though in practice there have been delays between the return of missions and the completion of their reports due to "frictions of coordination.” Such delays have sometimes required expensive updates.

The list of objects monitored and the applicable standards in Box 3 seems reasonable, though I wonder what ever happened to the G-24's suggestion for devising standards and best practices for the management of debt and reserves. While many developing and several major industrial countries opposed further Fund work along these lines, some countries may still need technical assistance in these areas, which are quite important for financial stability.

I do not think the Fund should entirely abandon its efforts in these areas, but should shelve them until results have been achieved in other, more urgent areas.

I agree that the list of standards and collaborating institutions should be periodically updated, preferably as often as every two years. Currently the World Bank is the only institution formally so engaged, but I would be glad to see others become involved once more experience has been gained by the Bank.

A major complaint of the developing countries has been that their individual needs and circumstances have been disregarded when evaluating their compliance with standards. The developing countries also object to what they perceive as a drive to make these "one size fits all" evaluations mandatory. Most of them are not able to meet the highest standards, and fear that failure to do so will reduce their market access. These concerns are real and must not be dismissed.

The report's descriptions of ways to address these concerns are encouraging but require further development and refinement. The best among them is the "multitrack approach," which sets appropriate levels of standards for more developed and less developed countries (the SDDS and GDDS are good examples).

Also under the heading of good news is the BIS's plan to create a simpler set of Basel Core Principles for domestic banks lacking an extensive international clientele. Other conditions that must be maintained at the present preliminary stage include the voluntary nature of participation and publication; appropriate prioritization and wider choice of applicable standards; and the ranking of a country's progress ahead of its absolute level of achievement.

As already noted, the Fund should do better in explaining the benefits of participation to each country's authorities, since these benefits are not always obvious. And more research is needed on the connection between a country's compliance with standards and its macroeconomic and financial stability. I also agree that industrial countries can also usefully undergo transparency assessments in areas of interest to the World Bank. Experience gained from recent crises showed that industrial countries are not automatically immune to contagion, and that some suffered from major weaknesses in their financial sectors and serious problems of corporate governance. I thus have no problem with the proposal that World Bank experts should prepare assessments in the context of Fund missions for industrial countries as well.

Because standards and codes are indicative rules, compliance with them is voluntary. They offer benchmarks for gauging countries' institutional and structural progress. Assessing countries' institutional arrangements and structural policies in areas affecting macroeconomic and financial stability is part of the Fund's surveillance mandate. And countries must provide the Fund all information necessary for the proper conduct of its surveillance.

There is no need for the Board to make explicit decisions under Article VIII, Section 5(a) or Article IV, Section 3(a), as suggested by the staff under option 1. In accordance with longstanding practice the Managing Director decides, on a case-by-case basis, what questions should be put to a country having an Article IV consultation. Only when the country considers the requested information excessive or irrelevant to the consultation should the issue come to the attention of the Board.

In many cases, the information provided in a country's Report on Standards and Codes (ROSC) will suffice to adequately support an Article IV consultation. But ROSCs are voluntary. As noted in Box 4, in cases where the needed information is not available in a ROSC, the staff must obtain it from the country by other avenues, such as a self-assessment that is properly audited by external experts, or through an Article IV questionnaire.

Obviously, additional experience will further clarify how compliance with standards contributes to financial stability. This will help convince country authorities of the value of participation in the ROSC exercise.

Because assessing a country's adherence to standards and codes is an integral part of the Fund's surveillance, the staff and the Board should pay more attention to ROSC reports during Article IV consultations than they did during the pilot project introducing them.

It will take much additional technical assistance to help the developing and emerging market countries get up to speed in implementing all standards and codes. The recent review of the Fund's technical assistance discussed this issue at length.

Everyone agrees in principle that standards and codes should have a priority claim on TA, but nobody believes that the proposed system of "filters" can solve the problem of excess demand. This leads us directly to the question of what resources will be required to pay for technical assistance work on standards and codes. It may be necessary to increase the budget.

It is also clear that reliance on self assessment involves its own set of problems: countries generally lack the necessary expertise, and there are other quality issues. Finally, once "due diligence" has been executed by the Fund's experts, it turns out that self assessment is not costless at all. Also unsolved is the problem of periodic updates. The estimated average period of seven or eight years between periodic reviews seems awkwardly long.

The staff proposes to remedy this through "short descriptive updates" conducted during Article IV missions. And while it is impossible to know how expensive and how effective these will be, it is certain that they cannot fill the place of full-fledged updates.

Finally, it appears that to keep private sector interest in ROSCs alive, it will be necessary to increase the number of them produced each year. The World Bank's ability to do this, and the possibilities of enlisting other collaborating institutions, should also be examined.

I generally agree with the approaches outlined by the staff. The new publication policies of the Fund and the World Bank have embraced the voluntary approach, which apply to any updates as well. It is important to ensure "the right of reply," and the Fund must be attentive to any statement or action plan that the authorities might release.

As to incentives to participate, the incentive will be strongest if the value added by participation would take the form of favorable market pricing of credit, and if participating countries would see their risk premiums decline.

But such outcomes are still far off. "Peer pressure" from other countries in similar situations could also be a strong incentive to participate. I agree that the Fund should conduct a sustained educational campaign to increase awareness of standards and codes in the financial centers. The Institute of International Finance could give the Fund great assistance in familiarizing market participants with this issue, by explaining the relationship between standards and crisis prevention and suggesting ways of incorporating countries' compliance with standards into the assessments of their risks. The IIF was helpful when the SDDS initiative was launched. A degree of mutual understanding is also essential. It would not be helpful for different financial centers to develop different lists of standards for their own use.

Mr. Varela and Mr. Beauregard submitted the following statement:

At the outset, let us commend staff for the clear and thoughtful set of papers that were prepared for today’s discussion about the review of the experience in the implementation of Standards and Codes.

Undoubtedly, this is a very important subject that will continually evolve as more experience is drawn by both, the international organizations in charge of the definition of the standard and codes and for its implementation, and from those countries that have already participated in the exercise and that would see the benefits of the adoption of the standards and codes materialize so as to promote market discipline and a more stable economy.

We think standards and codes are important because they help country authorities as guidelines to improve and promote the necessary economic and financial reforms. Market participants should also benefit from this output, as more information will be used to assess country risks.

Not only the implementation of the standard and codes but an assessment of the implementation is of utmost importance. In that regard, self-assessment processes contribute to country ownership and therefore facilitate the reform process. Therefore, we suggest that all standard and codes should have their own self-assessment process to help countries in their own evaluation process.

There should also be a distinction among countries that are at different stages of development. We therefore strongly concur with the idea of having a multi-track approach to allow for this differentiation to take place.

With respect to the implementation of ROSCs, we strongly support the idea that it should continue to be a voluntary process. On the other hand, depending on the situation of each country, different areas may be more vulnerable and therefore more prone to be assessed. An analysis on a case-by-case basis seems to be appropriate to define priorities. Also, even though all economies should have the opportunity to ask for an assessment on the observance of standard and codes, systemic important economies should be given priority. Self-assessment procedures should also help to open the door to all countries to assess their own economies or financial systems.

We support the idea that the relation between Fund surveillance and the implementation of standard and codes should remain basically as it is today. In other words, if a country asks for a ROSC, then the information that would have been provided to the Fund for the evaluation process will undoubtedly form part of the surveillance process.

Even though the responsibility of the implementation of the necessary reforms to comply with the standard and codes remain in the national authorities and no conditionality should arise from any ROSC, we think that after all efforts done to conduct the evaluation, a follow up process would be convenient. We agree that for those countries that have asked for ROSCs, Article IV consultations can be used to up date the assessments and to discuss with country authorities any new vulnerability found in the economy or financial system.

Should the demand for ROSCs increase, compromising the quality of the assessments due to the resources that are needed to conduct the evaluations, the human and financial capacity of the country to implement a reform agenda after the vulnerabilities are found should be taken into account to discriminate among countries. Systemically important countries should be given priority in conducting the ROSCs. Technical assistance (TA) should be a by-product of the ROSC. Prioritization would be important given the potential increasing demand for TA that this process could produce.

It is also important that the Fund participation focus mainly in those subjects that are part of the core responsibilities of the Institution. In that respect, we broadly agree with Box No. 3 and we would like to emphasize the importance to collaborate with the World Bank in those areas where both institutions can contribute to do a better assessment and a more balance approach between development and stability issues. On the other hand, by limiting the participation of the Fund to those areas where expertise already exists, we will assure top quality evaluations and that there will be a value added product for the Fund, for its surveillance process, for the country authorities, to develop a reform agenda, and for the market.

We would like to emphasize that quality is paramount in these assessments and that we need to make a fair evaluation of the resource limitations of the Fund and World Bank to conduct the ROSCs to all its membership. We would clearly prefer to have a more quality-oriented approach when we discuss the next steps for conducting the ROSCs, rather than a quantitative approach. Only by having a recognized good quality product will these evaluations add value to the country risk assessments market participants need to conduct their business.

With regard to the publication policy, we support a voluntary approach.

Mr. Al-Turki submitted the following statement:

Staff has provided a comprehensive and helpful assessment of the experience and next steps on the important issues regarding implementation of international standards as part of the Fund surveillance process. The novelty here is indeed in the proposed magnitude rather than the substance, as evaluation of standards has been always a part of Fund surveillance. That said, the conceptual and budgetary implications indicated in the report are formidable. Costwise, given the resource constraints, an ambitious pursuit of standards and codes on multiple fronts could transform the very nature of the Fund as an institution. I share the serious misgivings of the mission chiefs that are more fully expressed in the helpful background paper than in the distinctly positive summing up in the main report. I will make my remarks in that context.

In welcoming the development of standards, it is useful to reiterate that periodic crises cannot be wholly avoided. Uncertainties in changes of technology and expectations guarantee a systemic tendency for supply-demand mismatches that will continue to cumulate into periodic crises. These crises being unique in many ways, it is all but guaranteed that each post-crisis fix up will be sizably a present strategy for a past problem. Thus, while the increased stress since 1997 on developing and disseminating standards is indeed a welcome follow up to the crisis in Asia, it is important to avoid any suggestion that one has here a panacea against future crises. This needs to be highlighted to avoid undue expectations from the proposed work on standards.

Tension is evident between the staff's appreciation that standards need to be case specific and the insistence nevertheless on advocacy of a select set of so called international good practices across countries and over time, albeit with periodic updates. Indeed, the evidence is frequently obvious that transplantation of standards from one socioeconomic context to another can be problematic. This argues for viewing the international good practices as guidelines that countries can implement as needed based on their own respective needs and circumstances.

What we have already agreed to is that adherence to any select set of international standards and codes is voluntary. Therefore, going forward, I cannot agree to either Option 1 or 2 as they amount to a fundamental alteration of our agreement. Indeed, as outlined in paragraphs 38 and 39 of the main report, these suggested options are in effect intended to increase the member countries' obligation to provide information to the Fund irrespective of participation in the Report on Observance of Standards and Codes (ROSC) process. In the staff's words, it is an invitation for the Board to "clearly signal to members the importance of the provision of information on implementation of identified standards for the conduct of surveillance." This is well beyond the letter and spirit of our agreed position on the Fund's approach to standards.

Turning to the ROSC process, the focus should be on a continuation of the existing practices. Here, it is important to stress that the work on standards should not be open-ended. A case-by-case vigilance to consider only standards judged to be of substantial macroeconomic significance for the country concerned is thus crucial. Issues identified under regular Article IV consultations or other staff contacts in areas could continue to be picked up by the authorities for a closer look. This could be assisted by a ROSC, if needed. This also addresses all of the concerns that the mission chiefs highlighted regarding, for instance, the ownership and relevance of the work on standards. It also allows for careful evaluation of homegrown practices in the context of the members' specific circumstances, developmental stage, institutional capacities, and reform priorities.

The excellent background paper offers little basis for the report's positive claims on how surveillance has improved because of the ROSCs. Indeed, given the mission chiefs' comments, the jury is still out on whether, as staff asserts, "The assessment of standards has strengthened the foundation for, and lent more authority to, Fund policy advise by providing an international benchmark against which to evaluate country practices." In that regard, I share the more balanced assessment of the mission chiefs who have cast doubts on the diagnostic value of ROSCs as detailed in, for instance, footnote 16 of the background paper. It is vital here to heed these warning bells regarding the heavy resource costs as well as the uncertain benefits that of the work on standards assessment, as in paragraphs 28-30 of the background paper.

Still on the views of mission chiefs, it is particularly important to recognize that, as noted in paragraph 30 of the background paper, "weaknesses in meeting standards are part of the institutional development of a country that can only be addressed over time." Here, I fully agree that ROSCs viewed as a checklist of adherence to standards rather than a roadmap to improved standards will not be useful to either the members or the Fund.

The staff recognizes as on page 15 that there has been no evidence of any measurable market effect yet of ROSCs. Indeed, in a repetition of experience with the SDDS initiative, the staff is already suggesting a "more active" campaign to effectively advertise for "drawing attention to the existence of ROSCs." Citing private sector views, staff suggests that a fuller effect will require a substantially scaled up effort. While no exact estimate is provided, the staff suggests resource needs on a scale that is out of line with any realistic view of the likely rise in budget provisions. This raises serious apprehensions about likely inroads into the Fund's existing basic activities, especially on technical assistance. Here, it is important to keep in mind that the Fund's input is likely to be only one of many inputs in the private sector's exercise of due diligence to investigate the standards prevailing in their target countries. This sets limits on the likely market impact of the Fund through exercises such as a ROSC.

I support continuation of the work on standards under the process already in place under the pilot program for ROSCs. Regarding the content, the effort should focus on the Fund's core activities, including specifically fiscal, monetary and banking areas identified in Group 1 of Box 3 based on near-term macroeconomic significance. I therefore agree with the suggested additional research in this area. I also agree to the proposed review of the experience in two years' time.

In continuing the present practices, the focus should be particularly on preserving the voluntary status of the effort. Here, it is important to stress the multitrack approach for appropriate adjustment of standards to fit the specific country circumstances. I also agree that it may be useful to consider the suggested involvement of the Bank in preparation of assessments of industrial countries in the context of Fund missions.

In paragraph 36, staff raises the need for consistency of definitions to facilitate international comparisons. While I can appreciate the needs of the Fund and the other international institutions in this regard, it is important to also recognize that this is not among the priorities of any individual member country. There will be occasions when a country may require concepts uniquely relevant to the local context. Such concepts thus may not be open to international comparisons. Here, I do not see any basis for arriving at what the staff refers to as "the overriding consensus for consistent international standards."

While work on standards may help in identifying TA needs, one has to be cognizant of the fact that regular TA needs may arise irrespective of the work on standards and codes.

I agree that any updates of ROSCs be subject to the same publication arrangements that currently apply to the ROSC modules themselves. As I have already noted, the Fund's work in this area is usually only one of many such exercises. In that context, I see little merit in any undue exertion by the Fund to promote greater private sector use of the ROSCs.

Mr. Szczuka and Ms. Bonomo submitted the following statement:

The increased attention paid to developing and implementing standards for disclosure and transparency, supervision and regulation and market integrity is a relatively new phenomenon. However, there is already a widespread recognition not only among the international community, but also among national authorities and private agents that standards for these areas are important for the effective functioning of the international financial system.

The ROSC process was initiated by the Fund to develop methodologies to formalize assessments of standards and to foster the compliance with internationally accepted standards. We are satisfied with the work of the Fund (and the Bank) undertaken so far to strengthen the functioning of markets by assessing and improving the use of internationally recognized standards and good practices. The collaboration with the World Bank in assessing standards and codes is very welcome. We can draw on additional expertise in evaluating the compliance with standards while avoiding a duplication of work.

The ROSC exercise, however, is still in the build-up phase. A look at the "next steps" suggested in the staff paper shows this very clearly. Moreover, while the review of experience reveals that the feedback from the ROSC is generally positive, there remains a number of important issues to be addressed, such as the clarification and harmonization of the assessment procedure under the ROSC, the implementation of the follow-up work and the optimal integration of the ROSCs into the Fund's surveillance and technical assistance activities. We believe that these issues need to be addressed before taking any decision on increasing the pace of assessments or substantially raising financial resources.

We agree with the staff that the participation should remain voluntary. The voluntary nature of ROSCs should contribute to establishing a very good and close collaboration between Fund/Bank staff and national authorities. Such collaboration is essential as it spurs the dialogue between staff and authorities on the usefulness of standards and ways to improve them, which ultimately raises the quality of assessments and of the follow-up work. If the ROSCs were to become compulsory, ownership could become a problem. Moreover, the follow-up work to the ROSC could also be taken much less seriously. We consider the follow-up work at least as important for the strengthening of the financial system as the assessment itself.

As regards the choice of standards to be assessed, and the sequence, the modular approach is certainly reasonable and allows taking into account the countries' circumstances and their corresponding relevance for the international financial system. In addition, a modular approach is more suited to avoid bottlenecks and excessive workload.

We strongly support attempts by the staff to prioritize their recommendations while taking into account the stage of development, administrative capacities as well as cultural and legal traditions of each individual country. Such focused and structured recommendations permit the authorities to better organize their follow-up work. Finally, on the areas to be assessed, those presented in Box 3 of the staff report seem in our view appropriate. However, we should look at the list of standards again at the occasion of the next review to take into account any new developments.

We welcome the mechanisms outlined in paragraph 33 of the main paper, with the exception of the idea that ways should be found for the Bank to conduct the relevant ROSC assessments in industrialized countries. We have reservations about using scarce Bank resources for other purposes than those written in the Bank's mandate. We are wondering if the industrialized countries could not be encouraged to undertake self-assessments in cases of standards where the lead is with the Bank.

We understand that in some cases developing or emerging countries do not have the capacities to fulfill certain international standards. Nevertheless, it should not be our aim to develop an alternative set of "substandard" (less stringent) standards for countries with lower institutional capacities. This would not only complicate the assessments but also provide only a temporary solution as countries reaching higher stages of development would have to adopt the higher standards anyway. Therefore, like the staff, we clearly favor the multi-track approach that sets out differentiated benchmarks, while keeping a single standard as the goal to be ultimately achieved.

We agree that consistency and uniformity of treatment is important, but at this stage we have only a rather limited experience with the implementation of ROSCs. Leaving aside the assessments within the modules on "monetary and financial policy transparency" and on "banking supervision", which are the by-product of the FSAP, the "fiscal transparency" module is the only other area for which a significant number of ROSCs have been produced. We welcome the intention of the staff (as outlined in Lesson 2) to develop more detailed methodologies and guidance for assessors as a tool which could help to ensure consistency of assessment conducted by various teams in various countries.

Furthermore, we welcome the staff's intention to carefully select standards for assessments and to better prioritize their work.

We agree with Mr. Callaghan and Ms. Ongley that the link between ROSCs and surveillance should be seen as a two-way street. Knowledge gained through the ROSCs can significantly contribute to improving the Fund's surveillance. At the same time, the Article IV surveillance can feed into the ROSC process by identifying the areas for which a detailed assessment would be particularly useful.

While precise information on the progress in implementing standards is vital for effective surveillance, it is not guaranteed that such information will always be available. Information can be very limited if a member has not participated in ROSC. Moreover, even if a country has undertaken a ROSC, it is conceivable that it may be reluctant to provide regular updates. Finally, the information obtained from countries that have undertaken only the self-assessments cannot always be considered fully sufficient and credible.

To address these risks, staff should clearly point out where they see problems and encourage countries to improve the situation. Particularly, staff should encourage members to undergo a ROSC, if this seems to be useful. Staff's concerns originating from ROSCs should be emphasized in appraisals presented in the Article IV reports. This is also the place to point out which modules of the ROSC would staff consider a priority for undertaking a thorough assessment.

Problems with obtaining sufficient information are nothing new. Despite the mentioned risks, we think that the current policy based on a voluntary and modular approach should be continued. In this respect, the experience with the FSAP, which is also purely voluntary, is encouraging: it shows that many member countries are convinced about the benefits of an independent external assessment.

We strongly support the staff in encouraging members to make the reports publicly available. Updates of the ROSCs would be prepared in the context of the Article IV consultations and thus could also be made available to the public. The interest in standard assessments is confirmed by the generally positive feedback from national authorities, which accepted the publication of the reports, and from the private sector. We agree that ROSCs could be released after the conclusion of Article IV consultations together with a PIN, or that they could be published on a periodic basis if the documents are being prepared separately.

As we already stressed at the occasion of the recent discussion on technical assistance, we are convinced that crisis prevention and containment are among the highest priorities of the Fund. Based on the consideration that the observance of standards contributes to the strengthening of financial markets and thus are a means to prevent crises, we support the Fund's involvement in the assessments of standards and the provision of the relevant technical assistance.

However, the framework for the ROSC and its integration into existing Fund activities has still to be optimized. We are reluctant to grant large amounts of extra resources or to accept a substantial increase in the pace of assessments at this time. With better prioritization, we will be able to include some more countries in the ROSC. We recognize that especially in the area of technical assistance, there will be ripple effects and resources might become even scarcer but we need more experience with the ROSCs, and in particular with the revised framework for their implementation that we discuss today, before deciding on a possible augmentation of resources devoted to standards assessment.

The time until the next review should be used to analyze more deeply the following questions:

First, we believe that the merits of a potential collaboration with other institutions in assessing standards and in the resulting follow-up work should be further explored.

Second, it is our impression that more research needs to be done on the impact of the implementation of standards on growth, liquidity and depth of financial markets, and on the overall stability or these markets. In particular, we assume that the sequencing and timing of the implementation of various standards does have important implications. For example, a significant tightening of capital adequacy standards during an economic downturn could lead to a credit crunch and thereby intensify the downturn. Parallels on the relevance of sequencing can be found in the areas of privatization and capital account liberalization, where it turned out that their successful implementation largely depends on the availability of appropriate structures in some other important areas.

Third, it is widely recognized that many developing and emerging market countries do not have the capacity to implement all international standards and that the assessments of the observance of these standards should take into account the different stages of economic development. We believe that once further experience has been gained with the assessment of the implementation of certain standards in developing countries, an evaluation of the specific problems faced by these countries could be very instructing.

Finally, it might be interesting to spend some thoughts on whether the ROSCs could be of use to enhance the regional surveillance. We know that many countries have financial markets of regional importance. Consequently, regional surveillance should—whenever possible—take standard assessments into account.

To conclude, we would like to point out that the Fund has achieved remarkable results in developing methodologies to formalize assessments of standards and to foster the compliance with such internationally accepted standards.

Nevertheless, the framework for Fund activities in the area of standards still needs to be further developed, taking also into account the results of today's discussion. It remains to be seen how this strengthened framework will operate and how an integration with other work of the Fund can be achieved. We need additional experience before moving to a faster assessment cycle. It will be easier to look at the resource implications and to decide about granting extra resources after gaining further experience under the strengthened framework.

However, since we consider the progress in fostering standards a priority on the agenda of the Fund, we believe that we should not wait two years until the next review, but instead we suggest that the next review should take place already in twelve months.

Mr. Zoccali and Mr. Hendrick submitted the following statement:

This Chair has been supporting the notion that well-defined standards, reflected in actual practices across a broad spectrum of the membership, can contribute to crisis prevention. In this regard, the Fund has an important role to play in helping to maintain macroeconomic and financial stability through its surveillance, program design and financial support, and the provision of technical assistance. The experience with ROSCs thus far has been encouraging in terms of the response from both national authorities and the collaborative framework in place between the Fund and the Bank to drive the process. At the same time, we have underscored the importance of ownership and of voluntary implementation of standards, taking into consideration the different circumstances, stages of development and institutional capacity of members. In this context, the provision of technical assistance is seen as a crucial link to help member countries implement those standards deemed more relevant to their individual circumstances.

The well-written staff reports reviewing the experience with standards and the ROSC process suggest that considerable progress has been made in articulating standards, even though this remains very much a work in progress, and in developing modalities to facilitate their voluntary observance. We generally concur with the lessons derived. Many concerns previously raised by Executive Directors have been recognized in the main paper and we are grateful for the effort to find common ground to reconcile, for the sake of comparability, appropriate differentiation in international standards with the over riding consensus for their consistent implementation in the areas of the Fund's core activities.

Against this background, we would like to offer some specific observations on the issues proposed for discussion.

Regarding the modalities for preparing ROSCs, we are in broad agreement with the approach outlined in Box 2 of SM/01/11. Voluntary participation in the ROSC process is, in our view, essential to ensure ownership and establish firmly the incentives to add value and expand members´ interest. In this regard, we assign particular importance to accommodating countries´ priorities on the choice and timing of the standards to be assessed in the context of the proposed multi-track approach. As staff indicates, the ROSC modules should report both the absolute extent to which standards are being effectively implemented and progress over time and avoid assigning country ratings or pass-fail grades.

On the linkage between ROSCs and surveillance, we find little operational difference between staff's Options 1 and 2, to the extent that both consider the furnishing of information by members on the observance of a list of standards approved by the Board as important for the conduct of surveillance. Reconciling the recognition and recommendation that ROSCs should remain voluntary with the adoption of a "list" of basic standards to be observed for the purposes of surveillance would, as a minimum, call for the interpretation of Option 2, Box 4, given by Mr. Callaghan and Ms. Ongley in their preliminary statement to staff, namely, that "like economies would need to be treated alike, but not all economies would be treated identically as the standards relevant to individual countries will differ over time as their economic circumstances change." Such an interpretation would resemble the status quo that Mr. Shaalan and Mr. Himani in their statement refer to as Option 3, to which we subscribe.

For those countries that have voluntarily requested ROSCs, that additional information should be available and a general assessment of observance of the relevant standards included in the pertinent Article IV Consultation reports. We consider that the contribution of ROSCs to the surveillance exercise should not be gauged in terms of the detail afforded to highlighting weaknesses but rather by their ability to facilitate their resolution. In this regard, it is worth keeping in mind the reference in the background paper (second bullet, page 16) that several aspects of financial systems and other factors affecting financial stability are not covered by standards assessments and that some financial systems found to be generally sound and stable could evidence gaps in standards observance.

In Box 3 of the main report staff suggest "a limited list of areas and associated standards" that could be useful for Fund and Bank operational work but not necessarily as a routine component of their monitoring activities. We welcome this attempt to limit the list of standards against which country members could choose to be assessed and a restrictive definition of those falling "within the Fund's direct operational focus". We find the areas defined in Group 1, including the issues of Payment Systems to be within the core activities of the Fund, given their direct implications for macroeconomic stability and systemic risk. We also recognize the importance of the other areas listed and could go along with the sharing of responsibilities of those included in Group 2 with the World Bank. In addition, we also agree to review the list in two years time.

We do not share staff's view that self assessment in the Fund's core areas without augmentation by third party evaluations could be of limited use. Instead, they represent the clearest manifestation of ownership over the process, including capacity building on which successful implementation ultimately rests. In this regard, we strongly support the provision of technical assistance by the Fund and third parties to increase their effectiveness.

Regarding the assessment of industrial countries against standards for which the Bank is in the lead and for which there is a gap in present procedures, we concur on the importance that the Bank and Fund find modalities for preparing these assessments where weaknesses could have significant negative spillover at the regional or systemic level.

We welcome the mechanisms proposed to address concerns regarding ownership, and the direction of the work on standards keeping in mind, however, that as noted in the background paper, neither country authorities, nor division and mission chiefs are overwhelmingly convinced about either the value-added of ROSCs or the correlation between implementation of standards and economic and financial stability. We support further research as proposed in paragraph 34 of the main paper.

We can go along with the publication policy proposed by staff, provided that the authorities´ views may also be included with the assessment to be released. The proposal for obtaining feedback from the private sector seems to suggest substantial disinterest, to the point that e-mail notification of potential users of the existence of ROSCs is envisaged. Perhaps staff could clarify how extensive and expensive the notification process could become and the list of the other documents which are similarly being notified. We would be satisfied with just listing the documentation in the Fund's website.

We concur with staff that consideration will need to be given to the release of a ROSC module update, when the authorities choose not to do so and the initial ROSC may be deemed misleading. In cases of agreement on early release of ROSC modules, the proposed three-week time lag between circulation of the Report and publication provides Directors sufficient time to call for a Board discussion, if necessary. Finally, a unified policy for the transmittal of all ROSCs to external organization based on the existing policy for Article IV consultation documents would be appropriate.

The staff representative from the Policy Development and Review Department noted that the Fund had reached an important milestone in its work on international standards and codes following three years of experimentation, from which a significant amount had been learned and had been put into practice. Nevertheless, the Fund's work would on standards and codes would continue to evolve over time and would need to be reviewed periodically.

While the staff was proposing that the Executive Board return to the issue of standards and codes in two years, that did not preclude the possibility of the Board returning to it sooner, the staff representative explained. However, it would be preferable to avoid ad hoc reviews, which could conflict with keeping the work in that area focused and limited.

The Executive Boards of the Fund and the World Bank would formally become the focal points of the entire standards and codes exercise, the staff representative said. That would help other institutions, national authorities, and the private sector have a better idea of what the aims of the exercise were. For that reason, the staff had proposed not only to formalize the ROSC exercise, but also to link it to the Fund's surveillance activities.

The Boards of the Fund and the Bank could add or remove standards or codes from those the staffs were proposing as relevant for the two institutions' work, the staff representative remarked.

Option 2, as described in the staff paper, was more appropriate than the status quo as it provided a certain formality and transparency to the work on standards and codes, the staff representative commented. It described the areas in which the Fund and the Bank would be pursuing their work and listed the standards and codes related to those areas. It also made clear that questions would be raised about the degree of observance during Article IV consultation missions. In addition, once the Board had agreed to a list of standards and codes, the incorporation of individual standards of codes into the Fund's surveillance exercise was facilitated as the entire membership would have been involved in the decision-making process. Furthermore, a clear statement by the Fund as to which areas it would be involved in with respect to standards and codes would help other institutions set their priorities in that area.

Mr. Daïri noted that the observance of international standards and codes was voluntary, and not an obligation for members. Therefore, it would not be appropriate for the Fund to discuss and evaluate such observance during Article IV consultation missions if a member had chosen not to observe certain standards or codes.

The Acting Chairman confirmed that the observance of standards and codes was voluntary.

Mr. Portugal observed that the critical difference between both Options 1 and 2 as described in the staff paper and the status quo was that those two options introduced an element of compulsion and obligation in the provision of information about compliance with something that was voluntary.

In addition, it did not appear that assessing observance of the standards and codes listed under Group 3 in the staff paper was necessary for the Fund to conduct effective surveillance, Mr. Portugal continued.

Mr. Shaalan agreed with the views expressed by Messrs. Daïri and Portugal. In addition, the list of standards and codes contained in Group 3 in the staff paper seemed to run counter to the efforts to streamline Fund activities and to stay focused on the Fund's core activities when conducting surveillance.

Mr. Daïri said that the Fund did not necessarily have to evaluate authorities' self-assessments, particularly if it seemed that the private sector did not question those assessments.

Mr. Kelkar made the following statement:

> We wish to commend the staff for providing an exceedingly useful set of papers aimed at reviewing experience in assessing the implementation of standards and delineating next steps. Such stock-taking exercises are no doubt useful to ensure meaningful evolution.
>
> While the interest in standards is not new, their preponderance and their place in the international financial architecture is certainly a new phenomenon. It is increasingly being recognized that standards can serve as very useful benchmarks for strengthening domestic economic and financial policy frameworks. By highlighting potential vulnerabilities and providing information to enhance market discipline, standards can potentially play a pivotal role in crisis prevention. In sum, standards seem to be emerging as the first line of defense in crisis prevention.
>
> That being said, one must also recognize that their perceived benefits are not automatic nor is there consensus as yet on their applicability, modalities and in some cases, even specifics. We therefore welcome this opportunity to discuss the issues outlined in this paper.
>
> Before turning to specific issues identified for discussion (paragraphs 75-80, p.33-34), we would like to offer some general remarks:
>
> The paper does not provide adequate analytical or empirical underpinnings underlying the standards. Nor does the paper fully reflect some of the misgivings regarding the diagnostic value of ROSCs which are detailed in the excellent background paper. Moreover, barring one passing reference to South Africa, the paper does not seem to offer any empirical evidence regarding effectiveness or benefits of standards. There is a strong case for undertaking or fostering more intensified research on the relationship between implementation of standards and macroeconomic and financial stability. Our chair therefore strongly feels that further careful consideration and

deliberation is needed before taking the quantum leap proposed in the staff paper.

The Basle Core Principles of Banking Supervision offers an interesting example of how a standard attains a near universal acceptance based on voluntary participation and country ownership. In our view, that kind of evolutionary approach would be for more desirable than the one implied in the paper that attempts to force the pace.

We strongly feel that the extent, pace and sequencing of standards should ideally be left to the country authorities. As several preliminary statements—including one by Mr. Toyama—have emphasized, creation of ROSCs is resource-intensive work. There also are serious concerns regarding the possibilities of mission creep. Moreover, as noted in the staff paper itself, there is a likelihood of unbearably high resource burden for several member countries. These cost implications must be kept in view while deciding the pace of further work on standards.

The staff paper doesn't seem to have explored the potential of self assessment on the part of members. In our view, self-assessment offers an exceedingly useful and low-cost alternative to the grand design implied in the paper. It would also greatly facilitate the country-ownership.

In this regard, I would like to share with the Executive Board some important initiatives taken by my Indian authorities. We have constituted a high-powered Standing Committee on International Standards and Codes for identifying and monitoring developments in global standards and codes being evolved, considering all aspects of applicability to the Indian financial system and for chalking out a road map for aligning India's standards and practices in the light of evolving best practices. The Committee has set up non-official advisors groups in ten major subject areas and considerable progress has already been made.

Now let me turn to the specific issues raised in the paper.

As to the modalities for preparing ROSCs, we wish to emphasize the overriding principle of voluntary participation. As stated earlier, we feel that the choice of standards to be assessed and sequence of assessment should be left to the country authorities. Assessments should avoid assigning country ratings or pass/fail grades.

As noted in footnote 15 (p.20), the IMFC has indicated that "Article IV surveillance provides the appropriate framework within which to organize and discuss the implications of assessments of certain standards with national authorities." In our view, this understanding applies only to those standards that the authorities have voluntarily agreed to.

Box 3 classifies 11 standards (out of 60 identified) into three groups. The list is fairly comprehensive. It needs to be recognized however that work on standards and codes is evolving and that the priorities for implementing them would vary from country to country. In our view, our attention should be confined only to those standards which are within the Fund's direct operational focus i.e. those listed under Group 1.

We are in favor of a periodic review say, once in two years.

We appreciate that some concerns expressed by several Directors in the Board have been noted in the review. It is not clear however, whether the approach set out in the paper fully meets those concerns in an operationally meaningful manner. Hence, there is a need to modify the proposed approach to effectively address apprehensions of developing economies.

We fully agree with the proposal for undertaking more intensified research on the relationship between implementation of standards and macroeconomic and financial stability development in a cross-country framework. In our view, the most effective way of enhancing ownership and commitment to implementing standards is to demonstrably commit ourselves to the voluntary nature of ROSCs.

We are also uncomfortable with the idea of linking the work on standards to the provision of TA. In our view, several members voluntarily willing to subscribe to standards might need TA to prepare themselves for it. An a priori commitment would therefore be undesirable and may even be counterproductive.

There are important unresolved questions relating to the nature of linkages between standards and surveillance. As argued earlier, in our view, voluntariness holds the key.

The two options presented in the paper, in our view, are not materially different from each other. One could think of other options in this regard. A third possible option could be maintaining the status quo, as suggested in several preliminary statements. Yet another option could be one based on strong encouragement by the Fund to conduct self-assessment by members, provision of the TA, if requested by members, and assessment by the Fund staff, if voluntarily initiated by members.

We feel that such an approach would be highly cost-effective to the Fund, besides being consistent with the voluntary nature of the initiative.

As noted in the report, the current publication policies of the Fund, which formalized the voluntary approach to publication of ROSCs, appear to be working well.

We are not in favor of any change in the voluntary approach to publication of ROSCs.

As far as the transmittal of ROSCs to external organizations is concerned, we agree that the existing policy for Article IV consultation documents provides a useful model for consideration.

The pace of evolution of the ROSC should be guided by the Fund's mandate and available resources, and not by the expectations of the private sector.

Mr. Wijnholds made the following statement:

Let me say at the outset that I feel that the ROSC process is moving in the right direction, and I could endorse most of the proposals put forward by the staff. Although in principle all countries should adhere to the basic standards that are being assessed by the Fund and all countries should undergo ROSCs regularly, I remain of the opinion that ROSCs should remain voluntary. This implies that the assessment of the level of implementation of standards and codes should only be included in a country's Article IV consultation report for informational purposes. Consequently, I cannot go along with Option 1 as presented by the staff, which would force countries to present information on the level of implementation of standards and codes. Of course, countries should be encouraged by the Fund to implement standards and codes, for instance, during Article IV missions.

I support the proposal in the staff paper to provide the World Bank with the so-called ROSC binders of countries for which assessments have been made. The Bank can use this information when assessing a Bank country assistance strategy.

Given the voluntary nature of the ROSC process, however, we should be careful not to punish countries that have not undergone a ROSC. I therefore welcome the suggestion to develop further the differentiation of certain standards as is being suggested in the staff paper.

I agree with the staff that publication of ROSCs should remain voluntary, but the Fund should encourage countries to be as transparent as possible in this regard. We should also be careful not to rate countries, and the results from a ROSC should be presented in their appropriate context with regard to the stage of development and the economic situation of individual countries.

In order to maximize the impact of our efforts, we should encourage the private sector to use the information in ROSC reports to inform its decisions. This will require a critical mass of published ROSCs and that sufficient frequent updates be undertaken.

On resource costs, given the large resource costs involved in assessing countries' adherence to standards, streamlining and prioritization remain essential. The resources that are currently available ought to be sufficient to attain this goal within an acceptable time period. Clear prioritization remains necessary to ensure that countries that are systemically important or countries that are looking for access to international capital markets would be the first ones to undergo a ROSC. Countries that are not yet at a level to implement standards could wait for a later round of assessments. In my view, a similar prioritization should be used for updating ROSCs; updates for systemically important countries and emerging market countries should have priority and might be updated with higher frequency than other countries. The way to speed up the ROSC process while limiting the resource costs could be to encourage countries to implement standards and codes themselves, especially in light of the ownership that that might also carry with it. Full-fledged ROSCs could then be based on self-assessments, which would limit the staff time required for preparing ROSCs.

On the standards and codes to be assessed in the content of a ROSC, I am not in favor of extending the number of standards assessed, except perhaps for the inclusion of the guidelines on debt and reserves management as suggested by Messrs. Pickford and Walsh, as I believe this is a core area of the Fund. Indeed, I believe we should build up a good and comprehensive assessment system. Furthermore, the Fund should stick to its expertise. Standard-setting institutions other than the Bretton Woods Institutions could publish their own assessments, possibly with hyperlinks to the Fund's website. I do support collaboration on standards and codes with regional development banks, which could play a role in follow-up assessments or in evaluating self-assessments.

Let me thank the staff for the work done so far. Developing a new surveillance instrument such as the ROSC is a difficult and time-consuming process that involves much trial and error. I am convinced, however, that the ROSC will be a valuable addition to our set of surveillance instruments when we have fully developed it.

Mr. Portugal made the following statement:

I would like to start by thanking staff for the review of this experience, which I think is very thorough. It covers relevant issues, it has a good quality, and incorporates a number of suggestions that EDs and national authorities have made for which I'm grateful.

The countries in my constituency, all supported this initiative because we do believe standards and codes can play a useful role in creating benchmarks of what good practices are, to focus attention on issues that need progress, to provide objective criteria for policy advice and for technical assistance. I think that if we are able to develop good standards in areas that are relevant, they hopefully might contribute to reduce economic vulnerability and become an important element of crisis prevention. I say "hopefully" because it's still an assumption that has to be tested that they would be able to do so, as many Directors have pointed out in their statements.

Before going to the issues for discussions, I would like to make some general comments and reflections, and I will try to organize them under four main ideas to which our chair attributes importance in going forward.

The first and most important one is the principle that the adoption of standards and the assessment of their implementation should remain voluntary. I think that if we believe that standards can be beneficial to countries, then these countries would have an implicit incentive to adopt them in a voluntary way. Really the key challenge we have seems to be our capacity to address the relevant issues in an effective way, to design good standards whose adoption generates discernible benefits to members.

I think Mr. Kelkar mentioned a very good example, which is the Basel Core Principles for effective banking supervision. Until recently there was no organized international effort to promote the acceptance of these standards, but they are widely accepted by most central banks because central banks have realized that they are well-designed, and they address relevant issues, and they make a positive contribution to their supervision mission, so I think this is really the key challenge we have.

My second general point is parsimony in the choice of topics to be covered and in the number of recommendations in each standard. I think we should concentrate in those areas that are essential for macroeconomic and financial stability, and in our areas of specialization, and within these areas to focus mainly on those issues that are likely to generate cross-border repercussions because this is, indeed, the justification for having an international standard as opposed to a national standard.

I also think that the contents of these standards need to be based on sound theoretical analysis, and also solid empirical evidence of what works, what does not work, and to show what the clear link between them and macroeconomic and financial stability is.

I recall in the paper about the FSAPs that there were some area departments questioning the value of standards that are very detailed, and they found there was only a limited connection between departures from the standards with financial risks and vulnerability, and this did not pose a threat to immediate stability. And these same observations are repeated in the background paper, so I think there is really a case for more research on the relationship between the implementation of standards and macroeconomic and financial stability, and I support staff's proposal for that.

Another related issue is that sometimes we approve a standard, which seems simple and has a level of generality required to generate international consensus. But then, once this is done, a very detailed elaborate supporting document appears, which, in many cases, seems to be more demanding and to go well beyond what the document itself mentioned.

I think that if there is a need for a supporting document, this has to be presented together with the standard, which is being discussed in the Board, and not afterwards because this would be important for increasing ownership of this exercise.

My third general comment is gradualism and flexibility in implementation without sacrificing international consistency. I think our member countries are quite diverse. They are at different stages of economic development. They have a widely different implementation and administrative capacity, and it would really be unwise if we asked all of them to proceed at the same pace to fit into the same model. But at the same time, for an international standard to be useful, it has to be consistent across countries. One meter has to have a hundred centimeters everywhere, but, of course, there are other ways to measure distance. You have meters and yards. We have to reconcile these aims of flexibility in implementation and consistency.

I think one approach to reconciling that, which is mentioned in the staff report, is selectivity and prioritization in choosing which standards are relevant according to the country’s circumstances.

For instance, for my own country, Brazil, just to mention an example, I think the standard on security regulations is important. Now, if I look at Guyana or Suriname in my constituency, which do not have large capital markets, these principles are less relevant to them. So, because of this, the choice of standards and the sequence in which they are assessed cannot be a decision of staff and management alone. I think the country concerned, which has volunteered to this exercise, should have a decisive say on this.

I think another alternative to reconcile flexibility with consistency is what staff rightly suggests, a multi-track approach to a given standard with intermediate stages that are easier to comply for countries that are different stages of development, as in the case of GDDS and SDDS.

My fourth and last general comment is that we should avoid creating negative incentives, and we should try to create positive incentives for countries to adopt these standards. Indeed, I think this is an essential element in any voluntary undertaking. I think, for instance, if a country volunteered to be assessed and then the Fund uses the ROSCs as a basis for establishing conditionality, for instance, or structural benchmarks, of course that will function in the long run as disincentive. And as several Directors mentioned in their statements, it would run counter to Management's current decision of streamlining conditionality.

So, I think that the main link of the work on standards and codes with our other activities should be with the provision of technical assistance to help countries to correct the weaknesses identified, and I think technical assistance in this area has to be expanded.

It is also important to create positive incentives for participation. I think one of these positive incentives is self-assessment. Maybe staff is right in saying self-assessment tends to be more optimistic than third party assessment, but they have other advantages. They have the great benefit of involving the country more directly and more deeply with the issue, and this might not only increase ownership, but also increase the chances that the weaknesses that are identified are corrected faster.

I think another positive incentive is to give in ROSCs full credit for how much the country has done, what was the initial stage from which it started, the actual pace of achievements the country has done, and put all that in the context of the country's own stage of development. I think in many of these assessments we will be seeing a case of a cup half-full, and it would be important to emphasize not only by how much the cup is still empty, but also how much it has already been filled. And I agree with what is mentioned in the report that a simple pass or fail grade should be avoided, like quantified ratings should also be avoided, and that the opinion of the authorities should be included in the assessment.

Maybe we could also think of other positive incentives for countries to participate. For instance, one idea could be that multilateral financial institutions designed lending instruments and facilities that would recognize and reward countries with a good record of implementation and compliance and would make more use of pre-qualification and ex ante track record rather than ex post conditionality.

Let me move to another topic. I would like to say that my Brazilian and my Colombian authorities attach great importance to the 40 recommendations of the financial action task force on financial abuse and money laundering, and we welcome the intended discussion of this issue in the forthcoming paper as is mentioned by staff. I only hope that Mr. Bernes' observations are carefully considered because I feel this would help facilitate consensus, including within constituencies.

Let me move now to the several issues for discussions. On the modalities of the ROSCs, I agree with the description given in Box 2. With respect to the list of standards in Box 3, I think that the Fund should consider in its operational work certainly all those listed, in group 1, and selectively, depending on the importance for the country concerned, also those listed in group 2. Standards in group 3 should be left totally to the Bank, and we should only mention them in Article IVs, if these assessments raise aspects that are essential for maintaining macroeconomic stability.

I agree with staff and the Directors who said that it would be important to find a way for those standards, which are under the responsibility of the Bank, to have industrial countries assessed. I think this is one issue we have to resolve before moving from the pilot phase to a more permanent exercise. And this is not only a question of uniformity of treatment. I think it can also be a question of priority because industrial countries, especially those that are systematically important, are exactly those countries whose actions affect most international economic and financial stability.

So, I think if the standard is important for that, then it would be important to look at industrial countries. If it's not important, then we should not have a standard at all. Another thing is that assessing industrial countries could also help to provide an opportunity to learn more from those that have the best practice in this area.

I think the most difficult issue in this discussion is the link to surveillance, and as I mentioned before, I agreed with what Mr. Shaalan has said. I think both options 1 and 2 are inconsistent with the fact that standards are voluntary because we cannot say that something is voluntary and then say, well, it's voluntary whether you follow that or not, but you are obliged to provide the information on how you are complying. I think there is a consistency problem here, and I would agree with Mr. Shaalan's option 3.

I think the link to surveillance should remain as it is now, not formalized. When a country has volunteered to a ROSC in groups 1 or 2, then the results can be reflected in the Article IV. When there is no ROSC, I think the Article IV should continue to cover those items of the core areas but perhaps with less emphasis on standard compliance and using the information that is available.

I also do not favor the idea of asking a country to transform a technical assistance report into a ROSC. It's true, as staff mentioned, that the current system creates two different sets of information from which to draw to different members, but this is what already happens now, and I think probably this is what will always happen because even if all countries agreed to have ROSCs, I think the amount of information would always be different for different countries, and we would always be relying on partial information. So, this is a problem that is not deriving solely from keeping our current approach.

I was puzzled by the suggestion by staff in paragraph 47, that Directors should encourage countries that have not undertaken ROSCs to do so, and that this encouragement should be reflected in the PIN. I would like to ask staff what is the rationale for such suggestion of deciding, as a policy item, and in advance, what comments should or should not be included in the PIN instead of doing so when the case arises and when the time comes.

I hope it is not a suggestion which attempts to put pressure on countries to do ROSCs because if that was the case, I think it would be sad to start with a voluntary exercise, then change it into voluntary and encouraged, then into voluntary and presumed, and then perhaps it ends as de facto mandatory. I think that would erode the confidence of the membership when we have future voluntary initiatives.

On the questions of publication, though we consider that the main use of ROSCs is to inform the national authorities about what stage they are in, and what are the main weaknesses and what needs to be done; we can agree with voluntary publication, although we see it as a secondary purpose.

Finally, we think that the current pace of producing ROSCs is adequate. We are still in the initial stages of this work, and I think it is not appropriate to increase the pace of implementation and resources before we gather additional experience on that.

Mr. Törnqvist, in response to Messrs. Portugal and Kelkar’s comment that Basel Core Principles for Effective Bank Supervision had not been developed by a membership the size of the Fund, noted that the Basel Committee on Banking Supervision had been successful in its efforts to encourage worldwide acceptance, particularly through regional organizations.

Mr. Milleron made the following statement:

Mr. Chairman, I have the feeling that there is a large consensus on the critical role of international standards, and I will refrain from commenting on this issue. I shall concentrate on what I believe the role and the action of the IMF should be in this context.

Defining, implementing and assessing standards are daunting tasks which should have a critical impact on the IMF activity. Much of the IMF’s credibility is at stake, and we should proceed in a determined but cautious manner. We should, in particular, act in three directions: first, enlarging and deepening our membership support; two, optimizing the Fund's internal work; three, increasing the awareness of market participants.

The assessment of standards is an integral part of our surveillance process, but we do not share the view that we should adopt Option 1 in dealing with the need to obtain information in the observance of standards. Ownership is critical in this context, and we consider that such a constraining way to proceed would be counterproductive. I think this was expressed by most of us. That is why Option 2 seems an interesting option, in which one tries to define, as I say, the appropriate balance between an approach which remains voluntary, and the need to enrich our surveillance process.

I think that such a balance can be attained. I heard what was said by previous speakers, in particular Mr. Daïri, Mr. Portugal, and Mr. Shaalan. I think to get to something sufficiently balanced, we might have to think a bit more about the meaning of the concept of standard itself. Mr. Portugal made interesting points. I have to think a bit more, as often, about what he said, but I would like to re-read his comments. There are some interesting points.

It is clear that such a solution could put a lot of pressure on staff and on the Board to convince our authorities of the interest of undertaking ROSCs. In this context in particular, we should be careful not to discourage potential candidates. Over-prescriptive standards are not the best way to disseminate good practices. In the same vein, there was a need to dissipate the one-size-fits-all syndrome, which explains a large part of the role in this initiative.

The assessment should take into account countries' specificities and, in particular, their administrative capacities. On this point, I have the impression that the positive feedback of the first experiences are encouraging signs. Standard assessments should serve as a basis for dialogue between staff and the authorities and should not be perceived as the outcome of creating agency reports. Addressing these issues will help convince the authorities they would be candidates for ROSCs. If we can assure them that technical assistance will be available to help a great possible deficient practices, we will achieve our ambitions more easily.

Since resources are scarce, our efforts must be focused and optimized. The staff's proposals are, in that sense, respectable, and we believe the procedures in Box 2 are fully appropriate. Therefore, I would only stress a few points.

The Board's involvement is critical to demonstrating on a day-to-day basis our support for this initiative, and devoting more attention to this question is certainly an efficient way to do so. Against this background, the integration of the work on standards in Article IV reports is essential, and we support the proposal to have cross-references in PINs, including the possibility to encourage a country to be a candidate for a ROSC or an FSAP.

This calls for synergy between the Article IV process and the work on standards. Indeed, area departments should play a key role in discussing with the authorities, coordinating the different modules and Article IV missions, but also in updating the reports and participating in the prioritization process. We certainly understand the difficulty in adapting the new missions, but we are uncomfortable with the impression we had when reading the report on FSAPs or this one, that there is still a need to convince some of the usefulness of the activities.

The awareness of market participants has to be strengthened. Given the consequent course involved both for the countries and the Fund, we should aim at maximizing the return on investment. We note with satisfaction that there has been some progress, but there is still scope for improvement. Staff proposals to have regular updates through the Article IV will help maintain the accuracy of the modules. But like Ms. Lissakers and Mr. Abbott, we do not see the rationale for having different publication policies for modules, in particular since the case of stand-alone assessments for financial modules is not clearly explained. The publication of module has to be authorized on a voluntary basis as soon as it is completed. If we want our initiative to achieve its objective, we must provide frequent assessments, up-to-date and as candid as possible. This last characteristic is not the least important one.

Overall, I am ready to admit that we put a lot of constraints on staff, and that we should have the means of our ambitions. There are ways to limit the increase in resources needed, notably through cooperation with the other institution, an optimization of the use of resources, and appropriate prioritization. On this issue of cooperation with other institutions, one could encourage staff in pursuing its effort in particular with the World Bank, the FATF, and others.

The proposed list in Box 3 seems sensible to guide our action in terms of standards. However, like others, we noted that staff has not included the FATF recommendation, and I am now waiting for the endorsement by the Board before moving on this issue. We could go along with this procedure, because we think that this topic is a serious one and deserves Board discussion. However, like others, we will not be ready to wait for our next review to begin our work, especially if the review takes place two years from now. So, the question of the possible inclusion of the FATF recommendation remains open, and we should keep that in mind.

As you can imagine, I am very interested in the question of IMF/World Bank cooperation. We shall have an informal meeting of the World Bank Board on the same document two weeks from now. We do not have any objection in principle to having the World Bank assess an industrialized country for standards in its field of competence. But I do not think that it is so clear that it should be considered as essentially a priority for the time being. My view is that we still have to be convinced that it is clear the Bank should enter this game with industrial countries.

On optimization of resources, I made it clear that we consider the role of area departments as crucial, and it should be strengthened. The use of self-assessments should also be encouraged, provided that appropriate safeguards are put in place such as the use of a detailed methodology and the implementation of self-assessment in the context of ROSCs.

On prioritization, finally, we believe it is essential in the success of our endeavor. Clearly, the objective of seven years for membership on average should be viewed as a theoretical objective since we are ready to accept that large differences could exist in the frequency of assessments between countries, depending on the priorities defined. The criteria which will be defined for prioritization of FSAPs will certainly represent a good basis to start; therefore, we look forward to seeing the results of work engaged on this issue.

Mr. Daïri remarked that standards relating to reserves and debt management should not be included as those relevant for the Fund's work, as proposed by Messrs. Pickford and Wijnholds. Such issues were better addressed in the context of data dissemination or financial policy transparency. Furthermore, the 40 Recommendations of the Financial Action Task Force should also not be treated as a standard by the Fund, as they were connected with the policies of a member, not its observance of a particular standard.

Mr. Milleron noted that the nature of many of the issues the FATF was addressing was quite similar to some issues the Fund was concerned with.

Mr. Wijnholds agreed that matters relating to reserves and debt management could be addressed as part of the Fund's work on monetary and financial policy transparency.

Mr. Abbott said the approach proposed by the staff to add additional standards on a case-by-case basis, and with the approval of the Board, was appropriate.

Mr. Walsh clarified that once the debt and reserves management guidelines were operational, some aspects of those guidelines could be converted into a code or standard, but not necessarily.

Mr. Portugal noted that while debt and reserves management were within the core areas of the Fund's work, they should be treated in the context of guidelines rather than as a standard or code, as it would be difficult for any such standard or code to be applicable to all members.

In addition, revising the list of standards appropriate for the Fund's work as appropriate would be necessary, particularly as some standards and codes would become less relevant over time with others increasing in relevance, Mr. Portugal said. For example, his authorities attributed great importance to the Financial Action Task Force's 40 Recommendations, he concluded.

Mr. Donecker made the following statement:

> At the outset, I would also like to thank staff for their concise paper on these rather technical issues. Significant experience has been gained in the preparation and production of the ROSCs: Many countries and a broad variety of standards have been covered so far. Therefore, it is appropriate to assess the experience gained and decide on the direction for future work now.
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> Mr. Chairman, many points have already been covered by other speakers in a flurry of late preliminary statements. For the efficient conduct of our discussion let me indicate that our position is very close to the views expressed by Ms. Lissakers and Messrs. Toyama, Wijnholds and Milleron. We also strongly support the recommendations of the Financial Stability Forum on the subject matter. Therefore, I will only briefly comment on some particularly important points.
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> We endorse the modalities for preparing ROSCs in Box 2. However, there should be a clearly defined division of labor and responsibilities between Fund and Bank according to their respective mandates.
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> The assessment of standards as well as the publication of ROSCs should remain on a voluntary basis. A review of the list outlined in Box 3 in two years' time seems appropriate. An update of the list should be based on a careful assessment, whether the new standards are truly sufficiently relevant to macroeconomic and financial stability and to capacity building. This review should take into account the respective recommendations of the Financial Stability Forum. Especially with regard to resource implications, the number of involved standards should be limited and frequent changes should be avoided. We support Mr. Törnqvist´s and others' views that frequent and substantial changes should not undermine the credibility of standards and codes on the list. We will have to come back to this issue of IMF relevant codes and standards after the forthcoming board discussion on money laundering. Mr. Bernes has already pointed out some of the coordination and process challenges with regard to enhanced collaboration with the Financial Action Task Force. I share his respective concerns, but overall positive attitude towards the FATF recommendations. I agree with Mr. Toyama that if the joint work on standards with regard to money laundering can be concluded on the basis of a broad consensus of what the appropriate role of the Fund is in this respect, that in that case we should not have to wait for the next review in

two years time, but add those anti-money laundering standards to the list immediately.

The role of the Fund should be focused on a leading and coordinating role in assessing countries´ observance of international standards and codes. This does not require that all assessments have to be done by the Fund, therefore, a close cooperation with other relevant international institutions is desirable.

We welcome staff's intention to take into account country specific circumstances when assessing codes and standards in a member country. There should not be a "one size fits all" approach, of course not. However, like Mr. Bernes, Mr. Portugal and others, I would like to stress the need for consistency across countries. Otherwise ROSCs would not be able to provide their intended benefit, i.e., to increase transparency and to improve the efficiency of capital markets. Here, I have some doubts about the value of self-assessments, as valuable as they may be for a member's progress and ownership in these matters and for the preparation of a World Bank/IMF ROSC. But I agree with Mr. Portugal that as a positive incentive ROSCs should also mention "how much the cup has been filled"—to stay in his picture—due to the country's strong and sustained efforts in this field.

With regard to the question about the nature of the linkage with surveillance and the basis for the provision of information, we are clearly in favor of Option 2: The Board should define those standards, which are important for Fund surveillance. However, in view of the scarce resources available, we are questioning whether it is possible—or feasible—to use ROSCs already now in the proposed comprehensive way to complement Article IV surveillance. In any case, it will be necessary to set priorities in the upcoming work, especially to focus on systemically important countries without neglecting some smaller members' genuine desire to also participate in and to profit from this ROSC process at an early stage.

The objective of crisis prevention should be high on the agenda. Therefore the objective of updating ROCS within the framework of Article IV consultations will be very important. However, we see a need for some prioritization, here too.

Finally, we welcome the proposed synchronization of publication between ROSC and Article IV documents. Separate publication procedures for ROSCs might be difficult to justify. Also the provision of ROSCs to external organizations should be based on the policy already agreed for Article IV documents. As Mr. Milleron already stressed, we should aim to increase market participants' awareness and knowledge about the functions of ROSCs. In this context, we see some merits in Mr. Pickford´s proposal to enhance transparency by publishing a list of all ROSC modules.

The staff representative from the Policy Development and Review Department said that incorporating issues related to reserves and debt management as well as money laundering into the standards and codes exercise would require considerable further consideration by the staff and the Board, as the issues were complex. Those issues could be discussed further at the next review of standards and codes in order to allow both the staff and national authorities to reflect further on them.

Option 2 as presented in the staff paper would avoid the possibility of mission creep in the Fund's work on standards and codes, the staff representative observed in response to a concern expressed by Mr. Daïri. Option 2 required that the Board ultimately decide whether there should be any changes to the list of standards relevant to the Fund's work, which would prevent any informal or ad hoc changes to that list.

The assessment of members' observance of international standards and codes was already in some respect part of the surveillance exercise, the staff representative said. The staff discussed such issues with national authorities in the context of Article IV discussions when it felt that observance of standards and codes would play a part in strengthening institutions or reducing vulnerabilities. However, the staff was now proposing that a ROSC module be the preferred way of assessing observance of standards and codes even though it was voluntary, and a member could therefore choose that the Fund not undertake a ROSC. Even so, the Fund still had an obligation to conduct effective surveillance, particularly in areas where the observance of some standards and codes was relevant for a member's macroeconomic stability. If a member refused to provide information in those areas, the staff could try to ascertain information from other sources such as technical assistance assessments. That information could then be used to make an assessment that could be included in an Article IV staff report.

Public Information Notices should make references to instances when the Board encouraged a member to agree to a ROSC module, the staff representative commented in response to a remark by Mr. Portugal.

The experience with ROSCs indicated that the private sector did not generally recognize self-assessments unless they had been evaluated by a third party, the staff representative explained.

Mr. Portugal noted that the Fund's current approach to international standards and codes appeared to be functioning adequately, and therefore there seemed to be no reason to modify it. In addition, the background paper indicated that discussions with authorities on ROSC-related issues were often done outside the Article IV process. Furthermore, how could the Board indicate that information on standards and codes was required for effective surveillance if the provision of such information was voluntary? Finally, support for work on standards and codes could be endangered if the members felt that the Fund was moving too quickly in that area, especially as not all members had been involved in the formulation of all the standards and codes they were being asked to observe. Therefore, why was the staff in favor of changing the status quo?

Mr. Abbott noted that there was a consensus that international standards and codes were important in helping to strengthen members' financial systems. Their voluntary nature was intended to encourage their adoption, not require it. Nevertheless, the staff should take a proactive approach in trying to discuss such issues with authorities as the Board was interested in them.

Mr. Couillault agreed with Mr. Abbott, particularly that the Board should get more involved in encouraging members to avail themselves of the ROSC process.

Mr. Portugal asked why Messrs. Abbott's and Couillault's suggestions could not be undertaken within the existing framework of the ROSC exercise.

Why was the list of standards in Group 3 in the staff paper relevant for the conduct of effective surveillance, Mr. Portugal asked. For example, why should members be asked to provide information on insolvency regimes if there was no standard in that area. Therefore, if the Board accepted Option 2, the standards listed under Group 3 should not be treated like those listed under Groups 1 and 2.

Mr. Kelkar agreed with Mr. Portugal. In addition, it was unfair to single out members that had voluntarily agreed to undergo a ROSC for more information. Furthermore, what evidence did the staff have that self-assessments were not considered credible by the private sector unless accompanied by an independent evaluation?

Mr. Szczuka asked whether a member would be considered in breach of its obligation if it did not provide information the staff requested on standards and codes.

Self-assessments would increase ownership over the ROSC process and encourage members to examine their practices closely, Mr. Szczuka observed.

Mr. Walsh, in response to Mr. Kelkar's comments, noted that the staff should follow up with members in areas where a ROSC or the FSAP exercise had identified weaknesses or vulnerabilities in a member's financial sector. Such a practice was not discriminatory, and Option 2 would in fact ensure equal treatment for all members.

Mr. Kelkar replied that Option 2 required the staff to discuss such matters only with members who had voluntarily agreed to a ROSC and not others. Financial sector vulnerability was, however, an issue that concerned all members.

The staff representative from the Policy Development and Review Department, in response to Mr. Szczuka's question, replied that members were not obliged to provide information requested specifically in the context of preparing a ROSC module. However, the staff could inform the Board that the authorities had refused to provide information in an area in which the staff believed vulnerabilities existed. The Board could then consequently encourage the authorities to provide such information in the future.

During an Article IV consultation mission the staff would seek information on those standards and codes that were relevant to the circumstances and stage of development of the country concerned, the staff representative explained. There would be consistency in treatment for similar economies, but not all economies would be treated identically, as the standards and codes relevant to individual countries would differ over time as their economic circumstances changed. Prioritization would therefore be necessary.

Mr. Daïri noted that as the observance of international standards and codes was voluntary, neither the staff nor the Board should continue to encourage a member to provide information if the member had already indicated that it did not intend to do so.

Why did the staff use the relevance for capacity building as one of the criteria to decide which standards and codes were relevant for the Fund's work, Mr. Daïri asked.

The staff representative from the Policy Development and Review Department noted that the list of eleven areas of standards that had been identified as relevant for the Fund's work was based on areas where the Fund had a comparative advantage over other institutions. The objectives of the standards and codes initiative were varied. One aspect was the attainment of more effective surveillance, while another one was to help in capacity building exercises, which the Fund did in a medium-term context through its technical assistance, as well as through its surveillance and program work. Capacity building was also important because the Fund collaborated significantly with the World Bank in the area of standards and codes, and capacity building was an area in which the Bank was involved. Therefore, systemic importance as well as the need for capacity building were two considerations that had to be kept in mind when deciding between different members' requests for a ROSC module.

The usefulness of the ROSC exercise for the private sector was difficult to judge as the exercise was still quite new, the staff representative said. However, the interest of the private sector was growing, and its decision making could only benefit from an independent evaluation of a member's self-assessment.

Mr. Abbott felt that Mr. Daïri went too far with his interpretation of voluntary when he implied that Directors should be indifferent to the issue of standards. Although Directors agreed that adhering to standards was voluntary, that did not mean that they were indifferent to it. The Fund should encourage its members to move forward in the area of standards.

Mr. Kelkar indicated that his position on self-assessments was not limited only to private sector assessments. Such assessments could be undertaken by the authorities themselves or in combination with the private and public sectors. The main issue was that self-assessments should be owned by the countries themselves. He asked the staff to elaborate on the point he made earlier that markets tended to discount self-assessments.

More generally, countries were aware of the benefits of adopting standards and they would implement those standards according to their stages of development, Mr. Kelkar continued. Thus, the Fund should be more flexible with regard to the pace of implementation.

Mr. Portugal asked the staff to indicate how many cases there had been where countries had not engaged in a full-fledged discussion of standards. Had there been any cases where information on standards requested of a country had not been provided to the staff? That information was necessary before deciding to change the current system--one had to first be convinced that there was such a case, and that it had not just been made up. It also seemed that when talking about Option 2 one was referring to the right of the staff to ask questions. This was not the case. The staff could ask any question. Option 2 was, in fact, about the answer, which the country had to provide. It was not about the question that he was concerned about; it was about the answer. Option 2 contained the Board's assertion that the furnishing of information by members on the observance of such standards—all 11 standards in Box 3—were important for surveillance; and it also provided a footnote with a link to the 1997 surveillance decision. Thus, if approved by the Board, Option 2 would entitle the staff to request of any country information on observance of any standard in that list. Should the country not provide the information, the staff could technically say that the country was not providing the information necessary for comprehensive surveillance. That was what the gist of the discussion, Mr. Portugal stated, and the staff did not clarify what was the difference between Option 2 and the status quo. What was it that the staff could not do under the status quo, but would be able to do under Option 2?

Mr. Daïri clarified that he did not say that the Board should be indifferent to standards. In fact, the Board had been supportive of the process thus far. However, he stressed the voluntary nature of standards. The decisions on how to manage a country's economy should be that country's responsibility and the decision to use ROSCs should be included in that responsibility. A few countries in his constituency had undertaken work on ROSCs on a voluntary basis, and had found such reports extremely useful. Another issue was the fact that many considered Fund assessments as relevant and independent. However, the Fund was not fully independent, especially in countries where the Fund had a large exposure. Markets might be able to make a better judgment than the Fund. Market participants also wanted to make their own assessment as to why the Fund should be involved in the process. Even though the Fund had created standards for countries to follow, there was room for independent assessments outside the Fund. Perhaps in several years' time the market would have developed its own mechanism to make its own assessment and the Fund would have no role in the matter.

Mrs. Ongley pointed out that one of the key lessons that the Australian authorities had drawn from their self-assessment exercise had been that it would have benefited substantially from a third-party assessment to enhance its credibility.

Mr. Couillault noted that France had undertaken a ROSC, including a self-assessment. The authorities had found the Basel core principles assessment useful when doing a self-assessment, and the Fund staff would also provide an assessment. With such safeguards, he was in favor of self-assessments since they increased the ownership of the country.

Mr. Zoccali pointed out that the self-assessment process had a significant contribution to make to the country's capacity building efforts. From that point of view, the countries in his constituency viewed the technical contribution in the self-assessment phase to be perhaps more significant than the third-party evaluation that could ensue after the self-assessment had been concluded. The value that the private sector attributed to independent assessments or ROSCs as opposed to self-assessments was not clear. Even in paragraph 67 of the paper, the staff had indicated that feedback from the private sector had highlighted the need to be more active in drawing attention to the existence of ROSCs. From that reference, the private sector feedback showed substantial disinterest to the point that even e-mail notification of the existence of ROSCs was envisaged. He wondered how extensive the e-mail notification would be, and how many other documents would be subject to that method. If that was the response of the private sector, he was less convinced about the usefulness from the point of view of eliciting a private sector response.

The staff representative from the Policy Development and Review Department acknowledged it was true that the private sector's response to the ROSCs had been cautious so far. However, there clearly had been a shift in the private sector's response, which the staff needed to monitor carefully over the period ahead.

The Board and the IMFC had asked the staff to come up with a proposal on how to incorporate the assessments into the surveillance process, the staff representative continued. Certainly, if nothing were done (i.e., the status quo prevailed), the staff would continue to ask the authorities questions and present their findings to the Board. However, given the new structure in place and the Fund's increased expertise in different areas, it seemed preferable to set out a transparent and more formalized process. That was not to say that such a process would be implemented in a mechanical fashion. In fact, it would be important that it be implemented carefully and at a gradual pace. Also, the comments on the design and the procedural elements of Option 2 were useful.

One had to make sure that the benefits of the exercise were passed on to all countries, the staff representative remarked. For instance, that was a reason for preparing assessments for industrial countries for some of the standards where the Fund was not in the lead. It was crucial that issues of systemic importance to surveillance were carried out in the period ahead.

The Acting Chairman remarked that today's discussion would contribute to the approach that the Fund would take in the area of standards and codes. However, in order to move the discussion, Directors needed to focus on exactly what was being proposed: specifically, the adoption of Option 2. On the other issues, he sensed a large degree of consensus.

The Fund had devoted considerable resources to the ROSC exercise, the Acting Chairman continued. That exercise had not been completed yet—the Fund was halfway through in the outreach and dissemination aspects of the exercise. The issue was whether to maintain the status quo or add one more step. The staff's proposed step was a process and not a final end product. That distinction needed to be keep in mind. Directors had not been asked to endorse today all of the money laundering or financial abuse issues, for instance; those issues would be discussed later in a forthcoming paper. Under the staff's proposed approach, standards would be better linked to the surveillance process. Of course, the principle of the voluntary approach would be maintained.

Mr. Schlitzer made the following statement:

I would like to thank the staff for writing a very good and readable report. As others we consider the experience to date to be successful, with ROSCs becoming an increasingly established feature of the Fund's work. We can agree with most of the recommendations put forward by staff, hence I will touch only on a few points.

We would prefer for the moment to preserve the voluntary character of the process. In our view, the voluntary nature of the process does not necessarily reduce its effectiveness. Quite to the contrary, it may enhance it as long as it increases ownership. Standards and the assessment of their implementation would serve to inform surveillance in a critical way, albeit they would not be formally part of it. We support the staff's Option 2, which provides a mechanism to allow the Board and the staff to have a greater and more systematic voice in the process, without reducing its voluntary nature. We would not be content with a mechanism that leaves the monitoring of standard implementation only to the market. We think that the Board has an important role to play.

Standards assessments has to remain a selective activity. Selectivity will have to based on a number of elements, notably specific country needs and relevance to the Fund's mandate. In this regard, we find the list of selected standards presented in Box 3 to be appropriate, but also find useful having, as proposed, regular updates through bi-annual reviews. Like others, we think that the list should include the FATF principles (at least those relevant for the Fund), since we think that combating money laundering can be integral part of the Fund's mandate. We realize that at the moment this is not possible since such principles must first be accepted by the Board. If this will be the case, as we hope, our preference would be for having them added early to the list, without necessarily waiting for the following review.

We note that the Fund's guidelines on reserves management and debt are not treated in the paper. I understand that the ROSC procedure does not apply to them. I am also aware of the fact that part of these guidelines are embedded in standards, such as the reserve template, which is integral part of the SDDS. Yet, I see a risk that such guidelines would be left in a limbo. On the contrary, while it is clear that guidelines cannot be as binding as standards, we think that their relation with surveillance should not differ too much from the one being adopted for standards more generally. Staff comments would be welcome on this point.

On publication, we think that disclosure should be maximized, as it provides a strong incentive to undertake assessments and to implement standards. This principle involves both ROSCs and their updates. If a country requests publication, this should not be delayed, which means that there is no need to wait for the completion of the Article IV consultation for modules done under the FSSA. Related to this aspect, there may be the case of substantial disagreement between the Fund's assessment and that of the authorities. Has the staff considered whether in this case the country would be allowed to reply and have its reply also be published?

Mr. Daïri said that he saw the FATF issue not a matter of surveillance, but as a regulatory matter. If the international community believed that that was an area where some order was needed, it should be done through an international agreement. That would create real obligations for members. The problem with putting the Fund in the middle of the process was that the Fund would have to be involved in issues relating to businesses, which was clearly forbidden under the Fund's Articles of Agreement.

Mr. Wei made the following statement:

At the outset, let me join others in welcoming today's discussion. I would also like to thank the staff for providing a well-prepared set of papers. It is encouraging that a lot of progress has been made in the preparation of the ROSCs. Staff's review of experience and the lessons to be learned are useful, and we can agree with the general conclusion. We continue to favor the nature of the participation as well as the emphasis on differentiating between members on the basis of their circumstances, stage of development, and institutional capacities when selecting those standards against which members are to be assessed. We are of the view that the modalities for preparing ROSCs as proposed in Box 2 are broadly appropriate, and can endorse them. Given the complexities of a specific country's circumstances and staff resource constraints, I continue to believe that member countries should be encouraged to conduct self assessments which will be useful and helpful when they are ready to participate in a ROSC. Needless to say, the Fund should support members' requests for technical assistance to help strengthen their capabilities in this area.

Since I share the views of Mr. Shaalan and Mr. Himani and other speakers, I will confine my comments to the following areas.

First, on the issue of linkage between assessments of compliance with standards and codes and Fund surveillance, from the onset of Board discussion on this subject, it was agreed that adherence to standards and codes as well as participation in ROSCs should be voluntary. In previous discussions, there was no agreement that observance of standards and codes would be part of Fund surveillance. After reviewing the papers, I feel that the paper places too much emphasis on ways to establish some formal link between assessments of compliance with standards and codes and Fund surveillance. On the one hand, it stresses that compliance with standards and codes and the preparation of ROSCs remain voluntary, and on the other it sets out to establish a link between this exercise and Fund surveillance. As staff notes in the paper, observance of standards is voluntary and it would be contrary to this principle if the observance of standards were incorporated in any way into the Find's mandatory surveillance activities. If such linkage is established, we are worried that the degree of ownership by countries on the observance of standards and, hence, their readiness to volunteer information to the Fund in this regard would be significantly compromised. Like Mr. Shaalan and Mr. Daïri, we fully support the Managing Director's views on the need to refocus the Fund on its core activities, to streamline conditionality, and enhance ownership. Therefore, on the issue of members providing information regarding standards, we do not think Options 1 and 2, as proposed in the staff paper, productive. Instead, we support "Option 3" as suggested by Mr. Shaalan in his preliminary statement, namely maintaining the status quo.

Second, on the operational modalities, we agree that the list of standards and codes in Box 3 is useful for the Bank and Fund's operational work. Group 1 includes the Fund's core activities, and we agree that these could continue to be assessed on a voluntary basis, under ROSCs. Group 2 could be assessed in the context of FSAPs, also on a voluntary basis. Group 3 is clearly outside the Fund's core activities and its assessments seem to be the responsibility of the World Bank. We agree that this list should be reviewed in two years' time.

Like Mr. Daïri, we do not encourage the preparation of the initial ROSC during the Article IV consultation mission. The exercise is by itself very resources intensive, particularly from the authorities' perspective.

Third, on the issue of pace and coverage, as recognized in the paper, recent experience has shown that standards assessments are time consuming and resource intensive. These pilots also put great strain on member countries' resources which should be considered as we determine whether we should further speed up or expand the pilot program. Like others, we think the current pace and coverage of participating countries appropriate. We have already seen a significant budgetary increase for the Fund even with the implementation of the current plan, let alone an increase in its pace.

Finally, with regard to the publication policy, we continue to support a voluntary approach and can support the staff proposal regarding publication and transmission of ROSC documents and their updates.

Mr. Schlitzer remarked that, with regard to the FATF issue, the Fund should not be involved in law enforcement issues. That being said, such principles would eventually have to be accepted by the Board. In Mr. Daïri's world, surveillance was left up to the market. The international community issued standards and the market assessed whether a country had done well in implementing those standards or not. His world was different. The Fund spent a large amount of resources in helping countries implement standards. Thus, the Board had a right to say something. However, there was a difference between the preferences of the market and those of the Board. Because the market might not give sufficient weight to standards, it was important for the Board to make a statement about that.

Mr. Donecker said that he failed to see the advantage of Option 3 compared to Option 2. He considered Option 2 the status quo: making members understand that it was important to establish and adhere to internationally accepted standards as much as possible, with due regard to the various stages of development of particular countries. He agreed with Mr. Walsh on that issue.

Mr. Portugal remarked that Option 2 stated that the Board would indicate that the furnishing of information by members on the observance of such standards, all of them, was important for the conduct of surveillance and that it was linked to the surveillance decision. With that option, the staff could then go to any country and not ask the questions, but ask the countries to provide information on the observance of any of those standards, to conduct surveillance. The staff had good sense and they probably would not do that, but they would be entitled to go to any country and ask for the provision of such information—that was a major difference from the status quo. He also did not understand the logic of saying, well, you have to provide information on corporate governance, on auditing, on insolvency, because that was important to surveillance, and then the Fund delegated the undertaking of that job to the World Bank. There was an inconsistency in such a procedure. That was why he came back to his earlier point, that if one went with Option 2, group 3 would have to be excluded completely. Because, if those were important for surveillance, and the staff was asking the information on those grounds, then the Fund had to undertake the surveillance, not the World Bank. He also said that he had already given up hope of being given any response on whether there had been any actual problems. He had asked that question three or four times, but he now realized that there was no answer forthcoming.

Mr. Walsh, like Mr. Donecker, saw no reason to debate Option 2. The process that the Fund had been going through was essentially a pilot process. The Fund had learned lessons from the ROSC exercise, and what it was now attempting to do was to operationalize the status quo. Under the previous practice, in the case of the Asian crisis, there was an international standard, but for some reason, the Fund, through its surveillance function, had managed to miss the fact that Thailand had failed to comply with any aspect of the Basel core principles. What the Fund was attempting do in Option 2 was to merely formalize its surveillance mechanisms for key standards. The Fund had learned that codes and standards were an integral part of the international financial architecture. Determining the macroeconomic stability of member countries should be a regular component of the Fund's surveillance work and Option 2 was merely characterizing that. What the Fund was doing now was to establish a procedure for moving forward, having learned from the ROSC pilot and its experience in the Asian crisis.

Mr. Donecker remarked that the Fund's Articles of Agreement required the Fund to exercise firm surveillance over its members' policies. Standards and codes were a part of that. The Fund should therefore move forward in that area in a flexible manner. Flexibility was appropriate because members were at different stages of development and there were also capacity constraints. The Fund would not be able to implement such standards as thoroughly and as comprehensively as it should because sufficient resources were not available. Therefore, the Fund's current surveillance function was as close to the status quo as was feasible.

After recessing at 1:00 p.m., the Executive Board reconvened at 2:30.

Mr. Rustomjee made the following statement:

> We thank the staff for a well written set of papers reviewing the experience gained with the work program on the development, implementation, and assessment of standards and codes. We believe that the review is timely in order to take stock of this experience to map out the future direction of this important work. We are in broad agreement with the main conclusion of the paper that the modalities developed so far in assessing standards have worked relatively well and that the ROSC exercise has provided important lessons for both the Fund and the individual national authorities. In the case of my South African authorities, for whom ROSC modules have been conducted in five areas, including Monetary and Financial Policy Transparency, Banking Supervision, Insurance Regulation, Securities Market Regulation and Payment Systems, the ROSCs exercise has been valuable and generally beneficial and tends to confirm the overall broad conclusions indicated by staff, regarding the overall approach to date.
>
> As a general point, we wish to underline the basic tenet of this work that adherence to standards and codes, though voluntary, can contribute to improved transparency and accountability of economic policymaking and reduce countries' macroeconomic and financial vulnerability. In regard to the applicability of ROSCs to differing categories of countries, I will be brief. Most colleagues have suggested that in general, preparation of ROSCs should be focused on the advanced industrial economies and on emerging markets and those with systemic importance to the global economy and particularly in the case of ROSCs modules arising from the FSAP process, and I agree with this, especially in the early phase of the overall ROSCs process. Nevertheless, participation in this work by some low income countries who may be PRGF-eligible members is inevitable and could offer an opportunity, inter alia, to improve fiscal and monetary policy formulation, as well as the production and dissemination of key economic data, including the socio-demographic data which are necessary for the preparation of poverty reduction strategy papers. In these and other cases, the assessments of standards and codes can also facilitate in tailoring technical assistance to members and in building institutional capacity for improved economic management.

In recognizing the value of standards to countries at varying stages of economic development, we can associate with the conclusion that implementation will need to be carefully sequenced. This will need to reflect the priorities of the member countries in the context of their institutional capacities. In this connection, the concerns regarding the pace, scope, inclusiveness and other modalities in the development , implementation and assessment of standards need to be addressed with the seriousness they deserve. Here I have a particular comment in regard to paragraph 15 of the main document: the paragraph refers to the preparation of short annual updates on authorities' responses to ROSC recommendations. Here, and cognizant of the fact that in future, ROSCs will not be confined to the advanced industrial/emerging market category, I would strongly urge that these updates include at the very outset a detailed treatment of two issues. Firstly, the administrative capacity available to the relevant member in the area assessed by the ROSC and secondly, the extent to which technical assistance has been forthcoming since the initial recommendations were made. These two elements of any update of authorities' responses to ROSCs are in my view crucial. Without these, the positive incentive to conduct ROSCs will fade, especially in the least resourced members; and the sense that ROSCs are not a beneficial device, but rather a sanction and a catalogue of failures, will grow. We must avoid this sense of ROSCs as catalogues of failure, at all costs. And giving prior weight to an assessment of administrative capacity and to an evaluation of how far any void in such capacity is being filled by technical assistance would in my view be a sine qua non to avoid this. Still on this issue, staff have described the proposed updates as "descriptive" and seeks to distinguish this from the type of update which would contain an effective "assessment" of progress since the original recommendations were made. In practice, it is difficult to see how we could limit the update to a purely descriptive report, especially if there have been substantial deviations from the original ROSC recommendations and particularly if the update is being discussed in the context of surveillance. Box 4 seems to acknowledge this, by saying it is not clear that such an approach will provide the information necessary to undertake effective surveillance.

We believe that the role of both the Fund and the World Bank has been important in bringing forward the work on standards and codes. In the design and dissemination of standards the Fund and the Bank have rightly collaborated closely with each other and with other standard-setting institutions. We believe that such collaboration should be maintained to improve the quality of the work of the Fund, paying due regard to the cost implications on the institution.

Regarding other issues for discussion, we would tend to agree that the modalities set out in Box 2 are working well and further work should build on the progress achieved so far. It should be noted that most countries are already undertaking a wide range of reforms under Fund-supported programs. In these cases, the implementation of standards should be made in the context of this broad framework, taking into account the individual national economic priorities. As already indicated, we would like to stress that the adoption of standards should remain voluntary and continue to reflect differences in economic circumstances and the stages of development. Indeed, a two- or even multi-track approach, for example such as the approach followed and acknowledged in the data dissemination standard, with a dual SDDS and the GDDS, could be extended to the other areas. We have no objection to the list of standards and codes in Box 3. However, we believe that ROSCs should continue to be confined substantially to those identified in group 1 which reflect the core responsibility of the Fund. Moreover, we feel that some of the additional areas assessed under the FSAP in group 2 and those identified in group 3 could be inconsistent with the current emphasis on streamlining Fund activities to reflect the Fund's core mandate.

In this context, we do have some concern regarding the resource costs of developing and preparing assessments, an issue which is surely of relevance in this discussion. Paragraphs 42 and 43 of the background document highlight the fact that the level of staff activity on standards and codes has been rising through the current fiscal year and is expected to escalate significantly over time. Only one update has been prepared thus far, and as noted in paragraph 43, the cost of these updates has not yet been evaluated; nor have the costs of additional resources to area departments to monitor and analyze the implications of new developments. All of this leads one to conclude that we should be cautious in extending ROSCs beyond the list in Group 1. Overall, we can agree to a two-year cycle to review the appropriateness of the individual standards and we thank staff for the clarifying remarks on this matter this morning.

In previous discussions, a point has been made that ROSCs should continue to describe elements of the standard rather than setting a pass-fail grade. The Fund should continue to avoid the private sector's preference for simple country ratings.

We acknowledge that there has been considerable work to address members concerns regarding ownership and attempts should be made to build on the progress made thus far. In particular, the linking of the work on standards to technical assistance could be particularly useful in countries that are implementing structural reforms. Further research on establishing a relationship between implementation of standards and macroeconomic and financial stability could also be helpful in increasing members commitment. Moreover, further work to explore ways to better tailor the work on standards to circumstances of individual members should be encouraged.

To a substantial extent, ROSCs and subsequent updates can provide a reasonable framework that could help guide and inform surveillance.

However, it is for us crucial that participation in ROSCs remains voluntary, a point acknowledged and accepted in the staff papers. Surveillance is mandated by the Articles of Agreement. At a time when work on standards is still evolving, we feel that members should continue to be encouraged to make progress in meeting internationally acceptable standards. In this regard, the provision of information for purposes of ROSCs should reflect the voluntary nature of this work. We would make a clear separation between work on standards and the Article IV surveillance process. There is no indication that in ROSCs conducted thus far, that there has been any difficulty in obtaining information from countries. Observance of standards is voluntary and it would contradict this principle to make this linkage with the mandatory surveillance activities of the Fund. Of particular concern to us would be that ownership of the process of observance of standards would be substantially compromised, a point made by many and I think captured in Mr. Toyama's preliminary statement. Like many others, we find the two options presented by staff to be inappropriate and we could support what he has called "Option 3"—maintaining the status quo. In this discussion, I would like therefore to associate myself with the comments of Mr. Daïri, Mr. Portugal, and others this morning and those made by Mr. Shalaan and Mr. Himani in their preliminary statement.

In view of the substantial resource implications for both the national authorities and the Fund, we would like to stress the need to keep the implementation of standards within national economic priorities. For now, we do not see it important for the Fund to expand the scope of the work on standards beyond the current level. In this connection, we may have become our own worst enemy if our work on standards helps to raise private sector expectations, at a time when our institutions' resources are significantly stretched and when it is not clear where the resources will come from for members to implement ROSC recommendations.

Finally, we would have no objection to the publication of this paper if some of the abovementioned fundamental issues were taken into account, particularly maintaining the status quo, or "Option 3." Perhaps, it would be more appropriate to issue a statement rather than publishing the full document at this stage. While on this subject of publication, we could support the proposal that any updates should follow the same procedures that apply to ROSC modules and the transmittal policy to other organizations should reflect those applying to Article IV documents.

Mr. Barro Chambrier made the following statement:

I want to thank the staff for providing us with a comprehensive set of papers that summarize the experience with assessing standards, including the reports on the observance of standards and codes. I am also encouraged to note the progress that has been made in many areas, including those in the core mandate of the Fund. Here, I must express our satisfaction with regard to the case of Cameroon that we were able to complete some ROSC modules by December 2000. My authorities found the exercise and the outcome quite useful. I hope that the momentum will continue in other areas since the international community is increasingly aware of the need to strengthen the implementation of standards and codes as a tool for crisis prevention.

I can go along with the views expressed by Mr. Shaalan and Mr. Himani, Mr. Daïri, Mr. Wei, Mr. Portugal, Mr. Callaghan, and others. I will focus my comments on four points. First, on the link between the ROSC and surveillance, there is no doubt that ROSCs are a valuable instrument for the Fund's surveillance activities and for the country. However, like Mr. Shaalan and Mr. Callaghan, I would caution against an automatic link between the ROSC and surveillance, as staff has established at times in the report. Such a link is at odds with the voluntary nature of ROSCs and runs the risk of making compliance with standards and codes another conditionality for countries that should choose to participate in the ROSC process. We should avoid giving the impression that we are going to add some new conditionality.

Second, with regard to the modalities for preparing a ROSC module, I find the modalities presented in Box II appropriate. In particular, the assessment of the implementation of international standards and codes should continue to avoid country ratings and pass-fail grades. Since this approach stresses progress made over time, it is likely to encourage more participation in the ROSC process. Box II also mentions that the burden of participating in the preparation of assessments is still high for members.

Third, on the list of standards presented in Box III, although Box III has presented the list of standards in three different groups, I hope that, consistent with the modalities outlined in Box II, the Fund will continue to focus in the areas of its core mandate in the preparation of ROSCs. In presenting the two options under which a specific list of standards would be used by the Board to assess progress in their implementation, the staff is not clear as to the continuation of the voluntary nature of participation in the ROSC exercise. I would also like to support the status quo in order to safeguard the voluntary nature of the ROSC process. What is missing today is that we should avoid to be overly ambitious, and, as stressed by some colleagues, we need to create the conditions to enlarge and develop the number of countries that will participate in the exercise. We should also take into account the stage of development of different countries. I find the concern of my colleague in this area legitimate. With regard to the need to avoid diluting the voluntary process of the exercise, as it is difficult to have a consensus on this issue, perhaps this issue, based on further experience, should be reviewed in two years.

On publication, I could agree on a voluntary basis.

On technical assistance, I welcome the staff's emphasis on the provision of technical assistance to member countries for successful participation in the ROSC

> exercise, and the need for the contribution from the international community. The report has rightly pointed out that standards are related to technical assistance. I would like to stress the need to adopt a gradual and more realistic approach in this area. More importantly, technical assistance linked to the implementation of standards should not be granted at the expense of existing needs. In this regard, establishing country-specific priorities and a clear sequencing in the implementation of standards will be crucial in supporting members' efforts in making progress, while adhering to a wider range of standards.

Mrs. Ongley clarified that her chair was not opposed to Option 2. Rather, the clarification in Box IV provided the appropriate safeguards and flexibilities. In addition, as pointed out by Mr. Walsh, Option 2 was a formalization of the process that has been followed to date.

Mr. Barro Chambrier, referring to the link between the ROSC exercise and surveillance, said that he was in favor of Option 3.

The staff representative from the Policy Development and Review Department considered Mr. Rustomjee's points on what to include in the short annual updates on the authorities' responses to ROSC recommendations appropriate. However, the staff would have to determine how much of that information could be incorporated into the Article IV consultation process and how much could be done within the rest of the year. There was no way forward other than to experiment. Another element of the modalities was the so-called authorities' right of reply, which was an explanation by the authorities on their plans going forward after the publication of an assessment. That would constitute an important part of the ROSC process.

On the multi-track approach, the staff representative remarked that that issue needed to be looked at carefully. Perhaps some of the concerns could be addressed by creating separate standards to distinguish between countries' stages of development, similar to the SDDS and GDDS. For instance, the SDDS was explicitly established to focus on emerging and industrial markets that were at a certain level of development, while the GDDS was established for countries that were not as advanced. The transparency codes, on the other hand, were meant to have universal applicability, but certain aspects in them could be delved into in greater detail in some countries than in others. The concept of a multi-track approach needed to be looked at in that context.

With regard to Mr. Djojosubroto's proposal for countries agreeing to different versions of a standard, the staff representative thought that further reflection on that point was needed. In the case of the SDDS, it had been set up so that all of the subscribing countries would be able to comply with the latest version after a transition period. While there might be apparent advantages in having different versions, it would be difficult for the markets to distinguish who was on version 1 and who was on version 2. And, more substantively, if the Fund decided to include, for example, the reserves template in a revised version of the SDDS, acceptance of an earlier version would mean endorsing something that was now no longer considered adequate. Certainly, that suggestion should be looked at and perhaps taken up at the forthcoming seminar on Standard and Codes to be considered by the Fund and Bank.

Concerning the link between standards and surveillance, the staff representative remarked that the IMFC had laid out broad guidelines, linking the work on standards to surveillance. The IMFC had been quite clear on such a link; however, the exact modalities of its incorporation into surveillance work needed to be clarified. That was the reason why the staff had come forward with a particular proposal. More specifically, Option 2 did not imply that the ROSC would be compulsory; it would remain voluntary. That being said, and because of the rigor of analysis, a ROSC would be beneficial to those countries that volunteered. In those cases where countries chose not to do a ROSC, the Fund would still have the responsibility to fulfill its obligations under the surveillance mandate and look at the vulnerabilities of the country. Some Directors had expressed concerns about the Fund asking too many questions. As set out in Box 4, the staff would seek information on only those standards which were relevant to the circumstances and stage of development of the country. All economies would not be treated identically. The fact remained that there would be in some cases the need to ask questions and the need to follow through. In the case of Korea in 1996 or early 1997, had the staff had at the time the ability and the expertise to look at corporate governance, perhaps they would have asked questions. However, that did not imply that questions would be asked in all cases. In fact, in many cases, even in corporate governance cases, if such areas were relevant for the country's longer term institutional development and capacity building, one would expect that in most circumstances the discussion would center on the positive benefits of moving forward in those areas. The Fund could, for example, give assurances about how the standards were being implemented. It would look at the process at the beginning of each year, including the circumstances that countries were in and the previous technical assistance that had been applied, and then outline the priorities for the period ahead. In that sense, there was a link to the initiatives which were under way in the Fund on technical assistance. There was also the question of the way that the World Bank would prioritize its work

The staff representative from the Asia and Pacific Department (who had chaired an interdepartmental group on Standards and Codes) indicated that one of the comments of the feedback exercise that had been carried out as background to the papers being discussed today was the need for greater ownership on the part of area departments and mission chiefs to the work on standards. That, however, reflected the fact that staff and the area departments were struggling with the new ROSC exercise and finding the best way to incorporate that meaningfully in the work on surveillance. Obviously, many of the best practices laid out in the standards exercise have been part and parcel of the Fund's and the staff's work with countries. The assessment of standards and ROSCs have allowed the staff to have a more formalized framework to bring depth and more content to the Article IV consultation discussions. In addition, the challenge for area departments and the countries has been to identify which standards might be meaningful and relevant for the country at that time, and how could those be best implemented with the assistance of the Fund. What has been found in the work of area departments was that the surveillance exercise needed to have a medium-term dimension to be able to give proper prioritization and sequencing in discussions with the authorities as to how they would want to address certain standards and over which time period.

Mr. Portugal thanked the staff representative from PDR for trying to come up with an example for the question he had asked. However, he was not sure that was really an example. Had he said that there had been an Article IV report with Korea, prior to the crisis, where the Fund had asked the Koreans questions about how they were doing with corporate governance and they had not wanted to reply? Or had the Fund made that discovery after the crisis? If the Fund did not have standards at that time, then it was not a relevant example.

The staff representative from the Policy Development and Review Department remarked that the example he had given was of a case where the issue had or would become a focal point of surveillance and a legitimate subject of discussion in the consultation. It was meant to illustrate the fact that the Fund's surveillance function was moving now into new areas. He did not mean to imply that the authorities in that case had not answered the staff's questions.

Mr. Szczuka asked the staff to comment on the problem of dealing with the different capacities and levels of development in member countries. There had been a proposal to look at standards more as a progress report and not so much as an actual picture of what was going on in a particular country because countries would prefer to be rewarded for the progress made over a certain period of time, instead of indicating where progress had not been made. It was not clear whether that could be done within the ROSC or only through the updates.

On the issue of linking standards to surveillance, Mr. Szczuka observed that the Fund would not be able to prepare ROSCs for all member countries. The concern about mission creep, however, would in part be addressed by the assurance that only the relevant questions would be asked. One of the main concerns with Option 2 was that the staff was trying to link that to surveillance. However, if there was an understanding that the staff would only look at the relevant information to ensure that the standards were being observed, then that would be acceptable. Countries should be aware that there was a problem that needed to be fixed.

The staff representative from the Policy Development and Review Department pointed out that the style of the assessments has changed over time. Current advice was to give full credit to the progress that had been made, and to the authorities' plans for future change. That was at least as important as the exact status of a country at a particular point in time. It would be very useful to reflect on how to carry out such an approach in an evenhanded manner across all countries.

In response to a question by Mr. Szczuka, the staff representative indicated that it would sometimes be difficult to determine which sector had contributed to a crisis. Most likely, preventing a crisis would require institutional building in the financial sector and that was a major feature of the FSAP/FSSA process.

Mr. Walsh pointed out that there were many country examples where Option 2 might be of use. Option 2 would make it easier for countries to determine whether they were operating close to or at best practice. By attempting to ask countries to demonstrate that they were actually at best practice, many problems had been uncovered. For instance, the Thai authorities had thought they had a relatively sound banking sector. However, when the Basel core principles assessment had been conducted, the banking sector had failed to comply with any aspect of the Basel core principles. Thailand was an example where by not asking questions, the Fund had failed in its surveillance mandate. Option 2 was able to ensure, by linking the standards and codes issue to the surveillance process, that such a situation would not occur again. Option 2 would provide a mechanism whereby one could attempt to answer some questions. The case of Thailand was a good example of a problem that the Fund was attempting to correct.

The Acting Chairman made the following summing up:

Overview

Executive Directors welcomed the opportunity to review the experience of assessing and implementing standards and to discuss next steps in what is a complex and evolving area. They viewed the development and implementation of standards in areas relevant to the effective functioning of members' economic and financial systems as central to strengthening the architecture of the international financial system. While the work on standards is not new, as standards have provided a context for discussions between national authorities and Fund staff for many years, Directors noted that the increased attention to standards, and the introduction of standards assessments, are intended to help sharpen the focus of Fund policy discussions with national authorities and to strengthen the functioning of markets. They stressed that, by establishing a consistent, although not mechanistic, approach to standards assessments, Reports on the Observance of Standards and Codes (ROSCs) can provide rigor, content, and focus to the work on standards. Directors welcomed the broad based participation of member countries in the initiative, together with closer contact with standard setters and growing interest in the private sector as a sign of the increasing momentum for the work on standards.

Lessons from the review and implications for next steps

Directors highlighted a number of lessons from the review and drew out a number of implications for next steps:

- (the current modalities for undertaking assessments and producing ROSCs, including the voluntary nature of ROSC participation (see Attachment I) are working well and should continue;

- assessments need to be independently conducted and consistently applied across countries. Detailed guidance for assessors can help provide this consistency. Self-assessments also have a useful role to play, as these would help promote ownership of the assessments. In general, Directors thought self-assessments should be followed by external evaluations to bring the perspective of independent assessors to the process; early evidence suggests ROSCs can appropriately allow for consideration of the different stages of economic development, the range of administrative capacities, and the different cultural and legal conditions across the membership; but care needs to be taken to ensure that these considerations are actively incorporated in standards assessments;

- ROSCs should provide the context for the assessment, including the progress made by the country in implementing standards, and the authorities' plans for further implementation;

- ROSCs can be useful to national authorities by helping them develop their own reform plans, assess compliance with international standards and codes, and serve, if published, as a signal of transparency of their policies;

- ROSCs can provide a helpful input into Fund surveillance and technical assistance;

- there is growing interest and awareness in the private sector of the work done on standards by the Fund and the World Bank, but further outreach efforts are clearly needed;

- caution should be exercised to ensure that the Fund's assessments do not resemble ratings for countries, or make use of pass-fail judgments.

Beyond these lessons, it was recognized that the concerns expressed by a number of Directors about the process of developing standards and assessing observance of standards needed to be kept in mind as we move beyond the experimental phase and to the establishment of the ROSC as a permanent and principal tool for assessing standards and codes. Several Directors suggested that more research needed to be done to assess the specific benefits of the use of standards and codes in reducing vulnerability to macroeconomic and financial shocks.

Ensuring an appropriate framework for the work on standards

Directors agreed that the adoption and assessment of internationally recognized standards will remain voluntary. They recognized that priorities for implementing standards would differ by country and through time, and assessments would need to take into account differences in members' economic circumstances and stages of development.

Directors encouraged the staff to continue its work on developing and managing Fund standards and codes, and to enhance its collaboration with other standard-setting agencies.

Directors recognized the 11 areas and associated standards and codes identified in Box 3 of the staff paper as those which are useful to the operational work of the Fund and the World Bank, and for which assessments will be undertaken as appropriate. They stressed that the list should only be reviewed and modified by the Executive Board of the Fund, in consultation with the World Bank, where appropriate.

Directors reaffirmed that the Fund would undertake assessments in the areas of data dissemination and fiscal transparency, and that assessments in the areas of monetary and financial policy transparency, banking supervision, securities, insurance, and payments systems will generally be undertaken in the context of the joint Fund-Bank Financial Sector Assessment Program (FSAP). They welcomed the steps taken by the World Bank toward the goal of preparing assessments in the areas of corporate governance, accounting, auditing, as well as insolvency and creditor rights, and looked forward to a significant increase in Bank-led ROSCs in these areas in the period ahead. Directors recognized the important role that representatives of standard setters and other institutions have played in developing assessment methodologies and in undertaking assessments, including through participation in missions.

Concerns about the process

While welcoming the work under way in the Fund on standards and codes, a number of Directors expressed concerns about the process of developing and assessing standards. They stressed the importance of ownership and of ensuring that all members had a role in shaping and guiding the work on standards, and indicated that the key aspect of achieving this aim would be the regular review by the Fund Board of the modalities under which assessments take place and of the list of standards used for such assessments. Directors welcomed the steps which have been taken thus far to address the concerns raised by some members, including: prioritization of assessments so that members are assessed only against those standards, and those parts of standards, which are relevant to their situation; and the fact that, in several cases, standard setters have adopted a multi-track approach, setting out benchmarks for countries at different stages of development. They also welcomed the proposal to include authorities' views on ROSC assessments. In order to ensure uniform treatment, Directors agreed on the importance of filling the current gap in procedures so that industrial countries can also be assessed against standards for which the Bank is in the lead. They also agreed that the staff should experiment with ways to fill this gap, including by allowing Bank experts to prepare assessments in the context of Fund missions.

While underscoring the importance of addressing the concerns that have been raised about the work on standards, Directors emphasized that a key benefit of international standards is the use of consistent definitions across countries and that it is important to maintain this consistency.

Surveillance

Directors agreed that members' implementation of standards identified as useful for Fund operational work is an important element in the assessment of the general economic situation and economic policy strategy of members. While differences of view were expressed about the modalities of linking the Fund's work on standards and codes to the surveillance process, on balance, Directors agreed to Option 2 as set out in the staff paper and the proposal for how Option 2 would operate in practice (see Attachment II). Many Directors emphasized that the provision of information by members on the observance of standards in the 11 identified areas was important to the conduct of comprehensive analysis under surveillance. These Directors agreed that ROSCs and ROSC updates, though voluntary, provide a systematic and structured way of organizing and presenting information on standards assessments to help guide and inform the surveillance process.

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.

Many Directors, however, considered that, while standards assessments can help inform the surveillance process, they were concerned that Option 2 went too far in formalizing the link between the work on standards and surveillance at the risk of becoming too mechanistic. In particular, they considered that Option 2 risks bringing some standards closer to becoming an obligation of members and could overburden the surveillance process. These Directors did not see the need to move beyond the current practice and pointed out that this practice seems to be working well.

To ensure that the information contained in ROSCs remains current, Directors agreed that factual updates to ROSCs would be prepared and circulated to the Board at the time of subsequent Article IV reports.

Circulation and publication

Directors supported a transmittal policy for ROSCs to other organizations that follows the policy currently in operation for Article IV documents.

Directors agreed that the Fund's new publication policy formalizes the voluntary approach to publication of ROSCs. They agreed that any updates to ROSCs will be subject to the same procedure.

Directors agreed that ROSC modules will often be published following the conclusion of an Article IV consultation—at the time of the Fund's Board release of a Public Information Notice, where one exists. However, they also recognized that, in some cases, ROSC modules are finalized a number of months prior to the Board discussion of the Article IV consultation. In line with the recent transparency decision and in order to maximize disclosure, Directors reconfirmed that publication of finalized ROSC modules on the Fund's website could take place with the member's agreement and after notice to the Board. Several Directors asked that consideration be given, in some cases, to finalizing and allowing publication of ROSC modules derived from the FSAP in advance of the Article IV consultation.

Pace and prioritization of assessments

Directors noted that the work on standards has significant resource implications for national authorities and for the Fund. Most Directors indicated that maintaining the output of ROSCs at the current level was the minimum necessary for effective Fund surveillance. Some Directors viewed the current pace of ROSC output as adequate for effective surveillance. However, a few Directors were of the view that if ROSCs were to fulfill their objective of better informing surveillance and the private sector, the pace will need to be increased.

Directors called for a careful prioritization of work in this area. Some Directors, noting the critical importance of standards and codes, observed that this matter will be taken up in the context of the forthcoming budget discussion.

Technical Assistance (TA)

Directors recognized that the work on standards is leading to an increase in demand for the provision of TA to facilitate self-assessments, to implement standards, and to respond to recommendations contained in assessments. They urged as many countries as possible to make available additional technical specialists and resources to help meet this demand. Consistent with Fund Board recent guidance, Directors agreed that there could be a role for the Bank and the Fund to coordinate TA in this area in some cases.

Directors agreed that a further overall review of experience with standards assessments should take place in two years' time. In the meantime, the list of standards could be revised by the Board as appropriate. There will also continue to be periodic reviews of individual standards.

Mr. Daïri said that, while there was a lot of support for Option 2, the concerns of those who did not support Option 2 should also be recorded in the summing up. That would result in a more balanced outcome.

Mr. Portugal remarked that he had a similar comment as that of Mr. Daïri with respect to the question of Option 2, where the Acting Chairman said that a majority of Directors agreed with Option 2. He had counted those who agreed with Option 3 and he had counted 11, and not all Directors had commented on that issue in their written statements. Thus, it was not clear whether it was a majority or not. Also, it was not clear whether that issue was being decided on voting terms. But he asked the Acting Chairman that if the term majority was kept, there should also be a quantitative reflection for those that opposed, because the Acting Chairman had said "other Directors," and since there were 11 Directors, he recalled that there was a system that when between 10 and 15 spoke on one issue, one could say "many". But "other" was a very vague word.

The Acting Chairman indicated that there was both a head majority and a weighted majority for Option 2.

Mr. Portugal remarked that when one talked about preparation of assessment, one talked about not having the pass-or-fail approach. It would also be in line to mention something in that part, saying that ROSCs should acknowledge the progress that has been done by countries and the initial conditions from where they started and what they have already achieved. That was something which was in the staff report. Everyone agreed with it.

The Acting Chairman assumed that Directors would agree that the paper be published.

Mr. Daïri said that he supported the proposal to publish the paper, but if there was going to be a PIN, it should clearly indicate the divergent opinions between Directors.

The staff representative from the Policy Development and Review Department remarked that the standard practice was that the Board be asked if they would agree to the PIN being published.

The Acting Chairman indicated that once the summing up had been amended so as to reflect in a more perfect way the discussion, it would be published as a PIN.

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/01/9 (1/26/01) and EBM/01/10 (1/29/01). The decision on Cambodia was taken, with one abstention from Ms. Lissakers.

2. CAMBODIA—POVERTY REDUCTION AND GROWTH FACILITY—REVIEW

"Pursuant to paragraph 5 of the Decision adopted on January 19, 2001 regarding the completion of the second review under Cambodia's PRGF arrangement, the Fund decides that the World Bank has concluded that the Interim Poverty Reduction Strategy Paper (PRSP) submitted by Cambodia provides a sound basis for the development of a fully participatory PRSP and for World Bank concessional financial assistance. Accordingly, the Decision adopted on January 19, 2001 shall become effective on the date of this decision." (EBS/01/2, Sup. 2, 1/26/01)

Decision No. 12420-(01/10), adopted
January 26, 2001

3. ANDORRA, LIECHTENSTEIN, MONACO, NAURU, AND NIUE—TECHNICAL ASSISTANCE

The Managing Director is authorized to provide technical assistance to Andorra, Liechtenstein, Monaco, Nauru, and Niue in the context of the offshore financial center assessment process. (EBD/01/9, 1/25/01)

Adopted January 26, 2001

APPROVAL: September 19, 2001

SHAILENDRA J. ANJARIA
Secretary

Box 3. List of Standards and Codes Useful for Bank and Fund Operational Work

Group 1: *these are the initial set of areas defined as within the Fund's direct operational focus when the ROSC pilot was initiated.*

Data Dissemination: the Fund's *Special Data Dissemination Standard/General Data Dissemination System* (SDDS/GDDS).

Fiscal Transparency: the Fund's *Code of Good Practices on Fiscal Transparency.*

Monetary and Financial Policy Transparency: the Fund's *Code of Good Practices on Transparency in Monetary and Financial Policies* (usually assessed under the FSAP).

Banking Supervision: Basel Committee's *Core Principles for Effective Banking Supervision* (BCP) (usually assessed under the FSAP).

Group 2: *these additional areas are assessed under the FSAP. It is arguable that the Fund's focus on financial sector monitoring under surveillance, and the development of the FSAP as the principal means to conduct that monitoring, combined with the Bank's responsibility for financial sector development, also make these areas of direct operational focus for both institutions.*

Securities: International Organization of Securities Commissions' (IOSCO) *Objectives and Principles for Securities Regulation.*

Insurance: International Association of Insurance Supervisors' (IAIS) *Insurance Supervisory Principles.*

Payments Systems: Committee on Payments and Settlements Systems' (CPSS) *Core Principles for Systemically Important Payments Systems.*

Group 3: *these areas were highlighted as important for the effective operation of domestic and international financial systems by the Fund Board*[1/] *and are now being assessed by the Bank under the ROSC pilot.*

Corporate Governance: OECD *Principles of Corporate Governance.*

Accounting: International Accounting Standards Committee's *International Accounting Standards.*

Auditing: International Federation of Accountants' *International Standards on Auditing.*

Insolvency and creditor rights: see paragraph 3 of staff paper.

1/ Summing Up of the Acting Chairman, *International Standards and Fund Surveillance—Further Issues* (SUR/99/42, 3/31/99).

Box 4. Standards as an Operational Part of Fund Surveillance: Option 2

The following are the main elements of staff's proposals to implement Option 2:

Which standards are relevant for surveillance? The paper proposes that the Fund Board should establish a list of areas and related standards that it considers important for surveillance. Box 3 provides a suggested list for consideration.

What information should national authorities provide? Information would be sought for only those standards that are on the list. The information would need to be sufficiently detailed to allow staff to judge the degree of progress in implementation. In individual cases:

- staff would seek information on those standards which are relevant to the circumstances and stage of development of the country;
- like economies would need to be treated alike, but not all economies would be treated identically, as the standards relevant to individual countries would differ over time as their economic circumstances change; and
- each assessment would focus on those elements that are most relevant to the individual member.

When would staff seek this information? Standards assessments would be an input into the Fund's Article IV consultation and would need to draw on the expertise of specialists. Thus, the information should be sought **prior** to an Article IV mission, and the implications of the assessment should be discussed during the Article IV mission.

Who should seek this information? The area department will be the main link between national authorities and the Fund. They would need to seek this information in consultation with relevant functional departments.

How would this information be obtained? Staff believe that it would be **preferable** to obtain the information through the preparation of ROSC modules. However, it may be possible to rely on other sources of information.

How often would ROSCs need to be prepared? At the current pace, every Fund member would, on average, receive four modules every seven to eight years. It would be possible to allow considerable variation around this average cycle. Countries implementing reforms, of systemic importance, or at greater perceived risk, could be assessed more frequently, but others would be assessed over a longer cycle. Nevertheless, it is not clear that this average periodicity is sufficient to be consistent with the view that ROSCs are the preferred method of obtaining information to inform surveillance in these areas.

How would ROSCs be kept current? Short updates could be prepared in the context of an Article IV consultation in years between the preparation of a module. These updates could be largely descriptive in nature and would be prepared by the area department. However, it is not clear that such an approach will provide the information necessary to undertake effective surveillance. The alternative of **substantive** updates would increase resource requirements.

What if a country does not volunteer for a ROSC? Participation in the ROSC is voluntary. If a member has not volunteered to participate, other information sets would need to be used to inform surveillance, if available. If a ROSC is not used, it would be important to say how the information was collected. Such information could be presented in an Annex with the limitations clearly spelled out. In the absence of a ROSC, staff could report on a member's self-assessment provided it had conducted a "due diligence" of the member's conclusions, and the results of standards-related TA or questionnaires could be used.

In cases where countries' observance of standards is deemed poor, the Board could encourage countries to participate in a ROSC.