

ARCHIVES
ROOM HQ C-532

0409

BUFF/00/71

May 11, 2000

**Concluding Remarks by the Acting Chairman
Experience with Basel Core Principles Assessments
Executive Board Meeting 00/48
May 5, 2000**

Executive Directors welcomed the opportunity to review the experience to date with 26 Basel Core Principles Assessments (CPAs), conducted by the Fund and the World Bank. Given the key role of banks in the financial sectors of most countries, Directors considered CPAs to be a crucial element of the broader Financial Sector Assessment Program (FSAP). Directors representing countries which had undergone CPAs noted that the results of CPAs had proved useful for strengthening systems of banking regulation and supervision. While recognizing the preliminary nature of this survey, Directors, nevertheless, stressed the importance for the Fund to pursue vigorously its work in the area of financial sector assessment so as to provide its diverse membership with the assistance they will need to further strengthen their financial systems.

Directors welcomed the development of a methodology for assessment, and noted the significant improvements that this methodology had brought to the assessments. They also welcomed the Fund's increasingly active collaboration and dialogue with the Basel Committee, and encouraged staff to continue to contribute to the efforts of the Basel Committee to further improve the Core Principles and their implementation. Directors were encouraged by the cooperation between Fund and Bank staff and the national authorities in the preparation of CPAs. They considered that the Fund's universal membership put it in a unique position to identify concerns that countries may have and to disseminate more widely the work on raising standards in the financial sector.

Most Directors agreed that CPAs are best undertaken within the broader framework of the FSAP, in order to address financial vulnerabilities more fully and provide better linkages to the overall macroeconomic conditions and other preconditions for such assessments, such as effective accounting as well as legal and institutional frameworks. At the same time, there will continue to be a role for stand-alone assessments as part of a technical assistance program, or in the course of drawing up a reform agenda, or as modules for Reports on the Observance of Standard and Codes (ROSCs).

Directors observed that the 26 assessments showed serious weaknesses in banking supervision in many countries, noting, in particular, weaknesses in the implementation and enforcement of regulations and law in systems for managing and monitoring bank risks, in undertaking prompt action to correct incipient weaknesses, in consolidated supervision, and in establishing many of the preconditions for effective supervision, such as accounting and legal systems. They urged the authorities in these countries to take necessary corrective

actions expeditiously. Directors considered that technical assistance, without neglecting other key areas, should focus on addressing these weaknesses, and resources for this purpose should continue to be carefully reviewed and increased as needed.

While self-assessments have tended to be more optimistic than CPAs conducted by the Bank and the Fund, Directors noted that self-assessments, which could be done with the help of outside experts, are valuable if prepared on the basis of the new methodology and if followed by an independent assessment by the Fund or the Bank. Directors pointed to the usefulness of self-assessments, in particular as an indicator of the degree of the country's ownership of the reform effort and also to lay the groundwork for the external assessment and thus help address the resource constraint.

Directors stressed the importance of assessing compliance, not only through having in place the appropriate rules but also by ensuring that the rules are fully complied with in practice. In this context, they agreed that CPAs would need to identify and help prioritize corrective actions. Directors saw the need for a supportive role of technical assistance from the Fund and the Bank to help improve implementation. They also noted the importance of keeping the Basel Core Principles and the accompanying methodology up to date, making use of experience gained so far from the assessments.

The Board will consider the broad issue of publication of CPAs conducted as part of FSAP in the context of the review of the pilot project later this year. As already agreed, summaries of the CPAs will be published on a voluntary basis as part of the ROSCs.

Directors generally considered that the prospect of improving national regulatory and supervisory capabilities was providing adequate incentives for countries to participate in CPAs.

In conclusion, Directors agreed that a further review of experiences with CPAs could be highlighted as part of the next review of the FSAP later this year.