

BUFF/10/115

July 29, 2010

**The Acting Chair's Summing Up  
Safeguards Assessments—Review of Experience;  
The Safeguards Policy—Independent Panel's Advisory Report  
Executive Board Meeting 10/76  
July 23, 2010**

Executive Directors welcomed the opportunity to conduct this review, which marks the 10<sup>th</sup> anniversary of the Fund's safeguards assessment policy. They noted that the policy, which was introduced in March 2000 and adopted as a permanent feature of Fund operations in March 2002, continues to be widely welcomed and yield positive results in an ever changing central banking environment. Directors expressed their appreciation to the panel of experts for providing an independent appraisal of the safeguards process and noted the panel's conclusions and recommendations.

Directors reiterated the continued effectiveness of the safeguards policy in helping mitigate the risks of misreporting and misuse of Fund resources, and maintaining the Fund's reputation as a prudent lender. They observed the positive impact of the policy on central bank operations, evidenced by a continuing trend towards enhanced transparency and improved control systems by central banks assessed. Directors also noted that the policy has played an important role in the detection and resolution of cases involving misreporting and governance abuse, but stressed that safeguards assessments alone cannot be a panacea for governance abuse and control overrides.

Directors agreed that the existing framework for assessing and monitoring central banks' operations remains broadly appropriate, and that the process of improving the safeguards policy needs to be continuous and sufficiently flexible to reflect evolving circumstances. Directors welcomed the panel's recommendations to update the existing framework through a sharper focus on governance and risk management in the ELRIC framework that is used in conducting safeguards assessments and enhance collaboration with stakeholders, and broadly endorsed staff's proposals in these areas. Directors also welcomed staff's suggestions to increase information sharing and encouraged central banks to make further efforts to increase their self assessments, where feasible.

Directors affirmed that existing policy requirements for the publication of financial statements that have been independently audited by high-quality firms in accordance with international standards and the deadline of the first program review for completion of a

safeguards assessment remain broadly appropriate and should continue to be applied consistently. Directors welcomed the conclusion of the panel that the risk-based safeguards monitoring framework, introduced following the previous review, has been effective. Noting the importance of continued cooperation by central banks and their external auditors for maintaining the effectiveness of the monitoring framework, Directors agreed that instances of non-receipt of monitoring information be explicitly flagged in staff reports.

Directors noted that the current framework is focused solely on central banks and that replicating safeguards assessments across the whole of government for budget financing cases remains challenging. Against the backdrop of an increasing number of such cases recently, Directors welcomed the steps taken to ensure that an appropriate framework between the central bank and the state treasury is in place for timely servicing the member's financial obligations to the Fund, and endorsed their application as a standard procedure under the existing safeguards framework. Many Directors encouraged staff to highlight fiscal safeguards risks in the staff reports involving budget financing, drawing on a variety of available diagnostic sources such as ROSC and PEFA reports. A number of Directors cautioned that this may not go far enough and encouraged exploration of a possible, more ambitious approach to conduct targeted safeguards assessments at the level of state treasuries, which would require a parallel assessment mandate and product.

Directors considered the confidentiality of safeguards assessment reports and options for dissemination of safeguards findings. They observed that the existing confidentiality of safeguards reports had served the due diligence aspects of the policy well, and should be retained. Directors broadly agreed that there is scope for wider dissemination of safeguards findings and welcomed the staff's proposals to adapt the existing reporting format in safeguards and staff reports and to expand the annual activity reports to the Board. Directors also agreed that confidential briefings could be provided to donors, if requested, and with the consent of the central bank, and encouraged central banks to make their own efforts in disseminating safeguards findings.