

**FOR
AGENDA**

SM/00/263
Correction 1

December 11, 2000

To: Members of the Executive Board

From: The Secretary

Subject: **Financial Sector Assessment Program—A Review—
Lessons from the Pilot and Issues Going Forward**

The following corrections have been made in SM/00/263 (11/27/00):

Page 32, Footnote 28: revised.

Pages 33 and 34: corrected for overflow of text.

Corrected pages are attached.

Att: (3)

Other Distribution:
Department Heads

75. The resource costs discussed here refer only to the resources of the Bank and the Fund. It is recognized that the FSAP also imposes a burden on national authorities. The staff are sensitive to that burden and are working on ways to reduce it, for example by assisting in self-assessments of standards ahead of FSAP participation and through more focused coverage of issues.

Linkage to the development work of the Bank

76. As noted above, the analysis and recommendation in the FSAP assessments are integrated into the work of the Bank and are reflected in CASs and other documents. More generally, the assessments will inform the dialogue among national authorities and various elements of the Bank Group, the Fund, and the broader international community. Only through such a dialogue can appropriate priorities be established with respect to capacity building and institutional reform and corresponding international support.

77. Experience to date has shown that this process already has begun, but on a somewhat ad hoc basis. Going forward, it may be desirable to consider more systematic means to ensure that, where appropriate, support from the Bank Groups is forthcoming, and—consistent with the Bank's mandate to support institutional capacity building—that the Bank plays a constructive role in catalyzing international support.

78. The funding for follow-up work by the Bank, including technical assistance that is requested as a consequence of the FSAP recommendations, will be considered in the context of the Bank's overall budget and the associated determination of priorities. In the broader context, Bank staff are exploring means to enhance the Bank's catalytic role, including through the possible use of trust fund resources from bilateral donors under a multi-stakeholder partnership arrangement.

Publication and distribution issues

FSAP reports

79. The policy so far has been that publication of FSAP reports by the Fund, the Bank or national authorities is not authorized by Fund and Bank managements. The view from the outset of the program has been that these reports generally contain highly confidential information and need to be candid. Therefore, FSAP reports are prepared by the staff as confidential documents for national authorities. They are not circulated to the Boards, and receive only limited circulation among Fund and Bank staff.

80. Experience to date has shown that, to formulate a comprehensive analysis of financial system strengths and vulnerabilities including carrying out stress tests and other diagnostic exercises, it is desirable that FSAP missions have access to highly confidential information,

especially data related to individual financial institutions.²⁷ The inclusion of the results of analysis of such data in an FSAP report facilitates the review of financial system issues with the authorities. It would seem appropriate for the managements of the two institutions to continue not to authorize the publication of the main volume of an FSAP report or associated confidential documents. These documents would continue to be circulated on only a limited basis within the Fund and the Bank.

81. However, other components of a typical FSAP report are self-contained and not normally regarded as highly sensitive; publication of those parts is less problematic. In particular, the detailed assessments of observance of standards and codes that is included as a subsidiary volume to main FSAP reports would most obviously fall into this category. While they contribute to the wider financial sector work of the Bank and the Fund in the context of the FSAP, they may also inform outside observers. It is, therefore, appropriate to allow wider circulation and even publication by national authorities of the detailed technical assessments of observance of standards and codes. This would be consistent with the recent practice in the Fund that the detailed assessments that are carried out in the context of technical assistance may be circulated more widely by national authorities if they wish, subject to management consent.²⁸

82. Voluntary publication of the detailed standards assessments would be consistent with the approach that is envisaged with the publication of assessments of observance of standards and codes by OFCs. It would also enable European Union (EU) accession countries to provide the EU with the detailed assessments done under the FSAP as part of their accession

²⁷ Access to such information may not be possible when national authorities are legally prohibited from providing such information, unless the financial institutions themselves are willing to do so.

²⁸ In many cases authorities wish to publish or widely discuss such assessments to build momentum for reforms and to justify the substantial resource costs involved, and it would be appropriate for the Fund and the Bank to support such transparency initiatives. A request by the Albanian authorities to be authorized to publish the detailed assessment of the observance of the Code of Good Practices on Transparency in Monetary and Financial Policies which was carried out by Fund staff in the context of technical assistance was recently granted by Fund management. The assessment was circulated to the Fund's Board for information. Fund and Bank management granted a similar request by the Brazilian authorities to publish the assessment of the Basel Core Principles for Effective Banking Supervision which was carried out by Fund and Bank staff in the context of technical assistance. Publication by the Brazilian authorities and circulation to Executive Directors is expected in the next few weeks.

requests. It is important to note, however, that a decision to allow the publication of detailed assessments of observance of standards would not serve as a replacement for ROSCs.²⁹

FSSAs and FSAs

83. Publication policies for FSSAs and FSAs should be consistent. The current policy, which applied to the FSAP pilot, is not to permit publication of FSSAs and FSAs (by the Fund or the Bank, as appropriate, or national authorities). These documents have also received only limited circulation within the Fund and the Bank and have not been circulated to outside agencies. However, national authorities may elect—on a voluntary basis—to publish the summary assessments that form Part II of the FSSAs, as they are issued as ROSC modules.

84. It is the Fund staff's view that experience with the pilot indicates that it has been possible to include in FSSAs a full picture of the findings of the FSAP teams relevant to systemic stability issues without including, for example, highly market sensitive information on individual financial institutions. Furthermore, while some national authorities have indicated that they would not wish to publish their FSSAs, others have requested that the Fund allow publication, as it has been felt by them that this would enhance transparency as well as their reform agendas, not to mention potential value to market participants in formulating investment decisions.

85. FSSAs also convey the broader context in which to interpret the assessments of standards and this would improve the information content of the ROSCs that are published. Finally, FSSA findings are referred to in Article IV staff reports, which may be published. When this has occurred there have been no apparent negative reactions from markets.

86. Therefore, the Fund staff recommends that FSSAs be treated the same as staff reports for Article IV consultations for publications purposes. Publication of FSSAs could be permitted on a voluntary basis at the conclusion of the FSAP process subject to the same deletions policy regarding market sensitive information that pertains to staff reports.³⁰ Although FSSAs and the associated Article IV staff reports would be complementary, publication of FSSAs would be permitted even if national authorities did not wish to publish

²⁹The role of ROSCs, as well as their preparation, is explored in *Assessing the Implementation of Standards: A Review of Experience* (forthcoming).

³⁰The FSAP process is concluded when the FSSA is distributed to the Fund's Board and the associated Article IV consultation has been concluded, the FSA (for non-industrial countries) is distributed to the Bank's Board, and the final FSAP report is transmitted to the authorities.

the staff reports. The staff propose that FSSA reports be given the same internal distribution and circulation to outside agencies as the staff reports for Article IV consultations.³¹

87. From the Bank's perspective, disclosure of FSAs would increase awareness of development needs and could help to generate a consensus for addressing those needs. At the same time, the willingness of authorities to make FSAs public might be seen as a signal of a serious intention to address their problems and so might induce financial and other support from the private sector. Therefore, the Bank staff recommends that publication of FSAs could be permitted on a voluntary basis at the conclusion of the FSAP process.

88. It is proposed that the new policy for voluntary publication would not apply to initial assessments of the 12 pilot countries. These countries could, however, on a voluntary basis, publish a subsequent FSSA or FSA in the context of updates of the assessments undertaken by the Fund and the Bank in the course of their ongoing activities.

³¹The European Commission, for example, has expressed interest in receiving the FSSAs for countries seeking accession to the European Union.