THE FINANCIAL SECTOR ASSESSMENT PROGRAM AFTER TEN YEARS: EXPERIENCES AND REFORMS FOR THE NEXT DECADE

1. The Executive Directors of the Bank and IDA, in an Informal Meeting, discussed a joint IBRD/IMF report entitled "The Financial Sector Assessment Program After Ten Years: Experience and Reforms for the Next Decade" (SecM2009-0416, dated September 4, 2009).

2. **Staff Introduction.** Staff noted that in the ten years since the Asian financial crisis the Financial Sector Assessment Program (FSAP) had met the needs initially set for it but following another financial crisis it was time to adapt it to new needs, pressures and demands. That was the purpose of the paper under discussion, which had been developed jointly with IMF staff, with a view to bringing their respective skills and experiences together to best serve the needs of member countries.

3. **FSAP Report Welcomed.** A large number of speakers welcomed the FSAP review and expressed broad support for the changes to the program that it proposed.

4. **Bank-Fund Collaboration.** Many speakers agreed on the importance of close Bank/Fund collaboration in the FSAP, with each concentrating on areas of its particular expertise. Some speakers called for further clarification of each institution's role and felt that strengthening of the Financial Sector Liaison Committee (FSLC) would help in this regard. One of them was concerned by possible scaling back of Fund participation in FSAPs for small developing countries and also indicated the need for FSAP scope to go beyond the banking sector to cover areas such as capital markets. Some speakers stressed that the Bank role should be enhanced rather than diminished in any reshaping of FSAP. Another speaker argued that the Bank was providing a free good to IMF through FSAPs and suggested cost sharing with regions in order to increase ownership and commitment to post FSAP implementation. A different speaker requested more information on the IMF Board discussion of the paper.

4. IMF staff said the IMF discussion had been broadly similar to that in the Bank Board but with a special emphasis on Fund surveillance.

5. **Participation in FSAP.** A large number of speakers felt that participation in FSAP by countries should remain voluntary in order to assure ownership by the authorities. Several speakers suggested that incentives could be provided to encourage country participation, in the interest of an improved global financial architecture. Another speaker was concerned that voluntary participation could result in some systemically important countries not undergoing an FSAP, which was an important tool for preventing crisis. A different speaker argued that the FSAP should be mandatory but recognized that for the Bank to remain engaged FSAPs needed to remain voluntary. Some speakers welcomed the commitment of all G20 members to undertake an FSAP exercise.

6. IMF staff said the consensus in IMF was that FSAP should remain voluntary.

7. **Resources/Staffing.** A number of speakers felt that additional resources would be needed to meet FSAP commitments. Several of them requested more information on the additional cost required to ensure a solid FSAP work program. Some speakers stressed the need for an adequate number of qualified financial sector staff to assure Bank capacity for participation in FSAP. One of them expressed concern about departures of financial sector staff and asked what was being done to address this. Several speakers felt that synergies with IFC should be explored to provide additional resources.

8. Staff gave a detailed response on staffing and resource issues in a written statement circulated as STS2009-0045, dated September 21, 2009.

9. **Module Option.** A large number of speakers concurred with the proposed modular option to introduce flexibility in choice of vehicles for FSAP updates. However, several speakers stressed that this should not be allowed to weaken the comprehensive nature of the overall process.

10. Staff said the modular option was designed to complement and not substitute for comprehensive assessments and updates.

11. **Follow-up/Technical Assistance/CAS Process.** A number of speakers underlined the importance of follow-up through technical assistance as well as linkage to the Country Assistance Strategy (CAS) process. A number of speakers urged staff to use FSAs in developing CASs. Some speakers commented that the non-disclosure status of FSAs made this difficult. A few speakers were disappointed that coverage of financial sector issues in CASs had been uneven and shallow. One of them pointed out that the long time gap between FSAP updates was a major obstacle to their use in CASs.

12. Staff said that the provision for development of modules would enhance the capacity for timely inputs to CASs and that the provision for offsite work would facilitate follow-up on specific recommendations. The Bank was committed to doing this.

13. **Interaction with Global Financial Standard Setters.** A few speakers asked how management foresaw future interactions between FSAP and global financial standard setters, including the Financial Stability Board (FSB), Reports on the Observance Standards and Codes (ROSCs) and the G20.

14. Staff provided a detailed response to this issue in the written statement.

15. **Disclosure/Reporting.** Some speakers felt FSAs should be disclosed as much as possible to enhance transparency of the FSAP but a few cautioned that this must be done carefully without infringing on the principle of confidentiality in a way that affected markets. Another speaker suggested that there should be periodic reporting on common trends revealed through FASP assessments.

16. Staff responded to the issues of disclosure and reporting in the written statement.