



Guidance Note

This guidance note describes the role and responsibilities of an **IOSCO assessor** in the Financial Sector Assessment Program (FSAP).

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IOSCO Assessors

The purpose of the IOSCO assessment

The overall objective of conducting an IOSCO assessment within the FSAP is to:

- assist authorities in the country in comparing their securities regulatory system with an internationally accepted benchmark, the International Organization of Securities Commissions' Objectives and Principles of Securities Regulation (IOSCO Principles),
- provide the authorities, as well as the IMF and the World Bank, with input into the overall assessment of the risks and vulnerabilities of a country's financial system, and
- help the authorities, as well as the IMF and the World Bank, to identify the reforms needed to enhance the functioning and soundness of securities markets, especially with respect to the regulation of securities markets, and to make informed policy decisions about the reforms needed.

Background information about the FSAP and its objectives, including a chapter on the IOSCO assessment, can be found in the FSAP Handbook, when published.

The responsibilities of the FSAP team

The assessor is a member of the FSAP team headed by a World Bank or an IMF staff member. The team comprises staff members and consultants of the IMF and the World Bank. Its role is to assist the authorities of the country, at their request, in evaluating the strengths, potential systemic vulnerabilities, and key development opportunities of the country's financial system and identifying measures that should be taken to improve the foundation for a sound financial sector that will contribute to the country's economic development.

The FSAP team typically visits the country twice, generally each mission is for a period of 10–15 days. However, the assessor will generally participate in only one mission. Terms of reference for the missions, that are given to the authorities before the first mission, indicate the scope of the work that is to be undertaken including topics for technical notes and the financial sector standards and codes that are to be assessed, such as the Basel Core Principles and the IAIS Principles of Insurance Regulation.

The team produces an FSAP report that is given to the authorities of the country at the conclusion of the FSAP. The three components of the FSAP report are an aide-mémoire, technical notes, and detailed assessments of observance of standards and codes.

Standards assessors also prepare a summary of the detailed assessment which is issued as a Report on the Observance of Standards and Codes (ROSC).

A draft of the aide-mémoire, which contains an overall assessment of potential systemic vulnerabilities and strategic development priorities of the country's financial sector, is left with the country authorities at the end of the main (final) mission. Based on the aide-mémoire, the team also prepares a Financial System Stability Assessment (FSSA) for the Executive Directors of the IMF and a Financial Sector Assessment (FSA) for the Executive Directors of the World Bank.

The task of the securities regulatory expert

The assessor is to conduct an assessment of the implementation of the IOSCO Principles by the securities regulatory authorities in the country. The assessor is to apply the IOSCO Methodology for Assessing Implementation of the IOSCO Objectives and Principles of Securities Regulation (IOSCO Methodology). The IOSCO Methodology is available electronically on the IOSCO public website: <http://www.iosco.org/pubdocs/pdf/IOSCOPD155.pdf>

The assessment of the country's implementation of each individual Principle (other than Principle 6) is made by assigning to it one of the following assessment categories: fully implemented, broadly implemented, partly implemented, not implemented and not applicable. The IOSCO Methodology provides a set of assessment criteria to be met in respect of each Principle to achieve the designated benchmarks. IOSCO recognizes that the means of implementation may vary depending on the domestic context, structure, and stage of development of the country's capital market and acknowledges that regulatory authorities may implement the IOSCO Principles in many different ways. The assessor is to take this standpoint into account in completing the assessment.

In assessing the Principles relating to Self-Regulation, the assessor is expected to assess Principle 6 in conjunction with Principle 7 as contemplated by the IOSCO Methodology and as a consequence a separate assessment category is not to be assigned to Principle 6.

Assessment of the securities clearing and settlement system (Principle 30) using the CPSS/IOSCO assessment methodology will generally be made by the payments system expert on the FSAP team in consultation with the IOSCO assessor. The results of this collaboration should be reflected in section of the draft IOSCO assessment report relating to implementation of Principle 30.

In the course of undertaking the IOSCO assessment, the assessor is to co-ordinate and share his findings and tentative conclusions with the team in general, and specifically:

- the assessor responsible for assessing the transparency of securities regulations in accordance with the module of the IMF's Code for Good Practices on Transparency in Monetary and Financial Policies (MFP Transparency Code) (see separate section, below),

- the assessor responsible for assessing securities settlement systems in accordance with the Committee on Payment and Settlement Systems (CPSS) and the IOSCO Technical Committee (CPSS/IOSCO Task Force) Recommendations for Securities Settlement Systems (RSSS) using the CPSS/IOSCO assessment methodology, where there is a separate assessment,
- the assessors responsible for assessing the Basel Core Principles for Effective Banking Supervision, the IAIS Principles of Insurance Regulation, and other modules of the MFP Transparency Code, and
- the assessors responsible for assessing sections of the Bank/IMF Anti-Money Laundering and Combating the Financing of Terrorism assessment methodology (AML/CFT assessment methodology) pertaining to securities regulation, where there is a concurrent assessment.

Deliverables

During the course of the FSAP mission the assessor is to produce:

- the IOSCO assessment,
- a short summary of important findings, with priorities for action, for the aide-mémoire,
- a summary of the IOSCO assessment (ROSC),
- and contribute to the FSAP team discussions about possible vulnerabilities and development needs in the financial system as a consequence of deficiencies identified in the securities regulatory area.

The assessor is to prepare the IOSCO assessment and the ROSC by completing templates that will be given to them before the start of the mission in electronic form. In preparing the IOSCO assessment, the assessor should be able to draw on the information provided in the self-assessment that the securities regulatory authority is requested to complete using the IOSCO Methodology and data relating to the country's market structure that the authorities are asked to provide in response to a questionnaire.

MFP Transparency Code

Before the FSAP mission commences, the assessor may be asked to undertake the additional task of completing the template for the transparency of securities regulation module of the MFP Transparency Code. In preparing the transparency assessment, the assessor should draw on the information obtained in producing the IOSCO assessment and collaborate closely with the assessors responsible for other modules of the Code in order to ensure consistency in assessment of the transparency of all aspects of the supervisory system of the country's financial sector.

The primary focus of the transparency assessment is:

- clarity of roles, responsibilities and objectives of financial agencies,
- open processes for formulating and reporting of financial policies,

- public availability of information on financial policies, and
- accountability and assurances of integrity by financial agencies.

The template may be found at: <http://www.imf.org/external/np/mae/mft/index.htm>

The assessor is expected to complete the template and discuss the draft transparency assessment and its main findings with the FSAP team and the securities regulatory authority contemporaneously with preparing and discussing the draft IOSCO assessment (see sections below).

Preparing for the FSAP mission

Before visiting the country, the assessor should request that tools and background materials relevant to preparing the IOSCO assessment be made available to them at least 2 weeks before the start of the mission including:

- background information on the country and, where available, copies of relevant securities laws, regulations, rules and stock exchange by-laws,
- the terms of reference for the mission,
- a completed self-assessment using the IOSCO Methodology, if the country has prepared one,
- replies to the market structure questionnaire,
- the IOSCO Methodology, and
- templates for the IOSCO assessment and the ROSC in electronic form.

The assessor should also request that arrangements be made for meetings to be scheduled during the visit. Meeting requests should include meetings with the authorities, exchanges, clearing houses, depositaries and other SROs, as well as selected market intermediaries, issuers, asset managers and custodians in order to obtain representative views of the private sector on the nature of regulation and level of supervision of the securities market. The assessor is to provide details of the purpose of each meeting and guidance on who should attend to enable the authorities to organize the meetings in advance of the visit and ensure the topics to be covered will be dealt with in sufficient detail. Experience shows that generally it is best to start by meeting with the authorities; there are likely to be other meetings with the authorities, as well, including toward the end.

The FSAP mission

During the course of the FSAP mission the assessor is to conduct meetings with representatives of the public and private sectors to gather and verify facts about the securities regulatory system. The assessor should draw to the team's attention issues of major importance that arise out of discussions with either the authorities or the private sector.

The assessor is also expected to take an active part in internal FSAP team discussions about potential vulnerabilities in the

financial system providing input based upon their knowledge and experience in securities regulation. Team meetings are generally held in the early evenings.

When writing the assessment report, the assessor must take due care to ensure that the report gives a true and accurate description of the structure and operation of the regulatory regime as well as the effectiveness of the regulation. The assessor should identify specific areas where improvements in the regulatory framework would be advisable and make specific recommendations to the authorities on how to address weaknesses noted in the report. The assessor should exercise judgment in applying the criteria by which to assess the country's implementation of each Principle using the IOSCO Methodology. If the assessor's conclusion differs from the benchmark, they should explain in the assessment report the reasons for their conclusion by reference to the assessment criteria applied to the Principle.

The assessor should arrange to meet with the chairman and senior staff of the securities regulatory authority at the beginning of the mission, to explain what he intends to do, and towards the end of the mission in order to present them with the draft assessment report, give the authority an opportunity to provide an initial response to the IOSCO assessment, and confirm the accuracy of the information on which the IOSCO assessment is based. The assessor is expected to record the authority's views in the place provided in the assessment template, should any disagreements about the IOSCO assessment remain after these discussions. The draft assessment report may also be discussed with a wider group of country authorities at the end of the mission and left with them.

The assessor will need to give the draft assessment report to the regulatory authority at least 24 hours before the meeting. Accordingly, the assessor should be in a position to give a first draft of the assessment report to the team leader for comment and to revise the draft to take account of any comments in ample time to meet this deadline. It is advisable to begin to prepare the report early in the mission since time pressures can be quite challenging. Since the ROSC is a summary of the IOSCO assessment it should be written after the technical meeting with the authority has been held and confirmation given of the accuracy of the information on which the IOSCO assessment is based; this will generally not be done in the field but should be done promptly upon return.

The assessor may be invited to make a short presentation on the key findings and recommendations for improvements in the securities regulatory area at a final wrap-up meeting attended by senior officials of the country authorities and the FSAP team at the conclusion of the mission. This meeting is convened for the purpose of discussing with the authorities the principal recommendations made in the draft aide-mémoire which is left with them for detailed comment.

After the FSAP mission

An internal IMF and World Bank review process is undertaken after the second mission is concluded. The review process may take

several months to complete. During this time the authorities are given a further opportunity to comment on the FSAP report. The assessor should expect to be asked to respond quickly to comments raised by the review process or by the authorities, and, if necessary, promptly revise the draft IOSCO assessment and ROSC.

The final FSAP report

Following clearance by management within the IMF and the World Bank, the final FSAP report is presented to the authorities.

The assessor will be given a copy of the IOSCO assessment and the ROSC. The assessor is requested to keep the IOSCO assessment and the ROSC confidential unless the authorities elect to publish them.

Confidentiality

All documents prepared by the FSAP mission are confidential although the authorities may ask the IMF and the World Bank for permission to make public all or part of the FSAP Report. Publication is encouraged.

In carrying out their assignment under the FSAP, the assessor is to exercise the utmost discretion regarding all matters of official business. Moreover, the assessor must not, during or after their work as an expert member of the FSAP team, use for private advantage or disclose confidential information known to them by reason of the FSAP assignment except with the written prior approval of the IMF and the World Bank.

Under the terms of their contract with the IMF or the World Bank the assessor is required to adhere to a confidentiality protocol. The assessor will be asked to sign a statement accepting the Protocol on Protection of Sensitive Information which will be sent to them with their contract.