



## Guidance Note

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

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## Country Counterpart for IOSCO Assessments

### 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 leader of the FSAP team is 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 IOSCO assessor will generally participate in only one mission, as notified to the authorities of the country. 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 does not need 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 the section of the draft IOSCO assessment report relating to implementation of Principle 30.

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, and
- a summary of the IOSCO assessment (ROSC).

The draft assessment report is given to the authorities before the end of the FSAP mission and the ROSC is completed shortly thereafter.

In addition, an assessment of the transparency of securities regulations module of the IMF's Code for Good Practices on Transparency in Monetary and Financial Policies (MFP Transparency Code) may be undertaken.

### **Preparing for the FSAP mission**

Before the FSAP team visits the country, the securities regulatory authority will be asked to nominate a member of its senior staff to be the authority's primary contact person for the purpose of mission. The contact person will be responsible for general liaison between the authority and the FSAP team, including making sure that information and materials requested by the team are provided within the times specified both before and during the mission, and arranging meetings between members of the FSAP team and representatives of the public and private sectors to enable team members to gather and verify facts about the securities regulatory system. The name, position, email address and telephone number of the contact person is to be given to the IMF and the World Bank.

The securities regulatory authority will be given background materials relevant to preparing the IOSCO assessment including:

- the terms of reference for the mission,
- a market structure questionnaire to be completed and returned to the FSAP team,
- a template for a self-assessment to be completed using the IOSCO Methodology and returned to the FSAP team,
- the IOSCO Methodology,
- the CPSS/IOSCO Task Force Recommendations for Securities Settlement Systems,
- published IOSCO assessments and FSSAs that may be relevant to the country's IOSCO assessment,
- documents produced by the IMF on the MFP Transparency Code, and
- a template for the securities regulation module to be completed and returned to the FSAP team.

The authority will be asked to complete the market structure questionnaire, a self-assessment using the IOSCO Methodology, and a template for the securities regulation module of the MFP Transparency Code and return them to the FSAP team at least four weeks before the start of the mission in which the IOSCO assessor is to participate. Completing these documents affords the opportunity for the gathering of information required for preparing the IOSCO assessment by describing the country's securities regulatory system and providing securities markets data which build a foundation from which the IOSCO assessor can begin his work.

The authority will be asked to provide copies of relevant securities laws, regulations, rules and stock exchange by-laws, and where necessary English translations, at least in summary form, of

relevant legislation and regulations. Information about reforms to the securities regulatory regime that are planned or in the course of implementation should also be provided.

Meeting requests will include meetings with regulatory 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 authority will be provided with details of the purpose of each meeting and guidance on who should attend to enable it to organize the meetings in advance of the visit and ensure the topics to be covered will be dealt with in sufficient detail.

### **The FSAP mission**

The chairman and senior staff of the securities regulatory authority should be prepared to meet the assessor at the beginning of the mission to hear an explanation of what he intends to do, and towards the end of the mission in order to provide an initial response to the draft IOSCO assessment, and confirm the accuracy of the information on which the IOSCO assessment is based.

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. 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.

Senior staff should be prepared to make themselves available during the course of the FSAP mission to assist the assessor in understanding the operation of the securities markets legal and regulatory regime and obtaining information about the regulatory policy and enforcement activities the securities regulatory authority and any SROs undertake to implement the securities laws and regulations. The draft IOSCO assessment report and the securities regulations module of the MFP Transparency Code are to be prepared in co-operation between senior staff of the securities regulatory authority and the assessor on the basis of all information gathered by the assessor.

The assessor will give the draft IOSCO assessment report to the securities regulatory authority at least 24 hours before the final meeting. The assessor is expected to record the authority's views in the draft assessment report, 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.

A short presentation on the key findings and recommendations for improvements in the securities regulatory area may be made 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 FSAP team will keep the authorities informed of the schedule for the review process and any deadlines that may need to be met for the provision of comments.

#### **The final FSAP report**

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

All documents prepared by the FSAP team 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.