



Briefing Note

Program Objectives, Process, and Output

What is the FSAP?

The Financial Sector Assessment Program (FSAP) is a joint program of the International Monetary Fund and the World Bank. Begun in the spring of 1999, the program has become a central feature of the expanded collaboration between the Fund and the Bank in those institutions' respective financial sector work. It optimizes scarce expert resources, reduces duplication of efforts and provides more uniform advice in the financial sector work undertaken by the two institutions.

The program also represents a collaborative international effort. Staff undertaking the assessments are drawn from both the Fund and the Bank. In addition, as many as 50 official institutions—notably central banks and supervisory agencies—from around the world have offered to provide their financial sector experts to the teams, enhancing the peer review aspect of the FSAP. The international bodies responsible for developing relevant financial sector standards also work closely with Fund and Bank staff in implementing this program.

Where did the idea of the program come from?

Following the Asian crisis of the late 1990s, international attention turned to ways in which the impact of financial crises might be mitigated. The FSAP, which fits within the context of the Fund's Article IV surveillance, is central to the Fund's and the Bank's response by establishing closer cooperation between the two institutions to assist countries willing to work to reduce the likelihood and/or severity of financial sector crises.

What are the objectives of the program?

The emphasis of the FSAP is on prevention and mitigation rather than crisis resolution. The FSAP provides a comprehensive framework through which to identify financial system vulnerabilities and develop—with authorities in participating countries—appropriate policy responses. The program also helps bring financial sector analysis closer to the center of economic policy discussions within a country and with the Fund and the Bank.

Participating in the program helps inform domestic policy-makers of the need for sequenced actions in areas requiring urgent attention and offers countries a comprehensive framework in which to take on financial sector reforms. It also provides countries with an opportunity to measure their compliance with financial sector standards and codes and, therefore, to benchmark their regulatory and supervisory systems against internationally-accepted practices.

What approach is used in the diagnosis?

The FSAP follows a three-pronged approach when looking at the country's financial sector:

1. The soundness of a financial system versus its vulnerabilities and risks that increase the likelihood or potential severity of financial sector crises.
2. A country's developmental needs in terms of infrastructure, institutions and markets.
3. A country's compliance with the observance of selected financial sector standards and codes.

What benefits can a country expect from an FSAP?

The FSAP helps alert national authorities to likely vulnerabilities within their financial sectors while assisting the Bank and the Fund, and the international community more broadly, in helping to design appropriate assistance. Countries benefit from the consistent and rigorous analysis of their financial systems as well as the comprehensive coverage of the financial sector in terms of banking and nonbanking sub-sectors including securities markets, the insurance industry, pension systems and other non-banks based on an analysis of financial soundness, the governance framework and official oversight and regulations. Together these provide a platform for the design of a properly sequenced reform agenda.

Who participates in the FSAP?

Countries that are members of the Fund and the Bank participate in the FSAP on a voluntary basis. As of December 2001, almost 60 countries with financial sectors that range from the highly sophisticated to emerging to nascent have participated in the program. See the websites of the Fund (<http://www.imf.org/external/np/fsap/fsap.asp>) or the Bank (<http://www1.worldbank.org/finance/html/fsap.html>) for more information.

What standards are routinely assessed and why?

Three types of standards are usually assessed under the program:

1. Regulatory and supervisory standards
 - Basel Core Principles for Effective Banking Supervision (BCP)
 - IAIS Insurance Core Principles (ICP)
 - IOSCO Objectives and Principles for Securities Regulation (SCP)
2. Transparency and disclosure standards
 - IMF Code of Good Practices on Transparency in Monetary and Financial Policies (MFP)
3. Institutional and market infrastructure standards
 - Core Principles for Systemically Important Payment Systems (CPSIPS)

Other standards that have been included, as appropriate, are:

- OECD Principles of Corporate Governance
- Principles and Guidance for Effective Insolvency and Creditor Rights
- International Accounting and Auditing Standards

The Fund and the Bank rely on internationally recognized standards and codes as a way to measure compliance with accepted practices. These assessments, which form an input into the overall assessment of the financial sector, help shed light on potential supervisory and infrastructural vulnerabilities.

The program has adopted a peer review aspect through which Bank and Fund staff are augmented by experts from some 50 official financial institutions to perform these assessments.

Why is combating money laundering and the financing of terrorism now a component of the FSAP?

The international community has asked the Fund and the Bank to prepare a methodology that would guide the assessment of a country's capacity to combat money laundering and the financing of terrorism from the point of view of its supervisory and regulatory controls and procedures. These guidelines are being developed within the FSAP and used with countries concurrence.

What output is generated from the FSAP?

Two classifications of reports support the dialogue between the FSAP team and its country counterparts. The first, produced for country authorities, includes the FSAP aide mémoire that forms the basis for the Main FSAP Report, various annexes that comprise Selected Financial Sector Issues and detailed assessments prepared in connection with international financial sector standards and codes.

The second is the reports prepared for the Boards of Fund and Bank. These documents are also drawn from the Main FSAP Report: the Financial System Stability Assessment (FSSA) prepared by Fund staff and the Financial Sector Assessment (FSA) prepared by Bank staff. The ROSCs (Reports on Observance of Standards and Codes are summaries derived from the detailed assessments) are also made available to the Boards of the two institutions.

What is confidential and what can be published?

The Main FSAP Report and the Selected Financial Sector Issues annexes are prepared as confidential documents as some information needed to carry out the diagnostic aspects of an FSAP mission's work is sensitive. Therefore, the Main FSAP Report and some of the Selected Financial Sector Issues cannot be made public. Confidentiality procedures must be followed by Fund and Bank staff, as well as experts from cooperating institutions, as laid out in a confidentiality protocol.

However, countries may elect to publish the FSSA, FSA and the ROSCs on the external websites of the Fund and the Bank. After consultation with the Fund and Bank management, a country also may choose to publish the detailed assessment.