IMF POLICY PAPER

THE 2017 JOINT REVIEW OF THE STANDARDS AND CODES INITIATIVE

July 2017

IMF staff regularly produces papers proposing new IMF policies, exploring options for reform, or reviewing existing IMF policies and operations. The following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its July 17, 2017 consideration of the staff report.
- The **Staff Report**, prepared by IMF staff and completed on June 20, 2017 for the Executive Board's consideration on July 17,2017.
- Two **Staff Supplements**.

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IMF Executive Board Concludes Review of the Standards and Codes Initiative

On July 17, 2017, the Executive Board of the International Monetary Fund (IMF) considered a joint IMF-World Bank staff paper on the standards and codes (S&C) initiative in line with the initiative's requirement for periodic reviews.

The S&C initiative was launched in the wake of the emerging market crises of the 1990s as part of efforts to strengthen the international financial architecture and is aimed at improving economic and financial resilience by assisting countries in strengthening their economic institutions and informing World Bank and IMF work. The initiative comprises 12 policy areas covering transparency of data and policy making; financial sector regulation and supervision; and, institutional and market infrastructure. S&C outputs for member countries are prepared and published at the request of the member country and include Detailed Assessment Reports (DARs), Reports on the Observance of Standards and Codes (ROSCs), Technical Notes, as well as newer outputs such as Fiscal Transparency Evaluations (FTEs).

The four prior reviews of the S&C initiative (2001, 2003, 2005, 2011) focused on improving its operational effectiveness, especially with regard to Bank and Fund work. The initiative has been found to have success identifying vulnerabilities and establishing priorities, although it has been acknowledged that compliance with S&C is only one building block for ensuring macro financial stability and preventing crises. Prior reviews have recognized that S&C outputs need to strike a balance between clarity and transparency on the one hand, and focus on reform efforts and country ownership on the other. Across reviews, there have been persistent calls for better linkages with Fund surveillance and capacity development. The 2011 review concluded that integration of ROSCs into Fund surveillance remained mixed, but integration with Bank and Fund financial assistance appeared stronger. It also noted the progress made in integrating ROSCs with technical assistance, although this, too, was cited as an area where further efforts could be made.

This review builds on recent evidence that the initiative continues to be well appreciated by member countries. At the same time, the recent surveys in some individual policy areas reaffirm that there is scope to better adapt the initiative to the policy needs of member countries and to guide capacity development efforts and support Fund surveillance and Bank operational work.

Since the inception of the initiative, most countries have received S&C outputs. As of end-December 2016, 1,676 S&C outputs have been produced for 177 countries through direct or regional engagement, representing 94 percent of the Fund's membership. S&C work over 2012-16 reflected a shift toward the 29 jurisdictions with systemically important financial sectors (S29). Transparency S&C work has been more limited in recent years, reflecting the anticipated revisions of the Monetary and Financial Policy Transparency Code, changes in the data standards, and the revamping of the Fiscal Transparency Code.

Executive Board Assessment[1]

Executive Directors welcomed the 2017 review of the standards an codes (S&C) initiative. They agreed that the initiative continues to make a substantial contribution to promoting international financial stability and there are no major gaps in its overall architecture. Directors noted that while implementation of the recommendations of the 2011 S&C review has been mixed with uneven coverage across certain policy areas and member countries, several policy areas have demonstrated considerable dynamism in S&C work.

Directors appreciated the Review's updates on the developments in the underlying S&C and individual policy areas led by the Fund and the World Bank and agreed that these provide member countries helpful tools to strengthen their policy frameworks. They generally concurred that the Fiscal Transparency Code provides a good way forward, including its outcome-focused, modular, and graduated approach, to increase the relevance of Fund-set transparency S&C.

Directors endorsed the proposed strategic approach to devolve operational reviews and responsibilities to individual policy areas, including leveraging progress made so far, while ensuring strategic oversight at the level of the overall initiative. In this context, structured consideration of good practices and reporting should help sustain momentum between S&C reviews and ensure alignment of S&C work with member needs and the Fund's strategic priorities. A number of Directors pointed to the need to consider the resource implications of individual policy area decisions for effective strategic oversight. A few Directors noted that a more decentralized approach could lead to fragmentation of the framework.

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[1] An explanation of any qualifiers used in summing ups can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

Directors welcomed the progress that has been made in establishing a standard for crisis resolution and operationalization of its assessment methodology, including through close collaboration between the Financial Stability Board as the standard setter and the Fund and the Bank. They endorsed the Key Attributes of Effective Resolution Regimes for Financial Institutions as they apply to the banking sector and the related assessment methodology, which will underpin work in the Crisis Resolution and Deposit Insurance policy area.

Directors looked forward to the forthcoming Fund-led policy area reviews. They emphasized that these area reviews should consider the scope for improvements based on identified best practices drawn from across the policy areas, and should include an assessment of how new elements could improve linkages to surveillance and capacity development. Given recent trends in coverage in certain policy areas, particularly for emerging markets and low-income and developing countries, and resource intensity of assessments, Directors looked forward to discussions of these issues in the context of the forthcoming policy area reviews. They also agreed that increased collaboration across policy areas and close engagement with external Standard Setting Bodies and member countries should support the vitality of the initiative. A number of Directors looked forward to the forthcoming Board paper on Islamic banking.

Directors recognized that progress toward the key objective of strengthening the link between S&C work and Fund surveillance should take into account that surveillance can guide priorities for S&C assessments as much as assessments should feed into surveillance. In this context, they noted that a direct operational link to surveillance may be less important if S&C work continues to increase its orientation around risks and outcomes, thereby aligning with surveillance in another, more fundamental way. Directors agreed that facilitating cross-fertilization of innovation across policy areas, as appropriate, could further promote alignment with surveillance as well as capacity development efforts.

Directors generally supported the staged revision of the Monetary and Financial Policy Transparency (MFPT). They took note that the process will start with an early update to ensure that the monetary part of the code can serve as a diagnostic tool in capacity development by providing benchmarks of good practices for members at different stages of development. This should be followed by timely subsequent consideration of, if and how an updated financial part of the MFPT could be a helpful supplementary tool to support diagnostic financial sector work. A few Directors underscored that the revision should focus narrowly on gaps and complementing the transparency elements in the financial standards, and seek to avoid an overly complex structure that is too resource-intensive.

In the area of data policy, Directors noted its key role in promoting transparency and saw merit in the value of revisions to support effective economic decision-making, with the outcome of pilot exercises and refinement of the module to be taken up in the tenth review of the Fund's data standards. A few Directors emphasized the need for further testing and undertaking cost-benefit assessments before implementing data policy recommendations.

Noting the importance of increasing traction of S&C work with policy-makers and market participants, some Directors recommended that the results of some assessments be presented in a non-technical manner for ease of understanding. Directors agreed that the next review of the S&C initiative should be undertaken in due course, following experience gained with operationalizing the recommendations of the current review.

INTERNATIONAL MONETARY FUND

June 19, 2017

THE 2017 JOINT REVIEW OF THE STANDARDS AND CODES INITIATIVE

EXECUTIVE SUMMARY

The standards and codes (S&C) initiative was launched in the aftermath of the emerging market crises of the 1990s as part of efforts to strengthen the international financial architecture, with a focus on emerging markets. The initiative has aimed at promoting international standards and codes to improve economic and financial resilience by assisting countries in strengthening their economic institutions and informing World Bank and IMF work. The four previous reviews confirmed a fairly high appreciation of the overall initiative, while also raising questions about the initiative's link to surveillance and capacity development efforts, weak uptake by market participants, as well as a need to improve traction with policy makers. This review reaffirms the country authorities' appreciation for S&C work, and its focus and scope are guided by the February 2017 paper.

After almost two decades of implementation, the S&C initiative continues to make a substantial contribution to international financial stability. Several policy areas remain vibrant and their recent reviews have demonstrated a substantial amount of ownership and innovation to align S&C work with a risk and vulnerability focus. At the same time, many challenges have persisted or emerged, and implementation of recommendations from the 2011 S&C review has been mixed. Several S&C have been revised based on the lessons of the crisis and in some areas, this has led to greater technical complexity and resource intensity of assessments on the part of both the country authorities and Fund-Bank staff. The Bank has undergone a budget restructuring, which has impacted its S&C output, although work has continued to improve the standards or assessment methodologies. Also, the Fund's overall S&C output has declined, partly reflecting anticipated or implemented revisions to its transparency S&C, and the allocation of output has shifted across countries and income groups.

This review adopts a strategic approach to this and forthcoming reviews of the S&C initiative to address persistent challenges and capitalize on progress. No major gaps are found in the overall architecture of the initiative, and the review recommends proceeding with updates to the Fund's monetary and financial policy transparency code and data policy area; endorsing the Key Attributes of Effective Resolution Regimes for Financial Institutions as applied to the banking sector and the banking sector assessment methodology; and, considering new areas for Fund-

Bank involvement as they arise. Operational review responsibilities are proposed to be devolved to policy areas. This will help support their contributions to international financial stability and development through institution building, but is also intended to strengthen follow-through and accountability on priorities established in reviews of the overall initiative. The overarching objective of these proposals would be to improve the linkages between S&C work and surveillance, as well as tighten integration with capacity development. Finally, the review calls for increased engagement with member countries and continued collaboration across policy areas.

Approved By
Hugh Bredenkamp (IMF), Ceyla Pazarbasioglu, and Carlos Felipe Jaramillo (WB).

Prepared by the Fund's Strategy, Policy, and Review Department under the overall guidance of Sanjaya Panth and supervision of Mary Goodman by a team led by Johan Mathisen and comprising Nina Budina, Dora Douglass Kochman, Lawrence Dwight, Gabor Pula, and Zsuzsa Munkacsi in consultation with the Fund's Fiscal Affairs Department (Sailendra Pattanayak, Brian Olden, Ramon Hurtado, and Alpa Shah), Legal Department (Nadim Kyriakos-Saad, Richard Lalonde, Nadia Rendak, Nadine Schwarz) , Monetary and Capital Markets Department (Udaibir Das, Jana Gieck Bricco, and Felipe Nierhoff) and Statistics Department (Patrizia Tumbarello, Serkan Arslanalp, and Xiu-zhen Zhao) and in conjunction with the World Bank's Finance and Markets and Governance Global Practices (Aurora Ferrari, Mariano Cortes, Alexander Berg , Henri Fortin, Mahesh Uttamchandani, and Jael Billy).

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Acronyms and Abbreviations

A&A	Accounting and Auditing
AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
BCBS	Basel Committee on Banking Supervision
BCP	Basel Core Principles for Banking Supervision
B-ROSC	World Bank-led ROSC
CD	Capacity Development
CG	Corporate Governance
CMU	Country Management Unit
CPMI	Committee on Payments and Market Infrastructures
CPSIPS	Core Principles for Systemically Important Payment Systems
CPSS	Committee on Payment and Settlement Systems
CRDI	Crisis Resolution and Deposit Insurance
DAR	Detailed Assessment Report
DQAF	Data Quality Assessment Framework
e-GDDS	Enhanced General Data Dissemination System
FATF	Financial Action Task Force
FSA	Financial Stability Assessment
FSSA	Financial Sector Stability Assessment
FSAP	Financial Sector Assessment Program
FSB	Financial Stability Board
FSF	Financial Stability Forum
FSLC	Financial Sector Liaison Committee
FSRB	FATF Style Regional Body
FTE	Fiscal Transparency Evaluation
FMI	Financial Market Infrastructures
GDDS	General Data Dissemination System
GIFT	Global Initiative for Fiscal Transparency
IADI	International Association of Deposit Insurers
IAIS	International Association of Insurance Supervisors
IASB	International Accounting Standards Board
IAASB	International Auditing and Assurance Standards Board
IBP	International Budget Partnership
ICP	Insurance Core Principles
ICR	Insolvency and Creditor Rights
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards
IOSCO	International Organization of Securities Commissions
ISA	International Standards on Auditing
KA	Key Attributes of Effective Resolution Regimes for Financial Institutions
MFPT	Monetary and Financial Policy Transparency
ML/TF	Money Laundering / Terrorist Financing
MSMEs	Micro, Small, and Medium-Sized Enterprises
OECD	Organization for Economic Cooperation and Development
ROSC	Report on the Observance of Standards and Codes
SMEs	Small and Medium-Sized Enterprises
PEFA	Public Expenditure and Financial Accountability

PFMI	Principles for Financial Market Infrastructures
RBM	Results Based Management
RCCP	Recommendations for Central Counterparties
RTAC	Regional Technical Assistance Center
S&C	Standards and Codes
S25	The 25 jurisdictions with systemically important financial sectors (2010 decision)
S29	The 29 jurisdictions with systemically important financial sectors (2013 decision)
RSSS	Recommendations for Securities Settlement Systems
SDDS Plus	Special Data Dissemination Standard Plus
UNCITRAL	United Nations Commission on International Trade Law

BACKGROUND

1. **The standards and codes (S&C) initiative was launched in the wake of the emerging market crises of the 1990s as part of efforts to strengthen the international financial architecture.** As conceived, the initiative promotes adoption of S&C to improve economic and financial resilience through three intermediate objectives: assist countries in strengthening their economic institutions, inform World Bank and IMF work, and inform market participants.

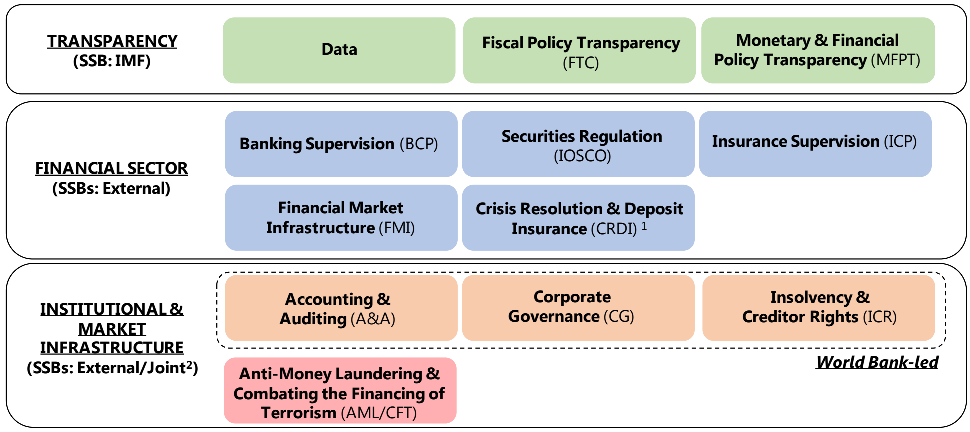
2. **Under the initiative, the Fund and the Bank recognized a set of policy areas and their associated S&C as important for maintaining sound financial systems.** It comprises 12 policy areas and their standards and codes relevant to economic and financial policy making and implementation. These "rules of the game" are typically grouped into three categories:

- The transparency S&C, set by the Fund, include the data dissemination standards and quality framework, the fiscal transparency code (FTC), and the monetary and financial policy transparency (MFPT) code.

- A second group pertains directly to the financial sector. It includes financial supervisory standards for banking supervision (BCP), securities regulation (IOSCO), and insurance supervision (ICP), and standards for financial market infrastructures (FMI) and crisis resolution and deposit insurance (CRDI). These are set by external standard setting bodies (SSBs) and typically assessed in the context of the Financial Sector Assessment Program (FSAP).

- A third set of "institutional and market infrastructure" standards includes insolvency and creditor rights (ICR), corporate governance (CG), and accounting and auditing (A&A). This group also includes the international standards on combating money laundering and the financing of terrorism and proliferation (the AML/CFT standard). The Bank is the standard setter, jointly with the United Nations Commission on International Trade Law (UNCITRAL), for ICR. The other standards are set by external SSBs.

Figure 1. S&C Policy Areas



1/ CRDI is underpinned by the International Association of Deposit Insurers' Core Principles for Effective Deposit Insurance Systems, which the Fund's Board endorsed in 2011. A second standard, the Financial Stability Board's Key Attributes of Effective Resolution Regimes for Financial Institutions and its modular assessment methodology have been under development in the period since. The standard is being submitted to the Board for endorsement as part of this review.

2/ The Bank is the standard setter, jointly with UNCITRAL, in consultation with the IMF, for ICR; the other Bank-led S&C are set externally.

3/ Classification has been revised to be consistent with FSB classification of AML/CFT.

3. **The four prior reviews of the S&C initiative have focused on improving its operational effectiveness, especially with regard to Bank and Fund work.** The initiative has been found to have success identifying vulnerabilities and establishing priorities, although it has been acknowledged that compliance with S&C is only one building block for ensuring macro financial stability and crisis prevention. Prior reviews have recognized the inherent balance that S&C outputs[1] must strike between clarity and transparency on the one hand, and a focus on reform efforts and country ownership on the other. Across reviews, there have been persistent calls for better linkages with surveillance and capacity development. The 2011 review concluded that integration of Reports on the Observance of Standards and Codes (ROSCs) into Fund surveillance remained mixed, but integration with Bank and Fund financial assistance appeared stronger. It also noted the progress made in integrating ROSCs with technical assistance (TA), although this, too, was cited as an area where further efforts could be made.

4. **This review builds on recent evidence that the initiative continues to be well appreciated by member countries**. Previous surveys have shown that emerging market (EM) members, which constitute the initiative's original focus, as well as low income and developing

[1] Overall, while the objective of standards has remained as envisioned at the outset of the initiative, the coverage, use, and outputs have witnessed significant shifts. S&C outputs for member countries are informed by standards in the 12 areas recognized as useful for the operational work of the Fund and the World Bank. Such outputs are prepared and published at the request of the member country and include Detailed Assessment Reports (DARs), Reports on the Observance of Standards and Codes (ROSCs), Technical Notes (TNs), as well as newer outputs such as Fiscal Transparency Evaluations (FTEs). Annex 1 provides an overview of the key features of these outputs and the 2017 Joint Review of the Standards and Codes Initiative Background Paper provides examples of S&C use in Bank and Fund work that are not directly associated with formal S&C outputs as shared with the IMF's Executive Board.

countries (LIDCs), generally perceive the initiative as most useful. At the same time, the recent surveys in some individual policy areas reaffirm that there is scope to better adapt the initiative to the policy needs of member countries and to support capacity development efforts and Fund surveillance and Bank operational work.

5. The set of papers for the review is a result of a collaborative effort by numerous Bank and Fund departments, reflecting the diverse array of work under the initiative. The review follows two informal briefings for the Fund Board. This paper has two parts: (i) an assessment of the evolution of the initiative since the last review in 2011, and (ii) a set of recommendations going forward. This paper is accompanied by two background papers. One summarizes developments within individual policy areas, including survey results, and the outlook for each individual policy area. The other, produced by external consultants under the direction of staff, takes a thematic perspective to assess developments across the initiative since 2011.

A Strategic Approach to Reviews of the S&C Initiative

6. Evolution of S&C work under the initiative has accelerated in several policy areas. As noted in the February 2017 Board paper on the "Scope and Focus of the 2017 Review of the Standards and Codes Initiative," this progress reflects most policy areas' channels of direct Board engagement at the Fund through policy reviews in individual areas, which have been used since the 2011 review to improve operational effectiveness. In fiscal transparency, 2012 and 2014 Board papers detailed efforts toward a revised fiscal transparency code and a new assessment output. Through the 2012 and 2015 reviews, data dissemination standards were enhanced and a 2016 IEO evaluation is informing plans to review the broader framework for assessing data quality for closer alignment with the Fund's surveillance work. New and revised international standards for safe and efficient financial market infrastructures were adopted by the Fund and Bank Boards in 2012. The 2014 Review of the FSAP assessed the impact of changes to the program since the 2009 review to make it more effective going forward, including its S&C work. Finally, the 2014 Review of the Fund's Strategy on AML/CFT updated the Board on the 2012 strengthening of the Financial Action Task Force (FATF) Recommendations, the 2013 revision of the assessment methodology, and the enhancement of review mechanisms to ensure the quality and consistency of assessments across the range of external assessor bodies.

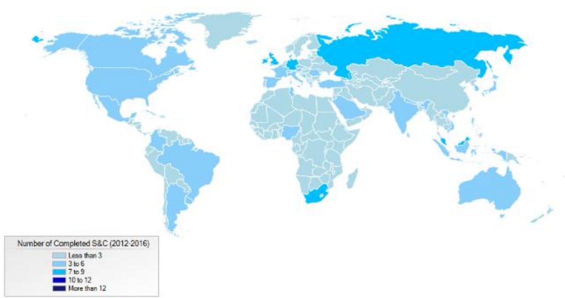
7. Notwithstanding this Board engagement, implementation of the recommendations from the 2011 review of the S&C initiative has been mixed. Staff had called for closing gaps in the architecture of the initiative and for strengthening "compliance in practice," especially among countries with systemically important financial sectors. Specifically, the 2011 review recommended to (i) adapt the coverage of the initiative to better safeguard financial stability, (ii) improve prioritization of standards assessments, (iii) better integrate the initiative in Fund surveillance and capacity development efforts and improve access to findings, and (iv) implement modest changes to improve the efficiency of resource use. Those recommendations were not pursued systematically in policy area reviews. This review concludes that substantial efforts have been made to adapt the coverage of the initiative to better safeguard financial stability, while prioritization across policy areas can still be improved, as can linkages to Fund surveillance outside of FSAPs. The review also finds that resource intensity of standards assessments, especially in the financial sector, has increased for both member countries and assessors.

8. The contrast between the dynamic evolution of S&C work in individual policy areas and follow-through on the earlier review of the initiative calls for a new approach. The initiative is unique in that it covers 12 very different and highly technical areas across both Bank and Fund work. Its decentralized nature has led to appropriate variations in the way the standards are assessed and presented across the 12 policy areas, as acknowledged in the 2011 review. However, experience with the 2011 and prior S&C reviews has confirmed the challenge of advancing certain long-standing goals through specific operational guidance at the overall initiative-level, for example, improving the link with surveillance. Nevertheless, recent innovations developed in individual policy areas since 2011 may be helping to overcome this challenge. In this respect, a better role for reviews of the overall initiative may be to address emerging gaps and weaknesses in the overall architecture of the initiative and facilitate, as appropriate, cross-fertilization of promising innovations across policy areas.

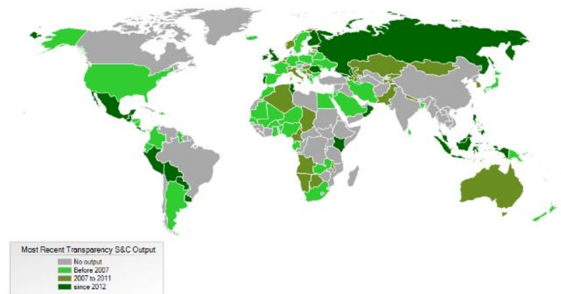
9. This review adopts such a "strategic approach" to maximize the impact of Board engagement and reinforce the initiative's contribution to international financial stability through institution-building. The review seeks to capitalize on the progress made by purposely devolving responsibility for operational reviews and effectiveness considerations to individual policy areas. This and future reviews would look "top-down" to identify gaps and weaknesses in the S&C framework, while at the same time identifying "bottom-up" innovations in individual policy areas that can be proposed for consideration in the context of forthcoming policy areas reviews. Finally, to maintain focus and momentum of S&C work, the review calls for increased engagement with member countries and external SSBs/assessors, as well as continued collaboration across policy areas.

Figure 2. S&C Coverage Across the Membership

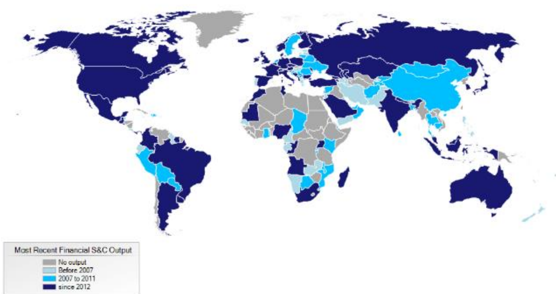
S&C work over 2012-16 reflected a shift toward S29 jurisdictions related to the orientation of financial sector S&C work, as well as reduced non-financial S&C output.



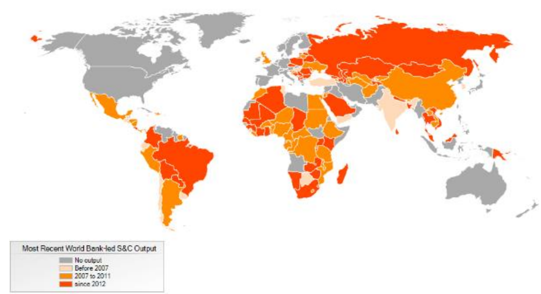
Transparency S&C work has been limited in recent years, reflecting the anticipated revisions of the MFPT and in the data policy area, and the revamping of the FTC…



while the largest share of S&C output – financial – has been primarily oriented around S29 jurisdictions.



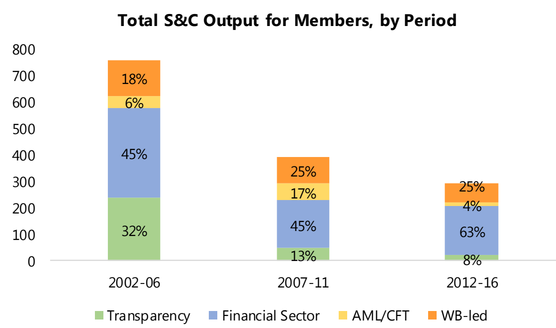
World Bank-led S&C work continues to benefit EM and LIDC members, but its footprint has been impacted by changes associated with the Bank's budget restructuring.



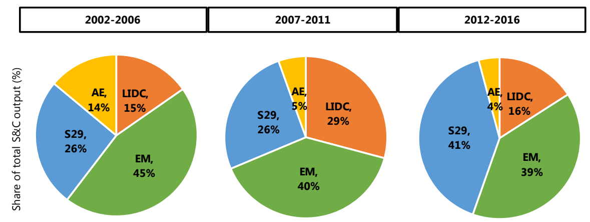
Source: IMF and World Bank S&C database and staff calculations.

Figure 3. Key Trends in S&C Coverage

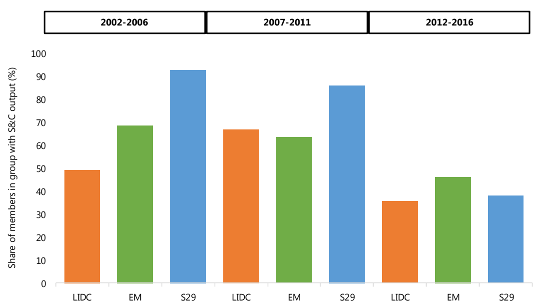
The evolution of S&C work has been affected by anticipated revisions in the transparency and AML/CFT S&C, and the Bank's budget restructuring. However, financial sector S&C work has remained at the initiative's core.



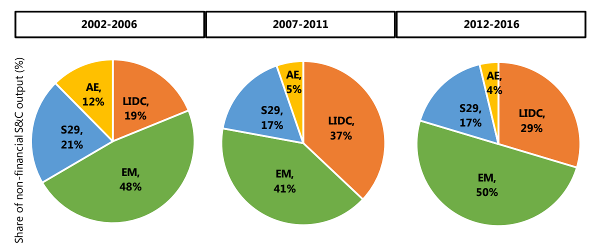
The 2010 decision by the Fund to make financial stability assessments under the FSAP mandatory for countries with systemically important financial sectors ensured a global risk-based allocation of FSAP resources, including any associated S&C work.



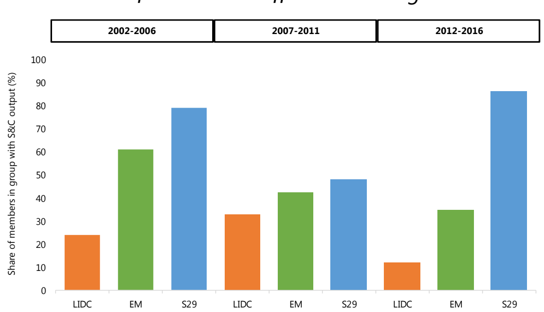
Non-financial sector S&C output across income groups was affected by an increased role for external SSBs and revisions that were anticipated (MFPT, data) or implemented (FTC).



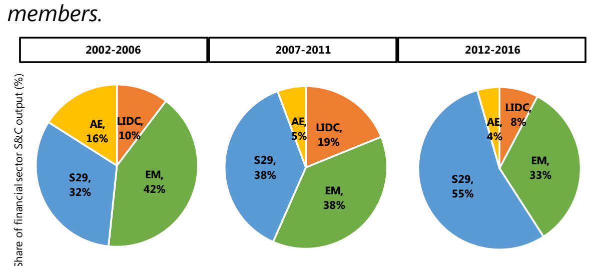
The total share of non-financial sector S&C output for EM and LIDC members remained roughly flat, while both the number of outputs and the number of participating EM/LIDC members declined.



As anticipated by the 2014 FSAP review, the S29 decision had implications for FSAP availability to non-systemic countries, while reduced stand-alone financial sector ROSCs outside of FSAPs also affected coverage.



The focus on countries with systemically important financial sectors combined with other factors has resulted in reduced financial S&C coverage of EM and LIDC members.



1/ Includes MFPT, FTC, data, AML/CFT (Fund-produced outputs), A&A, CG, and ICR outputs for individual members.
2/ Includes BCP, IOSCO, IAIS, FMI, and CRDI outputs for individual members.
Source: IMF and World Bank S&C database and staff calculations.

EVOLUTION OF THE INITIATIVE SINCE 2011

A. Progress in Implementing the 2011 Recommendations[1]

10. The 2011 Review pointed to the need to incorporate lessons from more than a decade of implementation and the global financial crisis. The review had followed significant downsizing of the scale of the Fund's activities in this area to adapt to new budget constraints in line with a projected sharp deterioration in the Fund's income position. As in earlier reviews, staff found a fairly high appreciation of the overall initiative. The review also raised questions about the initiative's link to surveillance and capacity development efforts, relevance to market participants, and traction with policy makers. The review stressed that the usefulness of the initiative hinges on its ability to identify gaps and weaknesses in institutional frameworks, set reform agendas, and enhance transparency. The section below discusses the progress implementing the recommendations of the 2011 review (Box 1).

Box 1. Recommendations of the 2011 Review of the S&C Initiative

The IMF Executive Board endorsed the following recommendations in 2011:

1. Adapt the coverage of the initiative to better safeguard financial stability, including by:
   - strengthening arrangements dealing with weak institutions and cross-border arrangements;
   - reviewing and updating transparency areas (data, fiscal, and monetary and financial) and finalizing the insolvency and creditor rights standard;
   - enhancing coordination between SSBs and assessors through a more systematic feedback mechanism, to ensure that lessons from standards implementation inform standards revisions and that the voluntary nature of the ROSC exercise is maintained.

2. Improved prioritization of standards assessments across policy areas, countries, and principles. Specifically:
   - ensuring that the focus on countries with systemically important financial sectors does not crowd out low-income and emerging market countries;
   - improving the link between ROSC assessments and capacity building.

3. Better integrate ROSC findings into Fund surveillance, including by:
   - continuing efforts to improve the public's access to ROSCs and efforts to encourage countries to publish ROSCs.

4. Enhance efficiency of the initiative through:
   - a broader application of targeted ROSCs;
   - fostering ownership and more frequent updates through country self-assessments.

[1] This section draws on background papers prepared by World Bank and Fund staff, the consultants' background paper, surveys from the 2014 FSAP review, and new targeted surveys undertaken for Accounting and Auditing and Fiscal Transparency.

2011 Recommendation 1: Adapt Coverage of Initiative to Better Safeguard Financial Stability[2]

11. The crisis pointed to gaps in the initiative's overall architecture, especially with regard to credible safety nets and resolution mechanisms. Thus, a new policy area on Crisis Resolution and Deposit Insurance (CRDI) was incorporated in the 2011 S&C review. It is underpinned by the International Association of Deposit Insurers' (IADI) Core Principles for Effective Deposit Insurance Systems (DICP), which the Fund's Board endorsed in 2011. A second standard, the Financial Stability Board's (FSB) Key Attributes of Effective Resolution Regimes for Financial Institutions (KA) and its modular assessment methodology (by sector) have been under development in the period since. The standard and the assessment methodology for the banking sector are being submitted to the Board for endorsement as part of this review.

12. Additionally, most other policy areas have been revised to reflect lessons from the financial crisis. The financial sector standards have been revised substantially, mainly to address the gaps and issues related to systemic risks, systemically important institutions, cross border collaboration, safety nets, and crisis resolution. Greater attention to fiscal sustainability has brought about a complete revision of the FTC. These changes, as well as changes to the market integrity codes, are discussed in detail in section B. However, the process of revising the ICR standard is still ongoing[3] and the MFPT code was not revised as envisaged.

13. Some of the changes to standards, while welcome and anticipated, have come with increased resource costs of assessments. With stronger focus on actual effectiveness, complexity, and comprehensive coverage, these changes have especially made financial sector standards assessments more directly relevant to macrofinancial stability. At the same time, these assessments require greater technical expertise and quality and consistency checks, thus making financial S&C more resource intensive.[4]

14. The 2011 review raised a particular concern regarding the enhanced cooperation between SSBs and assessors. Specifically, the review noted that some potentially coercive elements of the external parties' framework in dealing with "non-cooperative jurisdictions" may be contrary to the cooperative nature of the Fund's relationship with its members, as well as the voluntary nature of the S&C initiative.[5] This has been resolved by ensuring that the Fund and the Bank play a "good offices" role in those processes, while refraining from participating in those aspects of the process

[2] See the "2017 Joint Review of the Standards and Codes Initiative Thematic Review of Case Studies— Background Paper" for more detail.

[3] Revisions of ICR involve a three-stage process, with the first step (World Bank revisions to the Principles) completed in 2015. The second step involving UNCITRAL is underway, and the process is expected to be concluded in FY2018.

[4] For a further, detailed analysis of such costs, please see "A Macrofinancial Approach to Supervisory Standards Assessments."

[5] Although the concern was mainly with the Non-Cooperative Jurisdiction (NCJ) processes of the FSB, it was also a concern regarding similar processes of other SSBs, such as that of the FATF's International Cooperation and Review Group. For further elaboration, see "2011 Review of the Standards and Codes Initiative," section G, p. 34.

that are coercive in nature, and by the SSBs' ensuring that such processes respect the Fund's legal framework, the cooperative nature of the Fund's relationship with its members, and the voluntary nature of the ROSC exercise. More generally, this cooperation has been developed to encourage increased adherence with international standards, particularly in the financial sector area (Box 5).

15. The SSBs in the financial standards area are beginning to increase their implementation monitoring activities. Some SSBs have embarked on their own implementation monitoring exercises, including related to the post-crisis reform agenda. The International Organization of Securities Commissions (IOSCO) has started experimenting with its own member reviews involving members' self-assessments of the implementation of IOSCO principles. The Committee on Payments and Market Infrastructures (CPMI)-IOSCO is now regularly monitoring the implementation of the Principles for Financial Market Infrastructures (PFMI). In insurance supervision, the International Association of Insurance Supervisors (IAIS) is intending to launch its own TA program to support implementation of the ICP. In the area of banking supervision, members of the Basel Committee on Banking Supervision (BCBS) are placing greater importance on supervisory issues and practices, and have also successfully started programs to monitor Basel III standards adoption and to assess the consistency and completeness of implementation via its Regulatory Consistency Assessment Program (RCAP). In its S&C work, the Fund and the Bank have close, ongoing collaborations with the BCBS, CPMI, FSB, IADI, IAIS, and IOSCO.

16. In the financial area, a substantial number of peer reviews of FSB member jurisdictions have been undertaken. The focus of country reviews includes the steps taken or planned by national authorities to address FSAP and ROSC recommendations made by the Fund and the Bank, as well as reforms and standards in other G20 priority areas. [6] While FSB jurisdictions have committed to undergo an FSAP every five years, country peer reviews have typically taken place 2-3 years afterward. Going forward, this frequency will change as the FSB's review cycle has recently been moved to eight from five years.[7] The table below illustrates FSB peer reviews and IMF and World Bank S&C outputs with members.

[6] See FSB Charter and the FSB Framework for Strengthening Adherence to International Standards. Unlike the FSAP, a peer review does not comprehensively analyze a jurisdiction's financial system structure or policies, or its compliance with international financial standards.

[7] Handbook for FSB Peer Reviews, section 3.2.: "Standing Committee on Standards Implementation will conduct around three country reviews per year, i.e., a full cycle of reviews for all FSB member jurisdictions will be completed over an eight-year time period."

Table 1. Members' FSB Peer Reviews and S&C Outputs [1/]

	2010	2011	2012	2013	2014	2015	2016	Total [2]
Argentina			3					4
Australia	1		4					6
Brazil			4	1				6
Canada					5		1	7
China, P. R. of		5						6
France				5				6
Germany	1	6					7	15
Hong Kong SAR					5			6
India	1		1	3				6
Indonesia	7	1	5				1	15
Italy	1			5			1	8
Japan			4					5
Korea	1			1	4			7
Mexico	1	2	3	1		1		9
Netherlands		5						6
Russia		3	1	1	1		4	11
Saudi Arabia	1	4		3			1	10
Singapore				4				5
South Africa	4	1		1		6		13
Spain			5					6
Switzerland					4			5
Turkey		2					3	6
United Kingdom	1	7					7	16
United States	9					6		16

1/ Number indicates annual total of Fund and/or Bank S&C outputs; gray shaded area indicates year during which FSB peer review was scheduled.
2/ Total includes Fund/Bank S&C outputs and FSB peer reviews. The FSB peer review for Hong Kong SAR is scheduled for 2017.
Source: IMF and World Bank S&C database, FSB peer review schedule, and staff calculations.

17. **Similarly, SSBs outside the financial supervisory area have increased their involvement in the initiative.** This is particularly the case for S&C work in AML/CFT, as the FATF and the nine FATF-style regional bodies (FSRBs)[9] have increased member mutual assessment activities, which has substantially increased the total number of AML/CFT assessments. They are expected to move from their current output of 17 to 20 mutual evaluations per year, to up to 25 evaluations per year. The Bank has been collaborating with the Organization for Economic Cooperation and Development (OECD) in the area of corporate governance, and with the International Auditing and Assurance Standards Board (IAASB) in the area of accounting and auditing. Fund staff has worked closely with other organizations on the revised FTC, including the

[9] Asia/Pacific Group on Money Laundering; Caribbean Financial Action Task Force; Eurasian Group; Eastern and Southern Africa Anti-Money Laundering Group; Central Africa Anti-Money Laundering Group; Latin America Anti-Money Laundering Group; West Africa Money Laundering Group; Middle East and North Africa Financial Action Task Force; and Council of Europe Anti-Money Laundering Group.

Global Initiative for Fiscal Transparency (GIFT), the International Budget Partnership (IBP), the OECD, and the World Bank, in order to help anchor their work and ensure complementarity.

18. Although welcome, the increased activity by SSBs in undertaking S&C work has introduced new challenges. One challenge, even amid ongoing efforts to closely coordinate, relates to minimizing scheduling conflicts, availability of experts, avoidance of overlaps, and pressures on resources. Another challenge is the increased intensity of S&C assessments, which now involves a stronger emphasis on actual implementation. This, together with increased self-assessments and surveys that inform the formal S&C output (discussed below), may potentially be leading to "assessment fatigue" for participating members, especially among some of the S29 jurisdictions. If so, it could undermine efforts to build ownership, and more generally, efforts to encourage adherence to international standards.[10]

2011 Recommendation 2: Improved Prioritization of Standards Assessments

19. There has always been an inherent tension around prioritization within the S&C initiative. As pointed out in the 2011 review, the initiative lacks "an overall framework for prioritization across standards, and there is no mechanism to ensure that the choice of ROSCs is aligned with Bank and Fund priorities." In the context of the FSAP program, however, a framework exists to prioritize financial sector work, including standards assessments. At the same time, the decentralized structure of the initiative has also allowed innovative practices to flourish. It has reflected ownership by individual policy areas and direct engagement with member states. It has also provided scope for the IMF Board to consider operational and effectiveness issues in a policy area-specific context.

20. In terms of financial sector work, prioritization has been guided by the Fund Board's 2010 decision to make financial stability assessments mandatory for countries with systemically important financial sectors (S25/S29). The 2010 decision[11] reflected an effort to address the challenge of integrating financial sector issues into bilateral surveillance by adopting a more global, risk-based approach. Consequently, in terms of S&C work, almost all S29 jurisdictions were covered during 2012–16 and they received on average of four financial S&C outputs during that period.

21. As S&C output for S29 jurisdictions picked up, it declined for EM and LIDC countries. With roughly six FSAPs for non-S29 member countries per year, financial sector S&C outputs to those countries have fallen by 18 percent during 2012-16 compared to the prior period, while S&C country coverage fell from close to 40 percent to around one-quarter (Figure 3). These developments were consistent with the 2011 S&C review's expectation that "tradeoffs will be unavoidable. For example, balancing the additional requirement from the G20 versus the need for assessments of emerging

[10] FSB's "Proposed Framework for Post-Implementation Evaluation of the Effects of the G20 Financial Regulatory Reforms Consultation document on main elements" (April 2017).

[11] Pursuant to that decision, 25 jurisdictions were determined to have systemically important financial sectors, based on 2008 data. A revision of the methodology in 2013, using updated data, expanded the list to 29 jurisdictions.

markets and low-income countries." Thus, while the S25/S29 decision ensured a global, risk-based allocation of FSAP resources, it also implied a shift in financial sector S&C assessments in the same direction, especially as stand-alone financial sector standards assessments outside the FSAP program became increasingly rare.[12]

22. The strengthening of some standards also increased their complexity, which may have further constrained non-S29 financial sector coverage under the initiative. The increased costs of financial standards assessments for S29 jurisdictions may have crowded out S&C work in non-S29 countries.[13] These increased costs were documented in the paper "A Macrofinancial Approach to Supervisory Standards Assessments," which proposed selective assessments of a subset of principles as one of the ways to integrate the S&C into surveillance and help offset the assessment costs.[14]

23. At the same time, the increase in financial sector TA has likely offset some of the demand for S&C work under the initiative to non S29 countries. Overall, financial sector TA delivery (in person years) increased by more than 37 percent between 2011 and 2016, much of it targeting low- and lower-middle income countries.[15] Some of these activities are directly aimed at improving compliance with financial sector standards, especially in banking supervision and payments systems. Still, there is high unmet demand for financial sector diagnostics,[16] which has led to the development of Financial Sector Stability Reviews (Box 2). While FSSRs are not part of the S&C initiative, a fully funded Financial Sector Stability Fund (FSSF) would be expected to support about 4-5 missions per year, which would amount to 15 percent of non-S29 countries over a five-year period. With commitments from Italy and Luxembourg, funding is currently in place for just under 15 percent of the total envisaged under the FSSF.

24. Bank-led S&C work has remained focused on non-systemic and low income countries, offsetting some of the shift in S&C coverage under the initiative, and recently started to incorporate, as needed and requested by the authorities, financial sector S&C work in FSAP development modules. However, overall Bank S&C output fell as selection criteria became more restrictive, and was impacted by changes to the budgetary allocation process. Also, the demand from member countries fell in a large part because baseline assessments have been done in most countries. Thus, while overall S&C outputs for EM and LIDC members declined by 37 percent between 2007–11 and 2012–16, the decline in the relative share of total output was less steep (to 55 percent from 69 percent) as overall S&C output also fell. Going forward, the Bank will continue to incorporate S&C work in FSAP development modules through full assessments or technical notes as may be relevant for the country.

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[12] Stand-alone financial sector ROSCs are down to less than two per year from about 10 per year during 2007–11.

[13] The 2014 FSAP review found that the modest rise in the resource envelope for the program had been more than offset by the shift to S29 jurisdictions, where FSAPs were on average twice as costly as for other countries. The FSAP review also stated that the resulting decline in FSAPs was found to have primarily affected LIDCs and other non-systemic countries (p. 34).

[14] See "2017 Review of the Standards and Codes Initiative Background paper," Financial Sector S&C, Figure 1.

[15] MCM Technical Assistance Annual Report 2016.

[16] MCM, STA, and ICD Financial Sector Stability Fund Presentation for Donors (October 19, 2016).

Box 2. Financial Sector Stability Reviews

As a recent innovation, the Fund's Monetary and Capital Markets Department has developed and piloted a new instrument, the Financial Sector Stability Review (FSSR). FSSRs are expected to be a diagnostic upon which financial sector reform programs can be built and implemented. FSSRs assess country-specific risks and vulnerabilities; the adequacy of institutional frameworks; and capacity in financial regulation and supervision, as well as crisis prevention and management. FSSRs provide recommendations for enhancing prudential frameworks and safety nets. Follow-up TA would draw on the Fund's experience in helping LIDCs ensure that they pursue financial inclusion and deepening in a manner that is consistent with financial stability. Training will focus on sustainably strengthening capacity to offset often high attrition rates in regulatory agency staffing, combining face-to-face training with new online tools to be developed.

Over the past two years, MCM has conducted several TA missions that may be seen as precursors of the FSSR. These include TA to Mongolia, Lesotho, El Salvador, Sri Lanka, and Sudan. Each mission proposed medium-term plans to strengthen financial sector stability in areas including financial regulation and supervision, the regulatory perimeter, lender-of-last-resort facilities, crisis prevention and management frameworks, and stress testing capacity. The work is expected to be funded by a multi-donor trust fund, and also cover related capacity development activities and development of financial sector statistics. Italy and Luxembourg have become the first member countries to support the Financial Sector Stability Fund.

Source: Macroeconomic Developments and Prospects in Low Income Developing Countries—2016.

25. In this context, low income countries have seen a particularly sharp decline in S&C outputs. This group of countries constitutes around 35 percent of Fund and Bank membership but received only 16 percent of Fund/Bank-produced S&C outputs over 2012–16. After an uptick over 2007–11 to 19 percent, the share of financial sector S&C output with LIDC members fell to 8 percent in the recent period. By S&C policy area, the greatest output for LIDCs over the 2012–16 period was in A&A, followed by ICR and BCP. No S&C work was undertaken with LIDCs in the recent period in the areas of data or MFPT and only one output was produced in each of the areas of IOSCO, FMI, CRDI, and AML/CFT.

26. The overall trends in coverage under the initiative were also affected by a pause in outputs based on the Fund's transparency areas. The 2011 review envisaged a pick-up in activity in this area in line with planned revisions to ensure continued alignment with member needs. Surveys had repeatedly shown that these codes were perceived as the most useful by country authorities (Figure 5). However, output across all three areas declined, most likely reflecting that countries that had undergone initial assessments saw limited gains to undertaking further updates in the absence of significant changes to the original structure of the underlying S&C (Table 2).

27. With the recent revamp of the fiscal transparency code, activity is picking up. More than 20 such assessments have recently been completed and have been positively received by members. This seems related to the introduction of graduated assessment of conformity to the best international practice, making it a more effective tool for low-and middle-income countries to chart progress of reform efforts, and strengthened links to capacity development efforts. However, the data quality framework remained unchanged since 2003, with a recent IEO report highlighting that it "is more focused on statistical processes than on passing judgement on the quality of statistical output itself." Additionally, the revision to the MFPT, which has remained unchanged since 1999, is also pending. In total, there were only seven assessments under the MFPT code and data policy area during 2012–16.

Table 2. Organizational Structure of the Original Transparency S&C

Data	MFPT Code	Old Fiscal Code
Prerequisites of quality (legal and institutional foundations)	Clarity of roles, responsibilities, and objectives	Clarity of roles and responsibilities
Methodological soundness, accuracy, and reliability	Open process for formulating and reporting policies	Open budget process
Serviceability and accessibility (e-GDDS, SDDS, and SDDS Plus)	Public availability of information	Public availability of information
Assurances of integrity	Accountability and assurances of integrity	Assurances of integrity

2011 Recommendation 3: Better Integrate ROSC Findings into Fund Surveillance

28. **The Board's 2010 decision to make financial stability assessments mandatory for countries with systemically important financial sectors was by far the most important vehicle to integrate the use of S&C into Fund surveillance.** This decision was reaffirmed in the 2014 review of the FSAP program, where surveys confirmed a high degree of satisfaction with the FSAP. The Fund Board also agreed in the 2014 FSAP review that "S&C remain a valuable tool for an exhaustive and comprehensive assessment of financial supervision." The review noted the high rate of implementation of FSAP recommendations and the increasing rate of publication of the Financial System Stability Assessment (FSSA). Finally, the review also concluded that "FSAP findings in systemic countries provided critical input into the Fund's surveillance, including policy recommendations to address vulnerabilities that had contributed to the most severe bout of global instabilities in decades."

29. **Outside the FSAP, the direct link between S&C outputs and Article IV consultation reports appears to have weakened.** ROSCs are intended to make results of standards assessments more accessible by providing summary findings and prioritized recommendations. However, in some policy areas, there has been a trend toward foregoing ROSCs and only publishing Detailed Assessment Reports (DARs). Meanwhile, DARs have become longer and more complicated, reflecting the increased complexity and comprehensiveness of many of the revised standards. The increased resource intensity of producing ROSCs and DARs has led to more frequent use of technical notes, some of which are also complex. The limited accessibility and clarity of some of these S&C outputs may hamper integration with Fund surveillance and Bank operational work.[17]

30. **Developments in individual policy areas present both a challenge and an opportunity for improving the link between S&C work and surveillance.** As already discussed, the increased complexity of many of the revised standards has, in some cases, resulted

[17] As mentioned above, stand-alone ROSCs are generally no longer conducted in the financial sector. Therefore, this analysis refers mainly to non-financial S&C work.

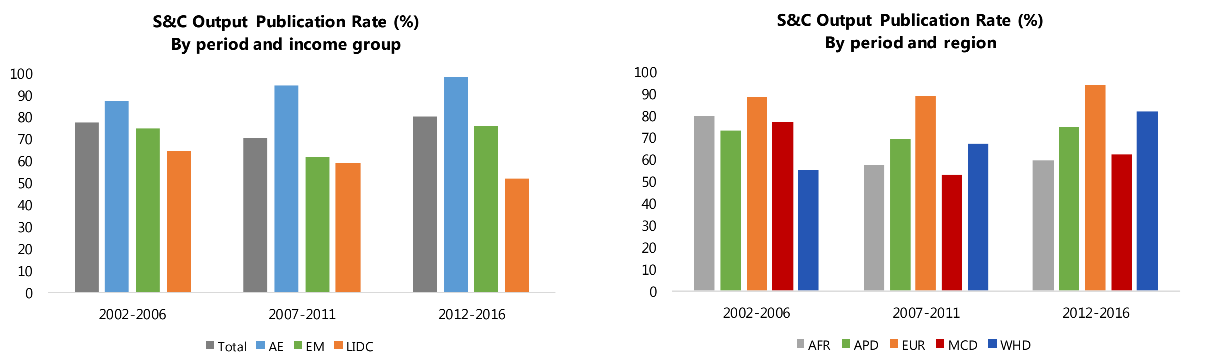
in longer and more complicated outputs. This could hinder take-up of findings in surveillance. On the other hand, in the case of the financial S&C, for example, the post-crisis revisions were intended to account for pre-crisis gaps and a focus on outcomes, including in some cases the stability of the system as a whole (macroprudential focus). In still other policy areas, innovations and emerging best practices are helping to better align and present the findings of S&C work in a surveillance-compatible manner.

31. In particular, the new fiscal transparency evaluation (FTE) shows promise in building more effective links to surveillance. This redesigned fiscal ROSC, with prioritized, easily accessible findings and recommendations, enhances its relevance to surveillance and other operational work. In several cases, findings and recommendations from FTEs have fed into area departments' policy notes and staff reports in the context of Article IV consultation or other surveillance related missions. Even within a short time-frame, there also have been direct linkages between FTE findings and recommendations and Fund program design, including setting of structural benchmarks. As discussed later, the approach to the FTE could be considered a "good practice" from which other policy areas could draw insights.

32. Thus, it may be time to redefine what constitutes progress toward the key objective of strengthening the link between S&C work and Fund surveillance. This would recognize that surveillance can guide assessments (where to look) as much as assessments should feed into surveillance. Since the outset, the overall objective of the initiative has been to strengthen institutions and therefore indirectly improve the effectiveness of a country's policy making environment. Follow-up on some of the specific technical issues identified in S&C reviews may thus be tangential to concerns that should be the focus of Article IV consultation reports. Additionally, such a direct link to surveillance may be less important if S&C work continues to increase its orientation around risks and outcomes, thereby aligning with surveillance in another, more fundamental way. Facilitating cross-fertilization of such innovation across policy areas, as appropriate, could help further promote alignment with surveillance.

33. The publication rate of S&C outputs has continued to increase. Publication rates increased from 70 percent between 2007–11 to 81 percent between 2012 and 2016 (Figure 4). Rates vary by income groups, having increased in the recent period for advanced economies (AEs) (now approaching 100 percent) and even more so for EMs (rising 14 percentage points from the prior period to 76 percent), while declining for LIDCs. In most of the 12 policy areas, a larger share of reports is published today; an exception is ICR as publication rates declined further.

Figure 4. Publication Trends



Source: IMF and World Bank S&C database and staff calculations.

34. While publication rates are up, the challenge of improving access to S&C findings remains. While the 2011 review called for better access to ROSC findings, this review finds that access through the Fund and Bank websites appears to have deteriorated for outputs in many policy areas. For the Bank, in particular, as a result of its recent budget restructuring, there is no longer a centralized website where reports could be made easily available. Policy areas where accessibility has been prioritized–for example, new outputs like the FTE–have demonstrated improvements on this front. Consistent with the decision to devolve operational issues to individual policy areas, it is recommended that going forward policy areas maintain their own web platforms for dissemination of S&C outputs, links to which can be compiled for ease of reference on a central S&C initiative site.

35. The scope of uptake by market participants remains limited at best. Both the 2005 and 2011 reviews questioned the realism of promoting the initiative's use by market participants, one of its original goals. The 2005 review found that this would require substantial changes to the initiative, and by the 2011 review use by market participants was found to have dropped further. The 2011 review acknowledged a tension between the needs of market participants, such as frequently updated quantitative ratings, and those of surveillance activities and capacity building efforts.

2011 Recommendation 4: Enhance the Efficiency of the Initiative

36. The 2011 review called for more focused and frequent updates of ROSCs. Anticipating that pressures would emerge from the FSB/S29 commitments, staff proposed extending targeted ROSCs to all policy areas except for AML/CFT [18] and increasing the use of self-assessments. Targeted ROSCs were envisioned as partial graded assessments, focused on a subset of a standard's principles or areas. At the time, methodologies had been developed for three financial supervisory standards (BCP, IOSCO, ICP). Piloting had begun based on these methodologies and it was envisaged that other policy areas would follow a similar approach.

[18] The Executive Board subsequently agreed in 2014 that targeted AML/CFT ROSCs could be issued in due course on the basis of the follow-up assessment reports.

Targeted ROSCs were expected to improve resource use by allowing assessors to focus on key areas of weakness. They also were expected to enhance transparency and consistency of updates by following a clear framework, in contrast to technical notes and factual updates.

37. Ultimately, targeted ROSCs were not adopted, in some cases reflecting guidance from the Fund Board in its direct engagement with policy areas. In the 2014 FSAP review, the Fund Board instructed staff to pursue proposals that balance the need to streamline with that of maintaining a proper coverage of standards. The Fund Board was recently informed about a staff-level agreement with the financial supervisory SSBs on how and when to use graded assessments or focused (non-graded) reviews that would result in an FSAP technical note or be a direct input into the FSSA. The issue of targeted ROSCs was not considered in the 2012 and 2015 reviews of the Data Dissemination Initiative, although the data ROSC assessment already takes a modular approach with a focus on one or several data domains.[19] As a result of revisions to the FTC approved by the Fund Board in 2014, a modular structure was adopted, which allows the code's four "pillars" to be assessed individually or together with one or more of the other modules.[20]

38. Increased use of self-assessments by members was envisaged in the last review to complement ROSCs, bolster ownership, and build capacity. Given that these assessments are produced by member countries and not necessarily with staff involvement, a full overview of implementation across policy areas is not feasible.[21] However, in the financial area, self-assessments have been inputs to S&C assessments under FSAPs. Additionally, S&C assessments and self-assessments are increasingly being used as a source of verifiable indicators for reporting progress to external donors.

B. Policy Area Reviews

39. The progress made since 2011 largely reflects the direction provided by the IMF Board. Most of the changes in individual policy areas referenced above were undertaken during policy area reviews, reflecting efforts to bolster both the underlying S&C and the approaches to using them based on the lessons of the crisis. The use of direct channels to engage the Board outside of the comprehensive S&C reviews has established priorities in individual policy areas and fostered innovations that adapt operational approaches to better achieve them. The initiative thus now comprises a broad array of work around the long-standing objective of promoting greater financial stability through S&C. The section below summarizes these developments, which are described in more detail in the background papers.

[19] For example, consumer price indices, the system of national accounts, and balance of payments data. Three of the seven data ROSCs conducted since the 2011 S&C review have taken a modular approach.

[20] So far, however, none of the 21 FTEs has employed this possibility; each has covered all three of the finalized modules. It may be that reassessments would be more likely to employ the alternative of a targeted assessment.

[21] Additionally, many self-assessments may be partial, drafts, or used for setting priorities and reforms based on related frameworks such as the DQAF.

The Fund's Transparency Areas

40. Gradually, the focus of the transparency S&C is shifting towards supporting policy making, policy dialogue, and accountability. At their launch, these S&C were mainly focusing on ensuring disclosure of content and openness around operational processes. Increasingly, the focus is on the framework that facilitates implementation of policy objectives, to support effectiveness and address macroeconomic risks. New approaches also can provide a baseline to assess progress over time. The fiscal area has led this transformation and survey results indicate that it is strongly welcomed by the authorities. Early thinking on potential reforms to the data quality framework and the MFPT also recognize the benefits of such a shift (section D).

Data

41. The 2012 and 2015 reviews of the data standards focused on addressing gaps and enhancing incentives to improve compliance. The 2012 review introduced a new top tier (Special Data Dissemination Standard (SDDS) Plus) for AEs, especially those countries with systemically important financial sectors. It was coordinated with the IMF/FSB G20 Data Gaps initiative, which sought to address data gaps identified in the wake of the crisis. The 2015 review revamped the basic tier to align and promote publication of the datasets used for surveillance and policy making. The basic tier now includes incentives to reach a higher data standard and monitoring is facilitated by recent technological enhancements. The data dissemination standards now have almost global membership coverage (Table 3).

42. Domain-specific data quality assessment modules were introduced in 2012. Whereas the overall data quality assessment framework (DQAF) remained unchanged, the dataset-specific framework can now be applied to one or several of the seven key macroeconomic statistical datasets: (i) national accounts, (ii) consumer price index, (iii) producer price index, (iv) government finance statistics, (v) monetary statistics, (vi) balance of payments, and (vii) external debt statistics. This has facilitated the production of data quality assessments on the individual datasets. It also enabled the integration of the framework with statistical capacity development programs (Box 6).

43. Data ROSCs have been the vehicle to assess jointly the country practices for data compilation and dissemination relative to international standards. The de-coupling between data quality and dissemination was discussed in a recent IEO report, which noted that the data dissemination standard leaves "the responsibility for [data] accuracy and reliability with the subscribing country" and that "this setup implies that a country may be in full observance of the dissemination standards, and reported as such in the Dissemination Standards Bulletin Board (DSBB), while at the same time providing faulty data—potentially in breach of its obligations under Article VIII, Section 5." A task force has been established to address the recommendations of the report, and is expected to finalize its report by December 2017.

Table 3. Membership Coverage of the Data Dissemination Standards

Data Standards	2000	2010	Mar. 2017
Top tier (SDDS Plus)	0	0	13
Advanced (SDDS)	47	68	61
Basic tier (GDDS; e-GDDS)	22	95	110
Total:	69	163	184

Fiscal Transparency

44. The global financial crisis underscored the importance of fiscal transparency, but also the need to revise the underlying code. The crisis revealed shortcomings in fiscal analysis, in part due to insufficient understanding of countries' fiscal positions and the scale and the likelihood of exogenous shocks. This was highlighted in the 2011 S&C review.

45. Based on stakeholder consultation and engagement with the Board since the 2011 review, the FTC and its assessment output have been dramatically transformed. After a policy area-specific review in 2012, the FTC was revised in 2014. The new code has four pillars: (i) fiscal reporting, (ii) fiscal forecasting and budgeting, (iii) fiscal risk analysis and management, and (iv) resource revenue management.[22] The revised FTC forms the basis of the new FTEs, which replaced the fiscal ROSCs.

46. Compared to the prior code, the revised FTC focuses more on information needed for good fiscal management and decision-making. FTEs provide more rigorous and quantified analyses of the scale and sources of fiscal vulnerabilities. They also include a summary of the strengths and weaknesses of country practices and their relative importance, and provide the option of a sequenced fiscal transparency action plan to help define reform priorities. Flexibility has been enhanced with the scope for modular assessments of the FTC's individual pillars and the approach taken to the assessment of transparency issues in resource-rich countries.

Financial Sector S&C

47. Financial S&C have been improved to fill pre-crisis gaps, focus on outcomes, and bring a system-wide (macroprudential) perspective. The BCP now requires that supervisors take account not only of the risk profile of individual institutions, but also of the systemic risks they pose to the financial system and the economy. IOSCO addresses systemic risk by including a new core principle (CP) that identifies the role of the securities' regulator in contributing to the regulatory process to identify and mitigate systemic risk. The ICP includes a new CP on macroprudential surveillance requiring the insurance supervisor to take account of systemic factors in insurance supervision. The KA identifies an effective framework for systemic risk identification and mitigation as one of the preconditions for effective resolution regimes. The

[22] The first three pillars were approved in 2014, while the fourth pillar is under development.

PFMI includes a section on systemic risks in its introductory chapter and stresses that financial market infrastructures should have objectives that "explicitly support financial stability."

48. Many financial S&C have thus undergone far-reaching revisions, building on work ongoing at the time of the last review. International SSBs reviewed and revised the BCP (2012), ICP (2011), and IOSCO (2011), and the new PFMI (2012) resulted from a review of three existing standards for financial market infrastructures. The KA was adopted by the FSB in 2011 as a multi-sectoral standard (with focus on banking, insurance, and central counterparties) and revised in 2014; the assessment methodology for the banking sector was completed in 2016. The DICP was revised in 2014, with its assessment handbook completed in 2016. Fund and Bank staff was actively involved in this work though participation in the relevant standard setting groups. The Fund also carried out two trial or pilot reviews of the KA—jointly with the FSB and the Bank—as part of efforts to develop an assessment methodology. A third review was conducted by Fund staff in the context of the mandatory financial stability assessment with a member.[23]

49. The FSAP program continues to be an effective platform for S&C work with participating members. In the 2014 review of the FSAP, Directors agreed that key S&C are a valuable tool for an exhaustive and comprehensive assessment of financial supervision. Many saw scope for streamlining and targeting these assessments in a manner consistent with the FSAP's focus on systemic risk and, more broadly, the Fund's macrofinancial surveillance mandate. As noted earlier, Directors encouraged staff to explore ways to focus these assessments on key areas from the perspective of financial stability. Staff-level understandings have now been reached with the relevant SSBs on the most effective ways to use the three supervisory standards in FSAPs.

50. Collaboration with the financial supervisory SSBs has helped formalize the flexible approach to S&C work in FSAPs. In November 2016 and June 2017, the Fund Board was updated on the understanding reached between staff at the Fund and the financial supervisory SSBs on the continued approach to the use of financial sector supervisory standards for graded assessments and focused reviews.[24] The latter is now being informed by sets of "base principles" that will serve as the starting point for discussions between staff and the authorities about the scope of focused reviews. The Fund's 2019 FSAP review will provide an opportunity to take stock of the experience with this approach.

AML/CFT

51. Important changes occurred in the area of AML/CFT since 2011, with an increased focus on its risk-based application and on outcomes. The 2012 review of the FATF recommendations (the AML/CFT standard) enhanced the focus on the risk-based application of

[23] All three covered bank resolution, and one also covered insurance resolution; no pilot assessment of resolution for central counterparties has been conducted to-date.

[24] Use of Supervisory Standards in the Financial Sector Assessment Program—Understandings with Standard Setting Bodies, (June 9, 2017).

AML/CFT measures (described below), strengthened parts of the previous standard, and addressed new threats such as the financing of the proliferation of weapons of mass destruction. The 2013 assessment methodology added the systematic assessment of the effectiveness of national AML/CFT systems reflecting that, with most countries having AML/CFT laws in place, attention should concentrate on an informed discussion of the effective implementation of the standard. In 2014, the IMF Board endorsed the revised FATF AML/CFT standard and assessment methodology.

52. Changes that were implemented also reflected attention to issues around burden sharing with external SSBs. Responding to concerns about the varying quality of assessment reports, especially those produced by some of the FSRBs, the FATF strengthened the review mechanisms in 2013. In the 2014 review of the Fund's Strategy on AML/CFT, the IMF Board encouraged staff to continue efforts to integrate financial integrity issues into its surveillance and in the context of Fund-supported programs. The Board also decided AML/CFT issues should continue to be addressed in all FSAPs, albeit on a more flexible basis. It was agreed that reports adopted by the FATF and FSRBs would continue to be converted into AML/CFT ROSCs following a *pro forma* review by staff.

53. To help foster country capacity and ownership, the international financial institutions have developed an advisory and capacity development package to assist countries in establishing a process for assessing and regularly updating the assessment of their money laundering/terrorist finance (ML/TF) risks. FATF's Recommendation 1 requires countries to assess and understand their ML/TF risks, then design an AML/CFT regime that is based on this risk assessment and corresponds to the risk context and realities of the country. Both the Fund and the Bank have developed CD tools to assist countries in conducting a National Risk Assessment through a systematic process, with the broad participation of public and private sector stakeholders.

World Bank-Led Codes

54. Advancements were made in all the Bank-led policy areas. These changes, some substantial and others more evolutionary, came about at the technical level rather than through a systematic review with Board engagement as at the Fund. The Bank's ongoing collaboration with external SSBs, along with revisions to the S&C and adjustments to assessment approaches in some cases, has improved Bank S&C work with clients and yielded benefits for other Bank activities even as the operational environment has been impacted by recent budgetary developments.

Corporate Governance

55. A more focused and differentiated approach has been developed to conduct assessments of the CG code. This approach is tailored to the size and sophistication of the client country and is consistent with a more limited resource envelope. The ROSC methodology has been updated to incorporate the 2015 revisions to the Principles and the OECD assessment methodology, streamline the Detailed Country Assessment and benchmarking process to ease the burden on assessors and lower costs, and restructure the standard report format to shorten reports and simplify presentation. The benchmarking approach for different tiers of countries is expected to lead to more impactful assessments, while being more closely tied to other Bank activities in the assessed countries.

56. The goal of this approach is to improve traction. For countries with the basic regulatory framework for corporate governance, CG ROSCs will be carried out as a part of ongoing World Bank/International Finance Corporation (IFC) capital markets/corporate governance programs. Detailed policy recommendations and country action plans will be developed, with implementation of recommendations provided through follow-up advisory work. The CG ROSC will also serve as a monitoring and evaluation tool for long-term programmatic interventions. For smaller countries without active equity markets (so-called "Tier 3" countries), a CG ROSC will not typically be carried out. The approach is instead to provide high-level recommendations to improve the basic CG framework, generally in the area of company and securities law reforms, and to raise awareness of the importance of CG longer term. Technical notes will be used to provide targeted, confidential advice to client country governments in specific areas.

Insolvency and Creditor Rights

57. Bank staff finalized revisions to the Principles for Insolvency and Creditor/Debtor Rights in 2015. Responding to the lessons of the crisis, these revisions included a focus on the institutional framework for risk management, as well as substantive aspects of formal insolvency proceedings. As a result, the revised draft of the standard now contains more detailed provisions on the issue of director liability and adopts a more nuanced approach to the treatment of financial contracts in insolvency.

58. However, additional steps are required before the ICR standard can be finalized, as anticipated in the 2011 S&C review. The 2015 changes were endorsed by Bank Management (the Office of the General Counsel). The next step, currently underway, is for UNCITRAL and the Bank to jointly undertake revisions to the Unified Insolvency and Creditor Rights Standards. This last step is expected to be finalized in FY 2018 followed by Bank Management endorsement, while the Bank Board will be informed about the revisions to the Unified ICR Standards.

59. The ICR standard has been beneficial to other aspects of the World Bank Group's work, apart from its traditional S&C output. The ICR standard supported revisions to the methodology of the "Resolving Insolvency" indicator of the World Bank's Doing Business report. In 2014, an "offline" pilot was conducted, using 16 different aspects of the ICR standard as a proxy for the measurement of the quality of an insolvency law. This index was found to correct many of the anomalies associated with the original case-study methodology. In 2015, it was introduced to complement the case-study and represents the single largest change to the Doing Business methodology since its inception. Additionally, in 2017, the IFC launched a new Investment Risk Platform designed to serve as the primary risk assessment tool for IFC investments. Its loss given default methodology relies, in part, on a high-level measurement of a given country's insolvency regime and the regime's consistency with the ICR standard.

Accounting and Auditing

60. The global financial crisis underscored various shortcomings with international financial reporting and auditing standards, and with their implementation. The crisis raised concerns about the effectiveness of corporate governance arrangements and the quality of financial and other information provided by companies. While the A&A standards were not the root causes of the crisis, contributing factors included financial intermediaries' inappropriate application of the fair value standard in the valuation of financial instruments in suddenly illiquid markets, the timeliness of asset impairment recognition, the (lack of) consolidation of certain investment vehicles, and the transparency of auditors' work.

61. In response, the International Accounting Standards Board (IASB) introduced a series of significant changes to International Financial Reporting Standards (IFRS). These encompass *interalia* financial instruments (IFRS 9; particularly on impairment, e.g., new expected loss model, classification, measurement), fair value measurement (IFRS 13, particularly for illiquid instruments), and off-balance sheet vehicles (IFRS 10, with consolidation based on control). The scope and depth of the changes adopted pose a very significant implementation challenge.

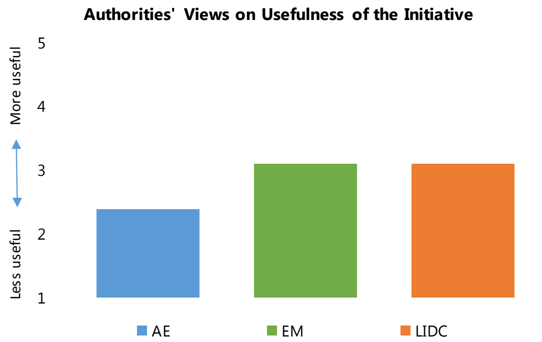
62. In turn, the IAASB has launched a broad process of reforms of several International Standards on Auditing (ISA). In particular, it revised the structure and content of the auditors' report (ISA 700) and introduced a new standard (ISA 701 Communicating Key Audit Matters in the Independent Auditor's Report) requiring from December 2016 onwards that auditors publicly report on the issues they consider to be most significant during the audit ("key audit matters").

63. The A&A diagnostic tool was overhauled in 2016. The overhaul of its assessment methodology, first developed in 2001, followed changes in the underlying standards. It reflected the need to adapt the tool to countries where the A&A framework is at an early stage of development, incorporate lessons drawn from 15 years of experience,[25] and improve the value of the A&A ROSC assessment to country management units and country stakeholders. In particular, the initial assessment tool had been designed at a time when important features of modern corporate financial reporting had not yet been introduced (e.g., quality assurance and public oversight of the work of auditors, IFRS for small and medium-sized enterprises (SMEs)). Furthermore, implementation had in practice been tweaked in an *ad hoc* manner, trying to fit the single methodology to a wide range of country circumstances and weakening the consistency of assessment across countries.

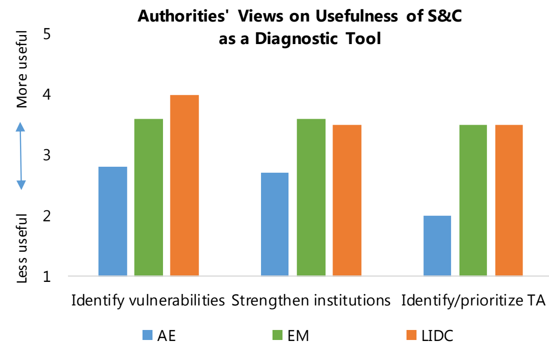
[25] The Bank's Operations Policy and Country Services review of the A&A ROSC program in 2010 had recommended a revision of the diagnostic tool and guidelines to ensure its continued relevance.

Figure 5. Membership Appreciation of the S&C Initiative

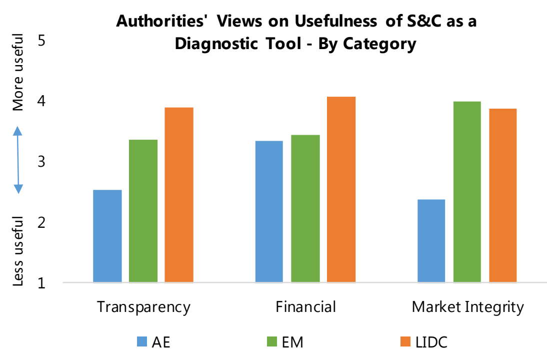
Surveys conducted for the 2011 S&C review confirmed EM and LIDC members found the initiative most useful…



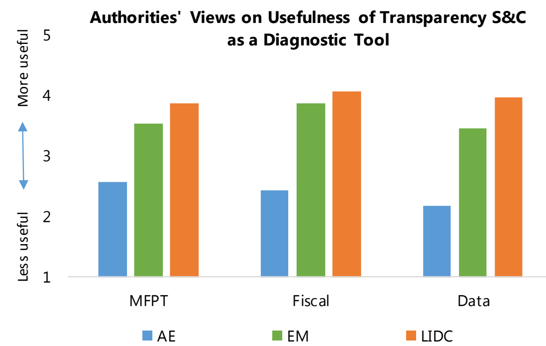
and particularly welcomed the various diagnostic functions S&C work could offer.



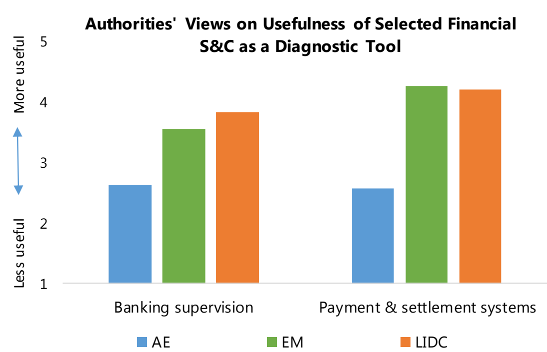
This appreciation was evident across the major categories of S&C…



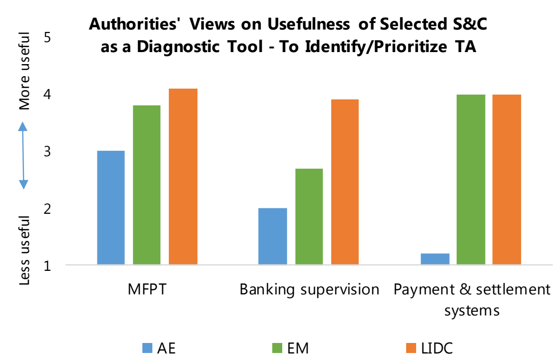
with the three Fund-established Transparency S&C…



and selected financial S&C particularly standing out…



in part, reflecting their perceived usefulness in identifying and prioritizing technical assistance.

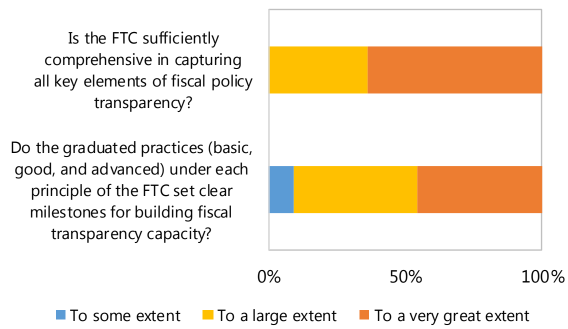


* For the 2011 survey, 94 participants from 60 countries and jurisdictions responded. All of the countries in the sample participated in the initiative or had conducted at least one standard assessment.
Source: 2011 IMF and World Bank Review of the Standards and Codes Initiative.

Figure 5. Membership Appreciation of the S&C Initiative (concluded)

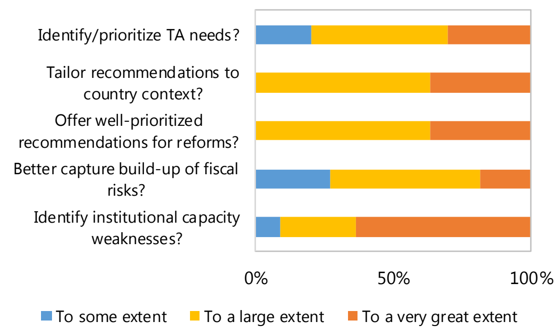
According to members who have recently received FTEs, the graduated approach has added value without sacrificing comprehensiveness….

Authorities' Views on Comprehensiveness and Adaptability of FTC



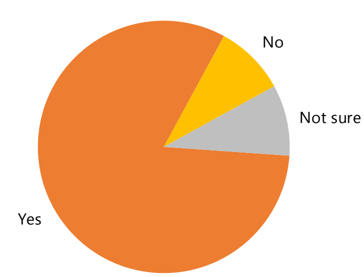
…and FTEs were viewed as useful in identifying institutional weaknesses, shaping reform programs, and prioritizing TA needs.

Authorities' Views on FTC's role in Identifying and Prioritizing Reform Needs



A majority of respondents saw value in follow-up FTEs to help assess progress in meeting the standard.

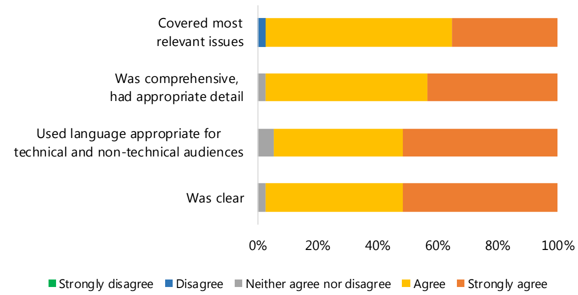
Authorities' Views on Considering a Repeat FTE



Members recently participating in A&A S&C work generally responded favorably to the experience…

Authorities' Views on Accounting & Auditing S&C Work

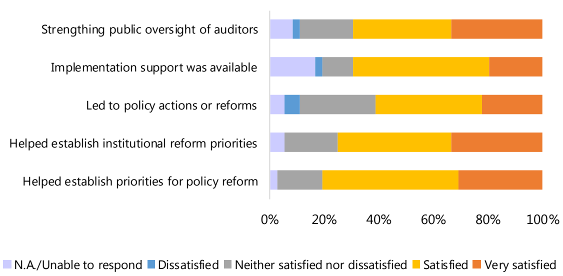
"The report..."



highlighting the role it often played in informing and supporting reform agendas and priorities.

Authorities' Views on Accounting & Auditing S&C Work

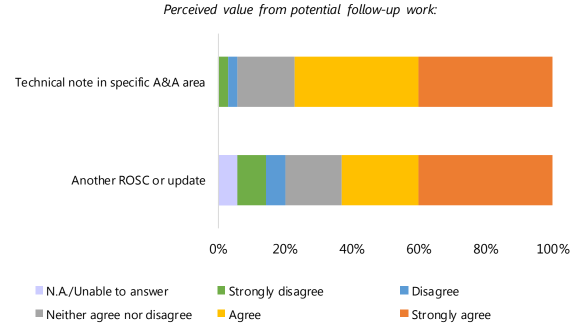
"This S&C work..."



A majority of respondents likewise saw value in follow-up A&A work, including through a targeted approach.

Authorities' Views on Accounting & Auditing S&C Work

Perceived value from potential follow-up work:



* In the area of fiscal transparency, a survey questionnaire on the revised Code and FTE was sent to the authorities of 20 countries who have conducted FTEs, of which 10 countries responded to the survey. In the area of A&A, a survey questionnaire on recent experience with S&C work in this area was sent to the 101 authorities in 31 countries, of which 37 authorities in 20 countries responded to the survey.

Source: IMF and World Bank surveys and staff calculations.

64. This new tool includes three modules, and guidance to assessors seeks to sharpen the materiality of the findings while providing flexibility within the modules. Module A (Accounting and Auditing Standards) seeks to document material differences between country and international standards. Module B (Institutional Framework for Corporate Financial Reporting) has nine questionnaires covering various aspects of the country's A&A framework (including commercial enterprises; listed companies; banks; insurance; and audit regulation, quality assurance and public oversight) with implementation guidance providing room to assessors to select which questionnaires are materially relevant to country circumstance. Module C (Observed Reporting Practices and Perceptions) seeks to corroborate the findings from Modules A and B, and to gather perceptions of the demand for and quality of financial information from users of financial statements.

65. The new methodology also takes a further step towards assessing effective implementation. This is done by placing significant emphasis on the institutions underpinning a country's A&A framework. This is further supported by the assessors' review of a sample of financial statements (albeit of small number) and by the systematic canvassing of users' views of quality of financial statements in the country. The new methodology has already been deployed in Pakistan with positive initial feedback.

C. Policy Area Best Practices

66. A key goal of this review is to identify best practices in individual policy areas that can be shared across the initiative. In this context, "best practices" may reflect approaches that are particularly effective in promoting adherence with international standards and codes. They may be more supportive of countries' efforts to strengthen economic institutions, and/or better inform other World Bank and IMF work with the member. Implementing a best practice may improve the prospects of the policy area meaningfully contributing to promoting economic and financial resilience. This may be achieved by gauging key weaknesses (i.e., noncompliance with S&C) and improving traction to address them, or by helping authorities address the weaknesses in a more efficient or effective way. As the initiative has reflected a partnership between the Fund and Bank and external SSBs since the outset, collaboration with external bodies will remain a core element and can be further enhanced.

Collaboration with External Bodies/Standard Setters

67. Enhanced interaction between the SSB and the Fund and/or Bank as assessor has proven to be beneficial. The advantage of this dialogue is that it provides two-way feedback between the standard setter and the assessor institutions. The February paper "Scope and Focus of the 2017 Review of the Standards and Codes Initiative" foresaw scope for strengthening this relationship to (i) keep the S&C current as external conditions change; (ii) ensure effective implementation; (iii) align priorities, including with regard to the tradeoff between the complexity of S&C and their assessment methodologies and the capacity to meet demand within resource constraints; and (iv) reinforce a focus on Bank and Fund operational priorities.

68. Recent experience shows that such engagement can benefit a broader set of activities. In the area of financial sector standards (Box 5), staff has engaged with the external

SSBs on how to most effectively use standards in financial stability assessments. This dialogue also has been useful in developing and cooperating on delivering TA, including coordinating closely with countries to prioritize deployment of TA and ensure timely advice. Another benefit has been informing the development of guidance for regulation and supervision in particular areas of the underlying standard.

Innovations to S&C and Assessment Modalities

69. Innovations to improve the cost-benefit tradeoff of S&C work are necessary if the initiative is to continue to make a positive contribution to economic and financial resilience. From the outset of the initiative, S&C have been relied on to confirm whether a country meets internationally-agreed minimum standards at a specific point in time. This has resulted in technical compliance assessments which are increasingly lengthy and dense. The FSAP program has an established approach to working with the underlying S&C as agreed with SSBs, but for several other policy areas these challenges remain.

70. Institutional capacity can be a binding constraint to members' willingness or ability to participate in the S&C initiative. For countries that have sufficient capacity, technical compliance assessments fulfill an important function and are helpful to promote ongoing compliance with international S&C. However, for other parts of the membership, compliance in some policy areas may be unrealistic in the short or medium term and repeat assessments may be perceived as resource-intensive and less useful. In the context of a voluntary initiative, the challenge is to embrace innovation that will improve adherence to international standards. Different policy areas have developed different approaches to tackle this challenge.

71. A common feature of the best practices identified in this review is that they involve specific assessment modalities that allow for more systematic tailoring to country circumstances. The underlying premise is that progress towards adherence with a standard can be more effectively promoted when country circumstances are taken into account.[26] The fiscal code, and early thinking on the data policy area, sheds light on how this transformation is taking place. The direction is to adopt a risk-based approach in considering the implications of deviations from the standard, which aligns well with a focus on vulnerabilities. Embracing such an approach would, therefore, promote closer linkages with surveillance. It also would facilitate prioritizing actions to address identified deviations, charting a realistic path to attaining the standard and, in the interim, managing vulnerabilities associated with those deviations. This aligns well with a focus on capacity development. The FTE brings this together through summary heat maps that feature analysis of the scale and sources of fiscal vulnerability and provide a visual account of fiscal transparency strengths and reform priorities (Annex 3).

72. This review has identified three "best practice" approaches to standards assessments. These modalities are discussed below and explained in detail in the thematic

[26] The Basel Core Principles for Effective Supervision notes that "by reinforcing the proportionality concept, the revised Core Principles and their assessment criteria accommodate a diverse range of banking systems."

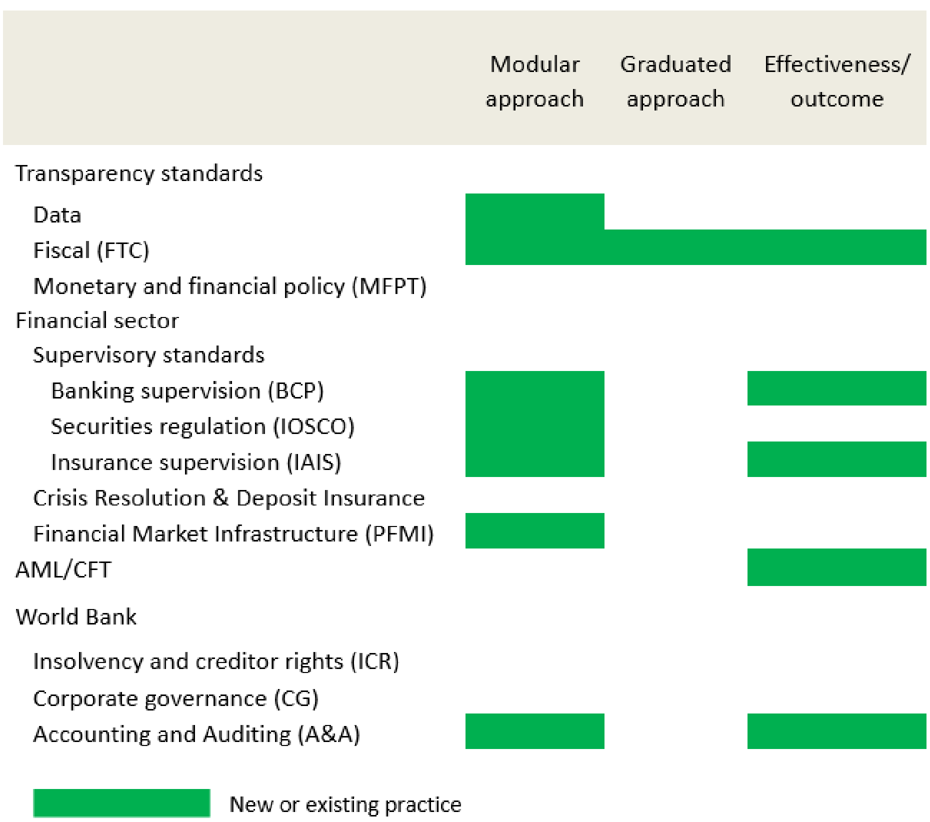
background paper. They are (i) modular (tiered) approach, (ii) graduated approach; and (iii) effectiveness/outcome focus. Figure 6 shows the extent to which these innovations have been adopted so far in the various policy areas. The recommendations section below also discusses the extent to which these innovations and best practices may be considered for adoption across the initiative, as relevant.

Modular Approach

73. Perhaps the development that may have the broadest appeal is employing modules or pillars to better tailor assessments to country needs and capacity. This can be done by focusing on certain categories of principles in the underlying code, such as one or more of the FTC's four pillars. Another, more established practice is to focus only on certain areas, for example, on the consumer price index instead of the whole set of macroeconomic statistics.

74. The new fiscal code illustrates the potential usefulness of the modular approach. When a reassessment focuses on the module that was previously found to be most problematic, the authorities would be able to assess and demonstrate progress in a cost-effective way, without undergoing another full assessment. Even if the country previously scored well on all modules but has had staff turnover or is facing new risks in specific areas, an assessment against the relevant module(s) would facilitate deployment of targeted S&C work.

Figure 6. Current Prevalence of Best Practice Assessment Modalities



Graduated Approach

75. Some standards assessments have begun to clarify "distance to standard" relative to comparable country groupings or other reference points. Historically, almost all standards assessments have been graded based on observance of the international best practice or "minima" and typically scored as "observed," "largely observed," or "not observed." The advantage of this new approach is that it allows for relativity, by benchmarking performance against peers, level of development, or progress since the previous assessment. This can help inform a realistic path toward compliance with standards—taking into account the vulnerabilities associated with non-compliance that require the most immediate attention when paired with the effectiveness/outcome focus (see below)—and can better facilitate measurement of progress over time.

76. The new fiscal code is leading the way in implementing a graduated approach. This entails providing all countries with a set of achievable milestones on the way towards full compliance with the international standard. For each principle under the fiscal code, the countries are scored: (i) basic—practices would be considered as a minimum achievable by all countries; (ii) good—practices would require more developed institutional, human, and technological capacities; and (iii) best—practices would entail full compliance with relevant international standards and being in line with the current state-of-the-art.

77. Survey results indicate that the graduated approach is one of the most valued aspects of the new FTE. About 90 percent of countries agreed that the graduated approach was, to a great or large extent, valuable in assessing their scores against comparator countries. It was also perceived as helpful in setting priorities for reforms and milestones as countries seek to implement their reform agenda as part of capacity building efforts (Figure 5).

Effectiveness/Outcome Focus

78. Another key innovation has been assessing actual effectiveness, or "outcomes." This is done in some policy areas by assessing S&C vis-à-vis the risk profile, which is based on the threat, the vulnerability, and the potential impact. This goes beyond merely technical compliance by attempting to assess the extent to which compliance achieves risk mitigation. Such assessments are generally more resource intensive, as they require assessors possessing different skills than those that focus only on the role of the authorities. They also entail greater tailoring to the country context and the risk environment.

79. Experience in the AML/CFT area shows the fundamental difference between the assessment of effectiveness and that of technical compliance (Box 4). For every assessment, the AML/CFT assessment methodology establishes as a starting point an understanding of the country's risks and context, which is critical to evaluating technical compliance with the standard and effectiveness. This requires that assessors must, for each outcome, use their judgment to reach a holistic conclusion as to how well a country is operating, with a focus on the extent to which the framework is producing the expected results. The expectations in terms of results vary from one country to another, according to the country context and the risk environment.[27]

Direct integration with Capacity Development

80. **The 2011 review, as well as prior reviews, have noted the challenge of achieving better formal integration of S&C work with the capacity development (CD) framework.** It seems likely that the persistent weak linkages to CD are rooted in the initiative's traditional outputs, which were technical assessment rather than diagnostic tools. As such, these assessments were not cost-effective tools to measure interim progress in a CD program. This may be changing with the Fund's introduction of the Results-Based Management (RBM) system, which requires benchmarking against a starting point, identification, prioritization, and sequencing of reforms, and measuring progress against agreed milestones (Box 6).

81. **The data quality framework provides a useful example how S&C work can be directly integrated with CD.** The framework was originally developed for data ROSCs, but is now being used more widely "to improve the statistical basis for surveillance and program design and monitoring, as well as to enhance the effectiveness of the Fund's technical assistance." Specifically, the framework was used to inspire a comprehensive catalog of CD work streams, objectives, outcomes (results), and related indicators, baselines, and milestones. This tool also facilitates the measurement of progress of CD efforts to achieve an outcome (e.g., achieving a particular data standard) and eventually achieve the overall objective such as better data for policy making.

STRATEGIC STRENGTHENING OF THE INITIATIVE

82. **This review concludes that evolution of S&C work has accelerated in several areas, against a mixed backdrop of uptake of operational recommendations from the 2011 review.** As noted, most externally-set S&C have been revised based on the lessons of the crisis, and assessment methodologies have been updated in several areas. In some cases, this has contributed to greater complexity and resource intensity of assessments. The Bank has undergone a budget restructuring, which has impacted its S&C output. Priorities established in Fund policy area reviews since 2011 set the direction for work in individual areas, but they often have not emphasized implementation of the 2011 recommendations. The Fund's S&C output also has declined, partly reflecting anticipated or implemented revisions to its transparency S&C, and the allocation of output has shifted across countries and income groups. Revisions to the FTC offer a promising way forward for the relevance of Fund-set transparency S&C. While publication rates of S&C outputs have improved, access to these outputs has deteriorated in many cases.

[27] For example, assessors will look at the number and type of AML/CFT cases that a country has reported, although a different number of cases may be considered sufficient depending on the country's risk profile.

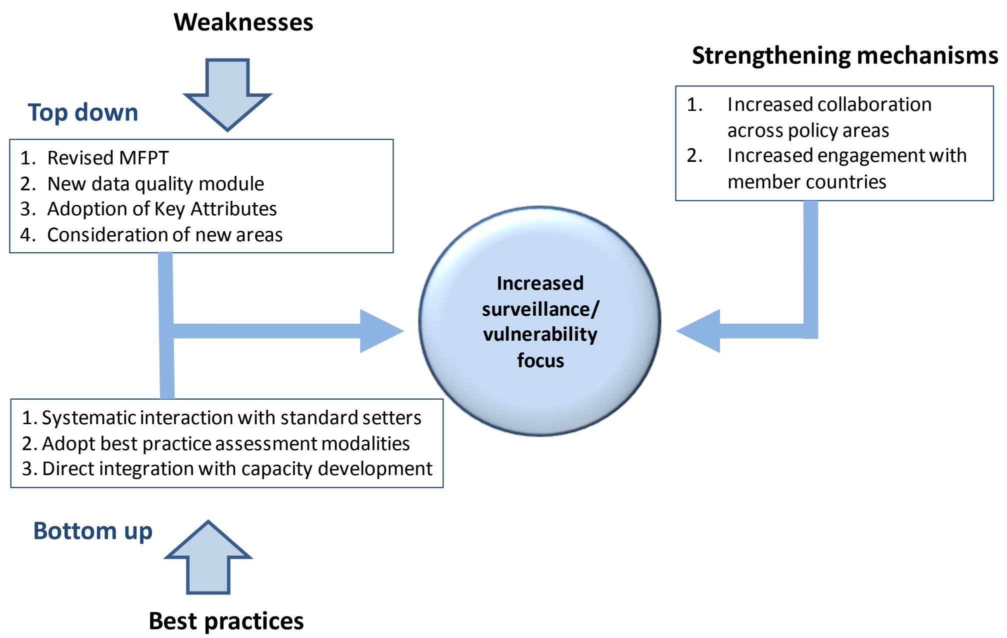
83. At the same time, important progress made in individual areas is ensuring the initiative's ongoing relevance in supporting efforts to strengthen international financial stability. After almost two decades of implementation, the 12 policy areas have found their natural place in the initiative and many are demonstrating a substantial amount of ownership and innovation to align S&C work with risks and vulnerabilities. Best practices are emerging that may help advance the long-standing objective of promoting greater linkages with surveillance and capacity development and bolster member participation. Greater member awareness of the range of recent developments could support this demand-driven initiative.

84. This review proposes a shift to a strategic approach to this and future reviews of the S&C initiative to address persistent challenges and capitalize on progress made. This approach entails looking "top-down" to address gaps and weaknesses in the S&C framework. At the same time, the approach devolves operational reviews and responsibilities to policy areas—and in the case of the Fund's transparency areas, assessing the underlying S&C—while establishing the expectation that they will continue to make effective contributions to international financial stability through institution-building. Under Board guidance, forthcoming policy area reviews should therefore address gaps and weaknesses identified by the reviews of the S&C initiative and consider adopting relevant recent innovations (best practices). The overall objective of these reforms would be to improve the linkages between S&C work and surveillance, and its integration with capacity development. The scope of uptake by market participants remains limited and this review consequently does not assess further prospects in this regard. Finally, increased engagement with member countries and continued collaboration across policy areas would be required to strengthen follow-through on priorities established in reviews of the initiative.

85. This review makes specific recommendations for actions before the next review. Updates to strengthen the MFPT and the Fund's data policy area should proceed, and the KA and assessment methodology for the banking sector should be endorsed to underpin work in the CRDI policy area. There are no major gaps in the architecture that merit an expansion of the initiative in this review, nor are there compelling reasons to streamline policy areas. Work is ongoing in areas that could be considered for future inclusion. Upcoming policy area reviews should consider the scope for improvements based on the identified best practices drawn from across the policy areas and should include an assessment of how new elements could improve linkages to surveillance and capacity development. Increased collaboration across policy areas and engagement with external SSBs and member countries should continue to promote the alignment of overall S&C work with the strategic priorities of the Bank and Fund and the needs of the membership.[28] These recommendations are discussed below, listed in Annex 4, and elaborated in the policy area background paper.

[28] Staff-level understandings have been reached with global SSBs on the use of the three financial sector supervisory standards in FSAPs. See "Use of Supervisory Standards in the Financial Sector Assessment Program—Understandings with Standard Setting Bodies" (June 2017).

Figure 7. Strategic Approach for 2017 Review of the S&C Initiative



A. Top Down—Address Weaknesses in the Overall Initiative

86. Looking across the initiative, no gaps have been identified but some policy areas need strengthening. Updating two of the Fund's transparency S&C is the most pressing need. The 2011 S&C review called for revision of the MFPT, while a recent IEO report pointed to a need to revise the data ROSC to make it more outcome-focused. Fundamental principles that should guide updates to individual transparency areas include ensuring broad applicability to the membership, reflecting lessons learned in other policy areas, and promoting alignment with surveillance and capacity development. In addition, this review proposes that the Board endorse the KA as one of the two standards underpinning work in the CRDI policy area. This review also notes that Islamic Banking is another area for potential consideration under the initiative. These proposals are discussed below.

The Fund's Transparency Areas

A New MFPT

87. The long-awaited revision of the MFPT should proceed without further delay. This revision was envisaged in the 2011 review, but was put on hold as monetary policy practices continued to evolve in the aftermath of the crisis, especially unconventional monetary policies, which altered some of the accepted wisdom outlined in the MFPT. Since then, the code gradually has fallen into disuse for a variety of reasons, including that many of the principles in the code were incorporated in the financial sector standards that are assessed in the context of FSAPs.

88. The successful transformation of the Fiscal Transparency Code may provide useful insights. As noted above, the old fiscal code and the MFPT are nearly identical, also in terms of the drop in usage in recent years. Yet, even though most underlying principles were carried over in the new fiscal code, the revamped code has clearly filled an unmet demand under the initiative. This was done by focusing on outputs rather than processes, systematically taking account of different levels of country capacity, greater emphasis on risks, and aligning the code with recent advances in other standards and best practices. This is also done in the context of FSAPs and technical assistance provided by the Fund and the Bank.

89. The revision of the MFPT will be staged. Given that many of the financial sector principles in the original MFPT have been incorporated in other standards already, the process will start on the monetary side with an early update to ensure the code can serve as a guide for good monetary policy transparency practices. It could be transformed into a diagnostic tool to guide policy advice. Such a framework would provide authorities and country teams with a structured baseline assessment of the key elements for effective monetary policy-making and facilitate tracking priority areas in surveillance and capacity-building. In this regard, the updated code could become a more modular, analytical, and calibrated tool to evaluate member countries' progress. This would provide better clarity as to what would be good benchmarks for countries at different levels of economic and financial development.

90. This will be followed by an assessment of if and how an updated financial part of the MFPT could form the basis to support diagnostic financial sector work. This could consider transparency practices relating to the powers, responsibilities, and accountability of the financial regulatory and supervisory bodies. In doing so, staff will be guided by lessons of the GFC, recent developments in other international standards, and feedback from standard setting bodies, country teams, and authorities. Staff will prepare a Board Paper during FY 2019 that will discuss concrete proposals for the way forward.

Modifying Data Standards Framework

91. This policy area will be revised to further promote transparency and support effective economic decision-making. This policy area will continue to comprise the data standards (SDDS, SDDS Plus, and e-GDDS) and the data quality assessment framework (DQAF), and revisions will focus on data needs for effective policy making ("operational data"), and thus also facilitate better Fund surveillance of member policies. The approach will be to continue to take into account varying statistical capacity levels across the IMF membership, with the content updated, as necessary, to reflect member countries' operational needs. This will require a continuation of the overlap with the new MFPT, and modification of the data standards to ensure an overlap with the FTC's pillar one on data content.

92. The new data quality assessment will seek to adopt the best practices identified in this review. The new data quality assessment is envisaged to be directly integrated with the Fund's CD efforts, and should support development of a sequenced action plan to address any identified weaknesses. This assessment is expected to be a data quality diagnostic exercise and risk-focused, reflecting IMF macro-critical surveillance and program needs. Some envisaged characteristics of the module include adoption of the FTC's graduated approach (basic, good, best) and introduction of a heat map to present the assessment results. It is also envisaged that, as relevant, the new data quality assessment would be based on and complement other standards and diagnostics, such as the FTC and the new MFPT.

93. **The new data quality assessment would be tested through pilot exercises.** Lessons from the pilots would be applied to refine the module in close collaboration with country teams, as well as other departments in the Fund involved with the Fund's transparency areas. The outcome will be reported in the 10th review of the Fund's data standards, scheduled for 2019/20.

Endorsement of Key Attributes

94. **In the period since the 2011 S&C review, important progress has been made to establish a standard for crisis resolution and to operationalize its assessment methodology.** The global financial crisis underscored the need to develop effective frameworks to resolve financial institutions, and to strengthen financial safety nets. Reflecting this, in the 2011 S&C review the Board endorsed the creation of the new CRDI policy area. The DICP was endorsed by the Board in 2011 as one of the standards underpinning it.

95. **The** Key Attributes **set out the core elements that the FSB considers to be necessary for an effective resolution regime.** The G20 Heads of State and Government have endorsed the KA as an international standard for resolution regimes. The implementation of the KA should allow national authorities to resolve financial institutions in an orderly manner without taxpayer exposure to loss, while maintaining continuity of their vital economic functions. The KA sets out the essential features that should be part of a resolution regime for any type of financial institution that could be systemically critical or significant if it fails. These essential features include designating an administrative resolution authority and vesting it with a range of resolution powers enabling it to resolve a financial institution that is no longer viable and has no reasonable prospect of becoming so. These powers aim to achieve continuity of systemically important functions through effective resolution tools such as the sale or transfer of assets and liabilities, the write down and/or conversion of liabilities, or orderly wind down in a manner that protects insured creditors. The KA seeks to foster international cooperation, by requiring recovery and resolution planning to be coordinated across borders. It also calls for national resolution regimes to be designed in a manner that enables and encourages the resolution authorities to cooperate with their foreign counterparts in a cross-border resolution. The FSB's Key Attributes Assessment Methodology for the Banking Sector guides the assessment of a jurisdiction's compliance with the KA.

96. **The Bank and the Fund intend to use the new KA as benchmark for assessments of bank resolution frameworks either in the context of FSAPs or in stand-alone ROSCs.** Accordingly, the Board is asked to endorse the KA as it applies to assessment of bank resolution regimes and the related assessment methodology for use in the crisis resolution policy area (see Proposed Decision). The new standard will be used as benchmark for both voluntary and mandatory FSAPs; ROSCs using the KA will continue to be voluntary in the context of the

financial stability assessments (FSAs). Given the modular, sequenced approach to developing the KA assessment methodology, staff initially intends to use the KA only for banking sector assessments, as a methodology has been finalized; assessments in other sectors (insurance, central counterparties) would become possible after completion of the assessment modules for these sectors. Staff continues to work with the FSB to develop the assessment methodology for the insurance sector, which is expected to be completed by end 2018. Once assessment methodologies for other sectors are finalized, staff will present them to the Board for endorsement.

97. The size and complexity of the KA and the depth of review expected of assessors will be high, requiring additional resources for full KA assessments. The banking sector methodology is exhaustive, requiring deeper review of the resolution regime than would normally be conducted for technical notes on crisis preparedness and management. It also should be noted that the latter cover a wider range of issues, not only bank resolution but also deposit insurance and crisis management arrangements, which will still need to be covered under FSAPs. Careful prioritization and allocation of resources will therefore be needed to ensure that KA assessments, when undertaken in the context of FSAPs and TA, are appropriately resourced, so that quality is maintained.

Islamic Finance

98. Islamic banking is another area for potential consideration for the initiative. This type of finance continues to grow rapidly, in size and complexity, posing a challenge to central banks and supervisory authorities. While the BCP generally applies to IB, gaps exist reflecting the specific features of IB and their associated risks. The Core Principles for Islamic Finance Regulations (CPIFR) have been developed to complement international standards,[29] including, *interalia*, on capital adequacy, and the supervisory process. The CPIFR can be used to undertake a self-assessment of IB regulatory and supervisory frameworks. The adoption of these standards into legal and regulatory frameworks has progressed, albeit at different speeds across jurisdictions.

99. Staff plans to prepare a Board paper by April 2018 on S&C work related to Islamic banking. The paper is expected to ask for formal endorsement of the "Core Principles for Islamic Finance Regulation for Banking," prepared by the Islamic Financial Services Board, as a standard under the Fund/Bank S&C initiative.[30]

B. Bottom Up—Adopt Best Practices in Upcoming Policy Area Reviews

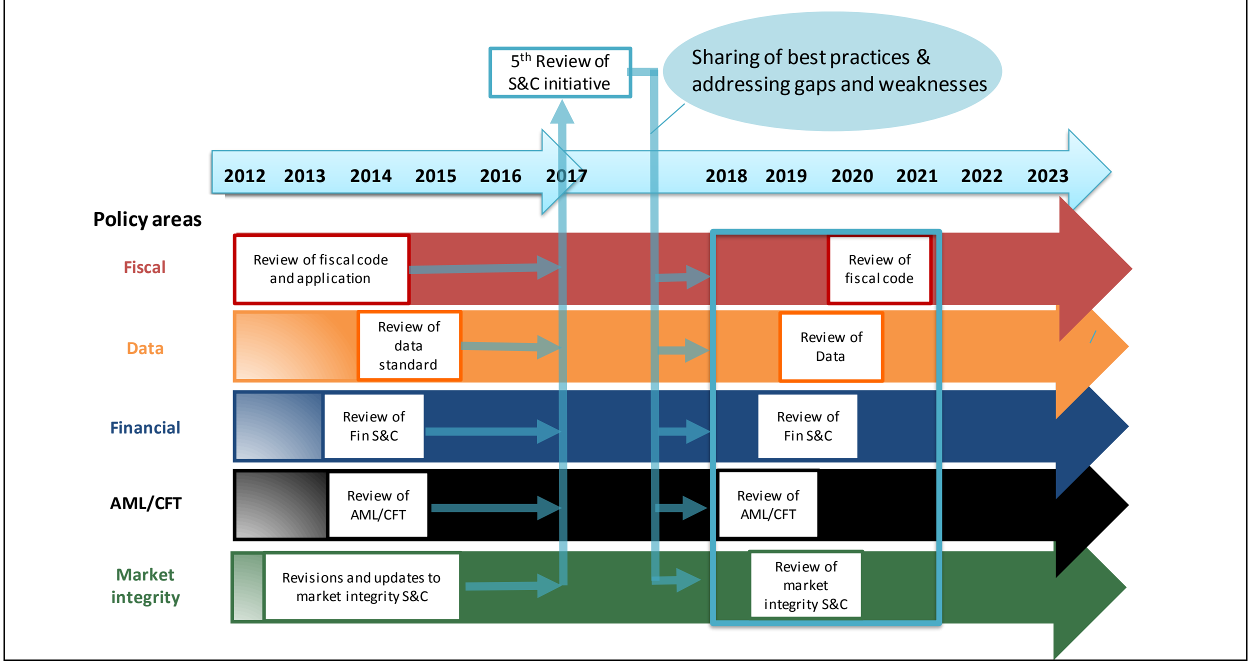
100. For the most part, the evolution of S&C work under the initiative accelerated in recent years. As noted above, since the 2011 review of the initiative, individual policy areas’

[29] To promote and enhance the soundness and stability of financial services Islamic finance, the IFSB issued core principles in 2015.

[30] The criteria applied for the FSB for determining the list of key standards for sound financial systems is outlined here.

channels of direct Board engagement have been an important vehicle for promoting the relevance and usefulness of S&C work. For all Fund-led areas, the next round of individual policy reviews has already been scheduled (Figure 8). In contrast, the Bank lacks formal review mechanisms and has typically handled modifications on a technical level. Going forward, the Bank has identified an effective modality for engagement, as discussed below.

Figure 8. Policy Area Review Cycles



101. This review proposes that all upcoming policy area reviews should consider certain improvements going forward. As noted above, the responsibility for operational and effectiveness reviews would be devolved to individual policy areas, building on emerging best practices, in the context of planned reviews. In general, the reviews should report on the allocation of outputs across the membership and should consider and report on whether there is scope for making modifications to standards assessments to improve the linkages to surveillance and integration with capacity development efforts. This assessment should be informed by surveys of area departments, which—based on their close ongoing relationship with country authorities—are particularly well positioned to gauge alignment with member needs. Periodic surveys of members could also be used on a frequency deemed appropriate for individual policy areas. The reviews should also consider the accessibility of standards assessments in their area, and if necessary, make recommendations on how this can be improved going forward. Leveraging existing mechanisms within the Fund to draw in perspectives of staff working most closely with members, as discussed later, should enable area departments and others to provide effective input into policy area reviews.

102. All best practices discussed above should be considered for potential adoption to the extent they are feasible and relevant to the particular policy area. Each area will be expected to assess the relevance and prospective implementation of increased collaboration with standard setters/assessors, the best practice assessment modalities, and direct integration with CD, and report these findings in reviews planned for 2018–20 (Figure 8). In certain cases, combinations of these modalities already have been—or could be—implemented together to complement each other and further enhance the effectiveness of S&C work and its relevance to members. These plans are outlined in Table 4, listed in Annex 4, and described in further detail in the background paper covering each policy area.[31]

Table 4. Policy Areas' Planned Consideration of Best Practices

	Innovations to S&C and assessment modalities			Collaboration with external bodies	Direct integration with CD
	Modular approach	Graduated approach	Effectiveness/ outcome		
Transparency standards					
Data (DDI/DQAF)	⊗	⊗	⊗		⊗
Fiscal (FTC)	⊗	⊗	⊗	⊗	⊗
Monetary and financial policy (MFPT)	⊗	⊗	⊗		⊗
Financial sector					
Supervisory standards					
Banking supervision (BCP)	⊗		⊗	⊗	⊗
Securities regulation (IOSCO)	⊗		⊗	⊗	⊗
Insurance supervision (IAIS)	⊗		⊗	⊗	⊗
Crisis Resolution & Deposit Insurance			⊗	⊗	⊗
Financial Market Infrastructure (PFMI)	⊗		⊗	⊗	⊗
AML/CFT	⊗		⊗	⊗	⊗
World Bank					
Insolvency and creditor rights (ICR)	⊗	⊗	⊗	⊗	
Corporate governance (CG)	⊗	⊗	⊗	⊗	
Accounting and Auditing (A&A)	⊗	⊗	⊗	⊗	

⊗ = planned

103. To implement the recommendations of this review, the Bank will need to adopt a model for reviews of the individual policy areas it leads. While the World Bank Board is not formally involved in endorsing changes to the standards for which the Bank is a joint standard setter (i.e., ICR), reports on World Bank Management-endorsed changes would continue to be provided for the information of the Bank's Board. In addition, the results of reviews on the implementation of the S&C initiative with regard to the Bank-led standards, including on emerging issues in those areas that, *interalia*, may call for adjustments to standards assessment methodology (e.g., ICR, A&A), would be presented to the Bank's Board as part of the FSAP program reviews and discussed in informal Board sessions or during Technical Briefings.[32] The

[31] For example, modifications may be most easily implemented among the transparency S&C where the Fund is the standard-setter. On the other hand, they may be less relevant to financial sector S&C work, which is closely tied to FSAPs. For the other policy areas, these innovations may help to broaden the policy area's appeal to the full membership and promote adherence to international standards.

[32] Specific governance arrangements apply to the A&A ROSC Program, which may be subject to separate reviews.

Bank's next FSAP review is planned for 2019 and it is anticipated that the best practices will be considered, drawing from the insights of this strategic review (see Table 4 and Annex 4).

104. The World Bank's upcoming FSAP Review also will offer an opportunity to explore options to reposition the Bank-led ROSCs (B-ROSCs) as a closely-coordinated valuable suite of services available to member countries and country management units (CMUs). Under the new funding modality CMUs could take a more holistic approach to the provision of developmental support to countries, including through well-sequenced and coordinated S&C ROSC assessments. To help achieve this outcome, the managers of the Bank-led ROSCs should strengthen coordination and jointly "market" the ROSC program to CMUs and to other units in the Finance and Markets Global Practice.[33]

C. Strengthening Mechanisms

105. Individual policy area reviews should be complemented by a mechanism that sustains momentum between S&C reviews and preserves alignment of S&C work with strategic priorities and member needs. The 2011 review previously highlighted the risk of a potential inconsistency between demand driven S&C work and the alignment of the choice of ROSCs with Bank and Fund priorities. Since then, there has been uneven follow-through on some policy area priorities envisaged in the 2011 review and challenges have emerged in select areas of S&C work following the Bank's budget restructuring.

106. The decision to delegate consideration of operational issues to policy areas' reviews with structured consideration of good practices and reporting should help. As noted earlier, this should promote cross-fertilization of innovative approaches and promote ongoing consideration of how to strengthen the linkage with surveillance and capacity development activities.

107. To sustain momentum and support S&C work under the initiative more broadly, staff proposes a loose framework focused on two fronts: enhanced collaboration across policy areas and increased engagement with members. Such an approach would promote internal collaboration across the initiative in the five-year period between S&C reviews. External engagement would aim to present this broad and technically-oriented initiative in a holistic way to help members determine which areas may be the most relevant for them. Considering the 12 areas as a menu for strengthening institutions and identifying vulnerabilities may be the most useful perspective for member countries. At the same time, the role for S&C in identifying vulnerabilities that could negatively impact a member's stability and lead to spillovers for other members would remain.

[33] Because B-ROSCs have different country authorities' counterparts, there would remain a risk that the authorities themselves might have a different set of sequencing priorities than those of the B-ROSCs programs/CMUs.

Continued Collaboration Across Policy Areas

108. Closer, more continuous collaboration among the policy areas seems needed. Reviews of individual Fund-led policy areas are effective in identifying the scope for targeted adjustments and innovations, as staff draws on their familiarity with relevant standards, practical experience working with policymakers, and knowledge of how to deploy resources most efficiently. However, engagement across the 12 policy areas appears to occur mainly at the time of the quinquennial reviews of the S&C initiative, which may delay identification of emerging gaps in the initiative and timely consideration of adoption of good practices.

109. Staff plans to leverage mechanisms to promote alignment between S&C work and the needs of the membership and follow-through on recommendations from reviews of the S&C initiative. In line with the focus of this and prior reviews on improving linkages between S&C work and surveillance and capacity development, staff plans to utilize existing mechanisms, such as departmental surveillance contacts and the Committee on Capacity Development to seek ongoing feedback on S&C work. This should help promote the usefulness of S&C work and increase country team awareness of policy area innovations that could benefit surveillance work and improve the link to follow-up TA. This also would draw in perspectives of staff working most closely with members to enable Fund area departments and others to provide effective input into policy area reviews. Finally, to ensure engagement between Bank-led ROSC areas and the other policy areas under the initiative, particularly those pertaining to financial sector standards, emerging issues in any of those standards assessment programs with a bearing on other ROSCs should be brought for information and discussion within the aegis of the IMF-World Bank Financial Sector Liaison Committee (FSLC).

Increased Engagement with Member Countries and SSBs

110. Periodic fora should be established to bring together policy areas and members, and facilitate an exchange of information that can further enhance S&C work under the initiative. For a demand-driven initiative, accessibility and relevance are decisive factors determining the extent to which members request S&C work. In line with the design of the initiative as a coherent set of policy areas to improve economic and financial resilience, Fund/Bank S&C work should be promoted as a menu of tools for strengthening institutions, policy dialogue, and capacity development. In a new forum, potentially launched on the margins of the IMF/World Bank Annual Meetings, policy areas would come together to familiarize members with what the initiative offers and recent developments in individual policy areas, and to share members' experiences incorporating S&C work in policy development strategies. Participating SSBs would obtain more direct exposure to the practical side of Bank/Fund S&C work, potentially strengthening the alignment of priorities. This engagement would also support efforts to keep the initiative current by providing an informal opportunity for more frequent, direct feedback from members. To best inform participants in these engagements, policy areas could provide fact sheets outlining the latest developments in member coverage of their S&C work, updates on the evolution of the underlying standards and their assessment methodologies, and recent S&C work with members by external SSBs/assessors.

111. The Annual Meeting also offers a venue for Bank staff to reach out and engage with member countries and SSBs. The IMF Board encouraged AEs to undergo B-ROSC assessments, but none have been undertaken since the last review of the initiative. The Bank could showcase the rigor of these assessments and the applicability of the standards for AEs to dispel misperceptions that may be harbored by those countries and other stakeholders. The Bank could showcase these frameworks and how they have helped several countries analyze and address development challenges in a fairly wide range of country circumstances.

Resource Implications

112. The recommendations in this review may result in higher costs. The expected continued evolution of the initiative and plans to adopt best practices across policy areas, address weaknesses, and conduct reviews will all entail some investment. Moreover, if it is decided to develop and implement assessment programs in new areas, this may require additional resources or crowd out existing priorities.

113. The tradeoffs between competing priorities should be done at the policy area level. To the extent the adoption of best practices, modifications to the data policy area and MFPT code, and other changes in policy areas will have resource implications, they will be considered at the appropriate time as part of the individual policy area reviews or proposals. As discussed above, this will require closer engagement with member authorities and country teams to ensure that decisions do not simply reflect supply-side considerations. Close engagement with SSBs would also be required, to ensure that Fund and Bank priorities are also well-aligned with SSB perspectives.

ISSUES FOR DISCUSSION

114. Directors may wish to comment on the following issues:

- Do Directors agree with the proposed strategic approach to devolve operational responsibilities to individual policy areas, while maintaining strategic oversight?
- Do Directors agree with the proposed approach to modify the data policy area and the MFPT?
- Do Directors agree that forthcoming policy area reviews should report on actions taken in line with recommendations of this review to improve the links between S&C work and surveillance and capacity development, including on the prospects for adoption of best practices developed in the initiative?
- Do Directors have further guidance on how to align the initiative with the priorities of the Fund and the membership? Are there additional modalities that should be considered to help strengthen the involvement of member countries to set priorities in the initiative?

Proposed Decision

The following decision, which may be adopted by a majority of the votes cast, is proposed for adoption by the Executive Board.

1. The Fund takes note of the Financial Stability Board's Key Attributes of Effective Resolution Regimes for Financial Institutions (the "Key Attributes") and the Key Attributes Assessment Methodology for the Banking Sector.

2. The Fund endorses the Key Attributes as they apply to bank resolution regimes and the related assessment methodology for the purposes of undertaking assessments and preparing Reports on the Observance of Standards and Codes (ROSCs).

Box 3. Fiscal Transparency's—Implementing the Modular and Graduated Approache[1/]

The revised Fiscal Transparency Code (FTC) is built around four pillars and comprises a set of principles that reflect the IMF's focus on macro-critical issues. The pillar approach makes it possible to undertake modular Fiscal Transparency Evaluations (FTEs, the FTC's main assessment output) oriented around one or more pillar. This feature helps meet the need for more targeted evaluations aimed at addressing the most pressing transparency issues in a particular country.

Additionally, adopting the graduated approach to assessments has made the FTC more relevant to the full range of Fund member countries and capacity building efforts. The FTC differentiates between basic, good, and advanced practices against each of its 36 principles, offering countries at all levels of development a clear set of checks and milestones toward full compliance with international standards. These graduated levels of practice reflect recent developments in the public financial management profession and have been harmonized with other standards and diagnostic tools to ensure complementarity and consistency in analysis. By providing more analytical, accessible, and targeted assessments and the option of a fiscal transparency action plan, FTEs also better support the prioritization and delivery of TA.

Results from a recent survey show that the majority of countries with a completed FTE since 2013 value the revised FTC and FTE. In particular, the country authorities welcomed the increased emphasis on fiscal risks in the revised FTC; responded favorably to the graduated approach to evaluating countries; and agreed that FTEs were useful in identifying key fiscal institutional strengths and weaknesses, shaping reform programs, and prioritizing TA needs. The majority of survey respondents also believe that repeat FTEs should be considered to help countries assess their progress in meeting the principles of the FTC. The modular approach should facilitate well-targeted reassessments that strike the right balance for the country between relevance and resource intensity, while the graduated approach should help gauge progress toward compliance in a meaningful way.

Modular approach: FTC's four pillars allow flexible use based on country context and relevance

Graduated approach: assessment done according to "basic," "good," or "advanced" practices

			Practices		
	Dimension	Principle	Basic	Good	Advanced
3	**FISCAL RISK ANALYSIS AND MANAGEMENT**	**Governments should disclose, analyze, and manage risks to the public finances and ensure effective coordination of fiscal decision-making across the public sector.**			
3.1	***Risk Disclosure and Analysis***	***Governments should publish regular summary reports on risks to their fiscal prospects.***			
3.1.1	Macroeconomic Risks	The government reports on how fiscal outcomes might differ from baseline forecasts as a result of different macroeconomic assumptions	Budget documentation includes discussion of the sensitivity of fiscal forecasts to major macroeconomic assumptions	Budget documentation includes sensitivity analysis and alternative macroeconomic and fiscal forecast scenarios	Budget documentation includes sensitivity analysis, alternative scenarios, and probabilistic forecasts of fiscal outcomes

1/ The groundwork for revision of the Fiscal Transparency Code (FTC) was laid in a 2012 policy paper "Fiscal Transparency, Accountability, and Risk and is described in the 2014 Update on the Fiscal Transparency initiative.

Box 4. Assessing the Effectiveness of AML/CFT Systems

Changes to the AML/CFT assessment methodology were driven by the consideration that, while laws and regulations remain important, it is more important that they are effectively used to protect the financial system and prevent money laundering (ML) and terrorist financing (TF). While previous methodologies focused primarily on countries' legal, regulatory, and institutional framework, the 2013 Methodology for Assessing Compliance with the FATF Recommendations and Effectiveness of AML/CFT Systems focuses both on the legal and institutional framework, and on the results achieved from their implementation against the country's specific ML/TF risk profile. It provides for an interrelated, two-step approach that consists of a mainly desk-based assessment of technical compliance with the AML/CFT standard, followed by an on-site assessment of the effectiveness of the AML/CFT regime as measured by the extent to which specific objectives are being met.

The starting point for assessors is to understand the country's risks and context. The concept of "risk" takes account of the threats (e.g., criminals with money to launder); the vulnerabilities (e.g., weaknesses in the financial system that criminals will use to launder that money); and the harm caused (e.g., damage done by the original crime and the laundering). The notion of "context" includes:

- The country's situation (e.g., general makeup of the economy and financial sector);
- The structural foundations of the AML/CFT regime (e.g., an effective judicial system, sound government institutions and rule of law); and
- Other factors that affect the implementation of AML/CFT measures (e.g., level of corruption or maturity of the country's regulatory regime).

This understanding of the country's risks and context then guides:

- The assessment of technical compliance, which looks at whether the country meets the requirements of the FATF 40 Recommendations, principally as they relate to the legal and institutional framework.
- The assessment of effectiveness, which looks at the extent to which 11 immediate outcomes are met. These predefined outcomes are central to a robust AML/CFT system. They cover, for example, the country's understanding of its ML/TF risks, supervision of reporting entities (i.e., financial institutions and designated non-financial businesses and professions), confiscation of the proceeds and instrumentalities of crime, and international cooperation in AML/CFT.

The assessment of effectiveness differs fundamentally from that of technical compliance. Assessors must, for each outcome, use their judgment to reach a holistic conclusion as to how well a country is operating. The focus is on the extent to which the AML/CFT framework is producing the expected results. The expectations in terms of results vary from one country to another, according to the country's ML/TF risks and context. For example, assessors will look at the number and type of ML cases that a country has reported. Depending on the countries' risk profile, a certain number of cases can be sufficiently effective for one country, but insufficient for another.

Technical compliance and effectiveness are rated separately, but are considered together in the conclusions. These conclusions provide prioritized recommendations for AML/CFT regime improvements, focusing on the key deficiencies identified in the context of the country's risks.

Box 5. Fund and Bank Staff Engagement with Financial Sector Standard Setting Bodies

Drawing on their close engagement with member countries and experience with standards assessments, Fund and Bank staff provide valuable feedback to the financial sector standard setting bodies (SSBs). Staff participates on the SSBs' main committees and subcommittees tasked with the development of financial sector standards and guidance. Engagement with countries at all income and development levels also enables staff to play a supportive role in broadening engagement on international standards. Recent collaboration has included:

- *Providing feedback to the FSB on the development of the Key Attributes* for Effective Resolution Regimes for Financial Institutions and its sectoral assessment methodologies based on its experience with pilot reviews and assessments.
- *Contributing to development and implementation of IAIS insurance standards*, including based on Fund/Bank staff experience in FSAPs. Staff is actively contributing to the IAIS's key standard setting activities, such as new globally consistent capital requirements, and resolution frameworks. The IAIS is exploring an Activities-Based Approach for assessment and mitigation of systemic risk of the insurance sector, which was influenced by Fund's Global Financial Stability Report analysis.
- *Collaborating with the BCBS* on developing guidance for the regulation and supervision of small and non-complex institutions, which provide financial services to unserved and underserved customers and typically engage in small transactions.[1/]
- *Facilitating efforts by member countries to become members of IOSCO*, which is key to improving the ability of securities supervisors to cooperate domestically and internationally and to meet IOSCO standards on enforcement and cooperation. To become an IOSCO member, a jurisdiction must become a signatory to the IOSCO Multilateral Memorandum of Understanding, which can be technically challenging and politically complicated.[2/] Fund staff has provided TA to three jurisdictions to help them identify the obstacles to becoming a signatory and design an appropriate plan to undertake the needed amendments. Staff closely coordinates with IOSCO to select appropriate TA recipients and ensure timely advice.

This collaboration has also facilitated efforts to identify different ways of working with supervisory standards to better align S&C work in FSAPs with country-specific systemic risk factors. Given that FSAPs use supervisory standards by either undertaking full graded-assessments or through non-graded analytical deep-dives, staff and SSB teams worked to identify methods that ensured the most effective use of supervisory standards in the latter case, as outlined in the FSAP Review. This led to the understandings reached with the BCBS, IAIS, and IOSCO on a set of "base" principles to help guide the scope of analysis in cases where supervisory issues are reviewed through a deep-dive and are not graded (as outlined in the June 2017 Board paper). These agreements are intended to ensure the operational flexibility needed in FSAPs to adopt a more tailored approach to country-specific financial stability issues where appropriate.

1/ Where a key component is the "use of technology to assist supervisors and financial institutions in gathering, transmitting and processing data and information." (Guidance on the application of the Core Principles for Effective Banking Supervision to the regulation and supervision of institutions relevant to financial inclusion—Sept 2016)

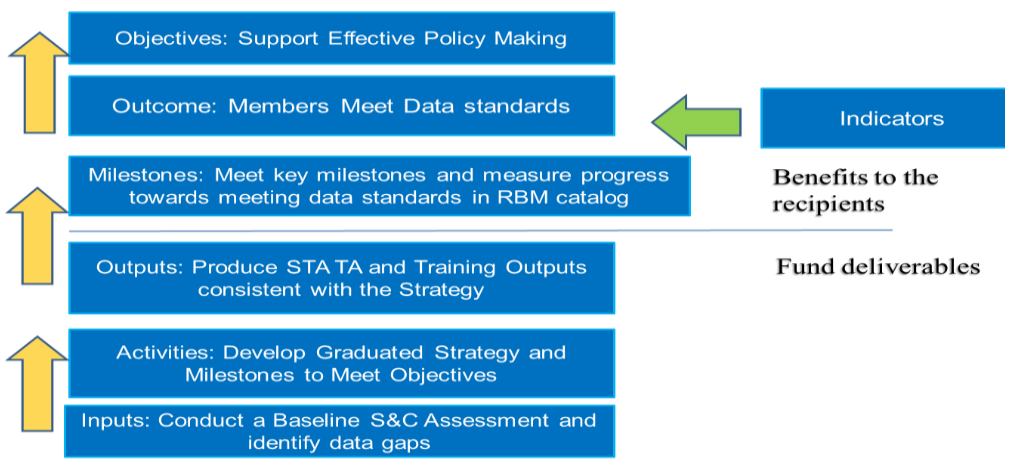
2/ Usually, it involves legislative amendments to waive bank secrecy and other confidentiality provisions for securities enforcement investigations.

Box 6. Linking Work in Data Policy Area to Capacity Development

The implementation of the results based management (RBM) system aims to ensure that statistical development efforts support effective policy making. The purpose of RBM is to monitor progress towards the provision of high-quality data to ensure effective policy making. This encompasses seven data domains: national accounts, consumer price index, producer price index, government finance statistics, monetary statistics, balance of payments and international investment position statistics, and external debt statistics. The RBM employs a standard framework to ensure that all statistical and capacity development efforts are directed towards achieving the desired outcomes, such as meeting appropriate data standards, with a view to supporting effective policy making.

The RBM allows using a graduated strategy to better integrate statistical capacity development programs and make the data policy area cost effective and relevant to all Fund members. Specifically, the data policy area is used to prepare comprehensive (baseline) assessments covering the institutional environment, statistical processes, and characteristics of statistical products. This baseline is then used to identify data gaps, or distance to desired outcomes (e.g., meeting e-GDDS, SDDS, SDDS-Plus) in each of the seven data domains and deploy more effectively capacity development programs. This allows for developing graduated country-specific strategies that set key milestones based on the RBM catalog, in line with country needs, with the view to meeting the desired objectives in cost-efficient way. The RBM catalog also facilitates the use of objective indicators to validate achievements of various milestones.

Figure: RBM Results Chain



The RBM catalog is partially based on the Data Quality Assessment Framework and helps guide a variety of statistical capacity development (CD) work streams. The catalog includes objectives, outcomes (results) and related indicators, baselines, and milestones. Examples of milestones include the compilation and dissemination of high quality data using concepts, definitions, coverage and scope, classification, sectorization, basis of recording, and statistical techniques, consistent with the latest statistical manual or guide. The RBM catalog could also be used to track improvements in operational data as a result of CD activities by STA.

Annex I. Key Terms

- **Formal Assessment**: refers to a full assessment against all the principles for the relevant standard and code (S&C) based on an agreed assessment methodology (AM). For most standards, they are synonymous with ***graded assessments***. However, some standards and assessment methodologies (e.g. A&A, CG, and ICR) do not include grades. The output of a formal assessment is either a detailed assessment report (DAR), or a summary report on observance of standards and codes (ROSC), or both.

    - **Detailed Assessment Reports (DARs)** provide a detailed principle-by-principle assessment of a country's compliance with a given standard. DARs may or may not include ratings depending on the standard assessed.

    - **Reports on the Observance of Standards and Codes (ROSCs)** provide a summary of the DAR, sometimes including principle-by-principle ratings.

- **Focused Review**: uses the relevant S&C as a benchmark to analyze a specific issue or subset of principles. It does not involve a graded assessment. The output of a focused review is either a technical note (TN), a Background Note (BN), or an input into a Financial System Stability Assessment (FSSA) report. For the standards for banking, insurance, and securities markets, the IMF and standard setting bodies (SSBs) reached agreement on sets of base principles that serve as the starting point for discussions between staff and the authorities regarding the scope of a focused review.

    - **Technical notes (TNs)** do not follow a standardized approach, but instead are structured to facilitate a focused review involving all or a subset of a standard's principles. TNs were originally introduced in financial sector S&C work and their use has since expanded to other policy areas. This approach provides a more flexible platform for working with S&C, including to tailor it to the specific country context and risk profile, in a resource constrained environment. The use of TNs continued to increase (in areas such as CG and A&A), especially recently, and 52 technical notes have been published since 2011.[1]

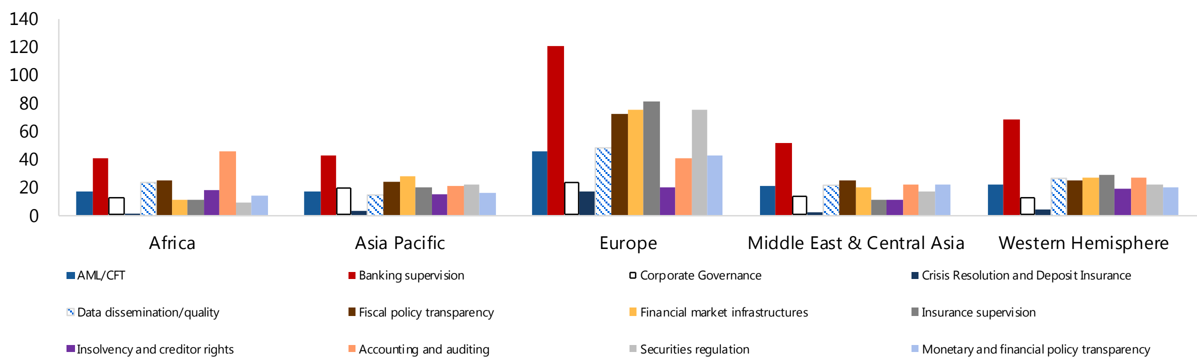
- **Financial Sector Assessment Program (FSAP):** is a comprehensive examination of the financial system of a country that assess risks and ways to promote development. Many of the S&C are incorporated into an FSAP. The resulting DARs, ROSCs, and/or TNs become inputs for the FSSA report at the IMF and the Financial Sector Assessment (FSA) at the World Bank, the main outputs of the FSAP.

[1] The 2014 FSAP review notes that historically, the evaluation of the quality of supervision or other aspects of the financial system in most FSAPs was often done not through formal standards assessments (DARs and ROSCs) but through informal targeted assessments (summarized in FSAP technical notes).

Annex II. Profile of S&C Outputs

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
Total	43	49	135	169	204	149	110	128	80	83	73	73	85	70	60	66	47	52	1676
Transparency																			
Data	9	2	15	13	17	18	19	14	8	5	2	4	1	1	1	2	2	0	133
Fiscal	10	8	20	33	18	20	15	9	8	5	5	4	0	1	2	3	6	4	171
MFPT	10	9	21	21	23	10	4	7	4	4	0	1	0	1	0	0	0	0	115
Financial Sector																			
Banking supervision	10	9	23	22	38	27	16	24	17	18	17	15	21	19	12	19	8	10	325
Securities regulation	3	5	13	16	20	13	5	11	4	7	3	5	11	7	11	5	2	4	145
Insurance supervision	1	6	12	19	19	8	8	12	3	4	5	5	12	10	12	7	4	5	152
Financial market infrastructure	0	6	20	21	28	10	8	14	7	4	1	4	11	7	8	3	4	5	161
Crisis resolution & deposit insurance	0	0	0	0	0	0	0	0	0	0	0	0	3	2	3	8	5	6	27
Institutional & Market Infrastructure																			
Accounting & auditing	0	0	3	8	12	16	11	13	10	13	16	11	8	5	7	13	7	4	157
Corporate governance	0	4	7	11	8	8	10	7	4	4	7	4	3	3	2	0	0	2	84
Insolvency & creditor rights	0	0	1	5	10	9	1	6	1	5	2	6	5	12	2	5	6	7	83
AML/CFT	0	0	0	0	11	10	13	11	14	14	15	14	10	2	0	1	3	5	123

Regional Distribution of S&C Outputs



Source: IMF and World Bank S&C database and staff calculations.

Annex III. Fiscal Transparency Evaluation Heat Map

While the previous Fiscal ROSCs usually provided long narrative accounts of strengths and weaknesses, FTEs provide a more accessible summary of strengths and weaknesses in the form of "heat maps" which also highlight reform priorities based on criticality of gaps. In particular, FTEs and heat maps:

- **Provide an objective snapshot of current practices and benchmarking against comparator countries.** Heat maps in FTEs provide countries with a clear picture of where their fiscal transparency practices stand relative to comparator countries and international standards.

- **Identify priorities for policy dialogue.** This is achieved through quantification of gaps/fiscal vulnerabilities using a set of new fiscal transparency indicators. By combining the results of the assessment of practices (in the heat maps) with a set of quantitative fiscal transparency indicators,[1] FTEs distinguish between more and less serious deficiencies in countries' fiscal transparency practices on the basis of their relative importance (see attached heat map).[2] Recommendations are based on criticality/importance.

- **Clear guidance for reform and CD.** FTEs help provide countries with a more targeted and sequenced action plan for addressing the main transparency weaknesses identified in heat maps, including a set of achievable milestones on the way towards full compliance with international standards.

- **Help discover unknown fiscal risks.** Discovery of fiscal risks and measurement of them, previously unknown to authorities, or confirmation of the absence of risks, are one of the key contribution of an FTE. This sometimes provides the motivations for a country to undertake an FTE.

[1] This allows the assessors to triangulate on the areas of major concern. Thus, even if a country is meeting good practice—as Ireland is in coverage, if the gaps are sufficiently large, this warrants concern, and will be the focus of one of FTE's limited number of recommendations. Similarly, if the practice was not met, if the importance of the gap was low, the report would not be too concerned. This is another major step up from the old ROSCs, that tended to provide a long, prioritized list of recommendations.

[2] Because of the emphasis on quantitative indicators, FTEs require quite a bit of preparatory work. Interactions/collaborations with area departments—almost all the 21 FTEs done so far have seen participation or at a minimum close collaboration of area department. In many cases the Statistics Department has also participated.

New Fiscal Transparency Evaluation–Heat Map and Criticality of Gaps

Example: Russia–Summary Assessment of Fiscal Reporting

PRINCIPLE	ASSESSMENT	IMPORTANCE	PRIORITY/ RECO
Coverage of Institutions	**Good:** Fiscal reports consolidate all general government units	**High:** Public corporations with expenditure of 28% of GDP in 2012 outside consolidated fiscal reports	1
Coverage of Stocks	**Good:** Fiscal reports cover all conventional financial and non-financial assets and liabilities	**High:** Subsoil assets of 200% of GDP and pensions liabilities of 285% of GDP not included in balance sheets.	2,3
Coverage of Flows	**Good:** Fiscal reports cover cash and accrued revenues and expenditures	**Medium:** Non-recognized non-recoverable claims of 0.4% of GDP reduce reliability of the fiscal balances	3
Tax Expenditures	**Basic:** There is annual disclosure of revenue loss due to some tax reliefs subsidies	**Medium:** Estimated 1-2% of GDP in annual revenue foregone due to tax expenditures.	4
Frequency of In-year Fiscal Reports	**Advanced:** Cash-based budget execution reports are published on a monthly basis	**Low:** Monthly fiscal reports are published within 30 days	
Timeliness of Annual Financial Statements	**Advanced:** Annual financial statements are published in a timely manner	**Low:** Annual reports are published within 5 months of the end of the financial year	
Classification	**Good:** Fiscal reports include an administrative, economic and functional, classifications comparable with international standards	**Medium:** Inconsistent classifications of some transactions lead to different levels of the fiscal balances	
Internal Consistency	**Basic:** Fiscal reports reconcile cash balance and financing	**High:** Unexplained stock-flow adjustment of 4-5% of GDP in recent years	3
Historical Revisions	**Basic:** Material revisions to historical fiscal statistics are reported	**Medium:** Historical statistics are not revised on regular basis to reflect new information	
Statistical Integrity	**Good:** Statistics are prepared by semi-autonomous government agency and fiscal statistics meet SDDS	**Medium:** Statistical integrity is supported by a government order.	
External Audit	**Good:** Government accounts are audited by an independent supreme audit institution which validates the reliability of annual financial statements	**Low:** Accounts Chamber independence is protected by the Constitution and no significant audit qualifications to recent accounts	
Comparability of Fiscal Data	**Basic:** At least one fiscal report is prepared on the same basis as budgets.	**Medium:** Recent differences of up to 1.8% of GDP between estimates of the balance.	3

Annex IV. Expected Content of Policy Area Reviews[1]

Fiscal Transparency Code

Modular Approach	• The code's fourth pillar (module) on natural resource transparency should be finalized and submitted for Board approval by end-2018, and a Fiscal Transparency Manual will be finalized to provide more detailed guidance on the implementation of the Code's principles and practices.
Graduated Approach	• Several FTE indicators are envisaged to be included in the Fund's RBM framework, and outreach efforts to countries and the international donor community are anticipated to promote the use of FTE as an overarching diagnostic tool to identify key sources of fiscal vulnerability and set out reform priorities that could be supported through TA. Related to this, the next review, planned for FY2020/FY2021, will seek to identify the scope for further improvement or innovation, and consider how the FTE framework can be further leveraged to support capacity development efforts, including the prioritization and delivery of TA.
Effectiveness/outcome	• The review will explore focusing on risks and vulnerabilities to help systematically guide the policy dialogue with countries, which may provide opportunities for a closer link between the FTE and the Fund's surveillance activities.
Collaboration with external bodies	• FAD will consider further expanding its institutional relationship and scope of engagement with other international SSBs and professional bodies in the fiscal transparency area. FAD staff will continue its active engagement with civil society groups active in the fiscal transparency area, as well as in multi-stakeholder initiatives to promote the alignment of international reporting standards; identify and address any gaps in the normative architecture for fiscal transparency; review progress in the implementation of those standards; and identify priorities for technical assistance and opportunities for mutual assistance.

[1] These are only part of the expected content of the upcoming policy area reviews, i.e., those currently envisioned that are relevant from the perspective of the S&C review.

Financial Sector Codes

Collaboration with external bodies	•	Staff will continue to provide feedback to the external SSBs based on their experience assessing standards, and in the context of their ongoing participation through the SSBs in the development of standards and guidance. Staff also will continue to explore more formalized ways to integrate outcomes based on S&C with the Fund's analysis of risks and vulnerabilities. The FSAP Review planned for 2019 will assess the use of financial sector standards, including the issues above and the experience with the recent understanding with SSBs on the use of financial supervisory standards in the FSAP program.

AML/CFT

Modular Approach	•	The next review, anticipated to be completed in 2018, is expected to discuss the Fund's AML/CFT work program, including with respect to assessments and the planned follow-up assessments (which are akin to the modular approach).
Effectiveness/outcome	•	The review will report on the experience thus far in the implementation of the (outcome focused) 2013 assessment methodology in terms of number of assessments conducted by the Fund, Bank, and FATF network, and main challenges faced by countries and assessors.
Collaboration with external bodies	•	The review will discuss the resource implications of the current methodology and of the enhanced review mechanisms.

Corporate Governance

Modular Approach **Graduated Approach**	• The review will cover the experience with the implementation of the revised strategy for the CG ROSC, such as appropriateness of the new (2017) methodology, the modular/"tiered" approach, and an assessment of the impact of assessments that were carried out that were not formally ROSCs (including "Tier 3" assessments in small and Fragile, Conflict, and Vulnerable (FCV) countries and technical notes carried out as part of the FSAP);
Effectiveness/outcome	• There is scope to develop a more implementation-oriented, streamlined report to respond to user concern about the increasing complexity of ROSCs and the impact on policy dialogue and prospects for reform.
Collaboration with external bodies	• The review will cover collaboration with the OECD as standard setter, as well as program challenges, including budgetary and staffing issues and demand for assessments.

Insolvency & Creditor Rights

Modular Approach	• The review will include a stock taking of assessments carried out since the preceding period, including on impacts.
Graduated Approach **Effectiveness/outcome**	• It also would cover development of a strategy to revise the ICR assessment methodology aimed at reducing the length of, and repetition in, ROSCs; presentation of findings in as user-friendly a way as possible; and re-orienting the focus of the ICR ROSC on practical issues. This would draw from the experience developing an increasing number of technical notes under the ICR ROSC program in conjunction with FSAPs.
Collaboration with external bodies	• The review would cover possible amendments to the standard reflecting that, in 2017, the Bank and UNCITRAL began work on the treatment of MSMEs in insolvency, with the Bank having presented its preliminary background paper in May 2017 at the 51st session of UNCITRAL Working Group V.

- Additionally, there is a need to consider the effect of insolvency regimes on micro, small, and medium-sized enterprises (MSMEs), given that they represent a very large proportion of private sector economic activity in developing economies and legal and regulatory regimes are broadly underdeveloped when it comes to dealing with their insolvency. The process of developing such standards is already underway with the ICR Task Force—chaired by the Bank—drafting a report on the challenges, needs, and responses to MSME insolvency. When final, it would be presented to Working Group V of UNCITRAL later this year.

Accounting & Auditing

<table>
<tr><td>Modular Approach</td><td rowspan="3">

The review will cover ROSC assessment issues, such as methodological enhancements, experience in carrying out “quick ROSCs” compared to full assessments, and challenges and constraints (resources, budgets); integration with FSAP and other ROSC modules; and impact of the A&A ROSC, such as an evaluation of the individual A&A ROSC’s development impact and survey of counterparts and stakeholders, and on Bank operations informed/supported by assessments.
It will also consider design and implementation of a fully developed, stand-alone diagnostic toolkit for “mini” (or “quick”) A&A ROSCs, which would seek to succinctly communicate a country’s position on key aspects of a sound corporate financial reporting framework to both technical and non-technical audiences and to provide an objective gauge to measure and track progress overtime, as well as specific guidelines for LIDCs and FCV countries.
There is scope to develop a more implementation-oriented, streamlined report to respond to user concern about the increasing complexity of ROSCs and the impact on policy dialogue and prospects for reform.

</td></tr>
<tr><td>Graduated Approach</td></tr>
<tr><td>Effectiveness/outcome</td></tr>
<tr><td>Collaboration with external bodies</td><td>

The review will cover collaboration with the IAASB and IASB as standard setters, as well as program challenges, including budgetary and staffing issues and demand for assessments.

</td></tr>
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- Additionally, the review would cover among other issues: (i) overview of changes in the standards since the previous review; and (ii) progress in observance based on summary of scores, key weaknesses, and main areas where improvements have been noted.

INTERNATIONAL MONETARY FUND

THE 2017 JOINT REVIEW OF STANDARDS AND CODES INITIATIVE—POLICY AREA BACKGROUND PAPER

June 22, 2017

EXECUTIVE SUMMARY

International standards and codes (S&C) serve as benchmarks of good practices. The IMF and the World Bank have recognized 12 such policy areas (the "S&C initiative") related to their work. The initiative covers the institutional environment within which economic and financial policies are devised and implemented. This work was launched following the emerging market crises of the 1990s, with a view to improve economic performance and financial stability.

The policy areas are typically grouped into three broad categories:

- **transparency**: data dissemination and quality, fiscal, and monetary and financial policy;
- **financial sector**: banking supervision, insurance supervision, securities regulation, financial market infrastructures, crisis resolution and deposit insurance; and:
- **institutional and market infrastructure**: accounting and auditing, corporate governance, insolvency and creditor rights, and anti-money laundering and combating the financing of terrorism.

Refinements made in individual policy areas since the 2011 review have contributed to the ongoing evolution of the initiative. It now comprises a broad array of Bank and Fund work around the long-standing objective of assisting countries in strengthening their institutions and contributing to the surveillance and operational dialogue. This paper provides an overview of the changes in each policy area since the last review. It covers both changes to the underlying standards as well as the approaches to standards assessments, and possible further enhancements going forward.

Approved By
Hugh Bredenkamp (IMF), Ceyla Pazarbasioglu, and Carlos Felipe Jaramillo (WB).

Prepared by FAD, LEG, MCM, STA, and the World Bank in consultations with SPR

CONTENTS

Glossary

AM	Assessment Methodology
AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
BCP	Basel Core Principles for Banking Supervision
BCBS	Basel Committee on Banking Supervision
CD	Capacity Development
CIS	Collective Investment Schemes
CP	Core Principles
CPMI	Committee on Payments and Market Infrastructures
DAR	Detailed Assessment Report
DICP	Core Principles for Effective Deposit Insurance Systems
CPIFR	Core Principles for Islamic Finance Regulation
FATF	Financial Action Task Force
FMI	Financial Market Infrastructures
FSAP	Financial Sector Assessment Program
FSB	Financial Stability Board
FSRB	FATF-Style Regional Body
GFC	Global Financial Crisis
IADI	International Association of Deposit Insurers
IAIS	International Association of Insurance Supervisors
IB	Islamic Banking
ICP	Insurance Core Principles
IFC	International Finance Corporation
IFSB	Islamic Financial Services Board
IOSCO	International Organization of Securities Commissions
KA	Key Attributes of Effective Resolution Regimes for Financial Institutions
PFMI	Principles for Financial Market Infrastructures
ROSC	Report on the Observance of Standards and Codes
S&C	Standards and Codes
SSBs	Standard Setting Bodies
TA	Technical Assistance
TN	Technical Note
UFR	Use of Fund Resources

I. DATA TRANSPARENCY—STANDARDS AND QUALITY FRAMEWORK[1]

A. Background

1. This paper is a background reference to the 2017 Joint Review of the Standards and Codes Initiative (the Initiative). The paper discusses changes to the data policy area, which includes both the data dissemination standards and the data quality assessment framework (DQAF), since the Initiative's last review in 2011 and the contribution of these standards to Fund's work.

2. Data transparency is an essential element of effective policy making. It helps ensure that public policy decisions are informed by a shared and accurate assessment of economic and financial conditions, underpinning policy credibility and market confidence. Data transparency also facilitates effective economic surveillance, helps to mitigate spillover risks between countries, and enhances economic and financial resilience. Policy reforms enhancing data transparency, reflected in subscriptions to the IMF's Data Standards Initiatives (SDDS and GDDS), are found to reduce emerging market sovereign bonds spreads (Choi and Hashimoto, 2017).

3. The Data Standards Initiative was launched after the crises of the mid-1990s, to promote timely publication of quality data to support policy making and efficient functioning of financial markets. Data transparency is viewed as essential for policy transparency and good governance. Against this backdrop, the standards and codes initiative (the initiative) was launched including a module on data transparency. The data module of the Reports on Observance of Standards and Codes (ROSC) focused on assessing data dissemination practices in reference to the Special Data Dissemination Standard (SDDS) established in 1996 and the General Data Dissemination System (GDDS) established in 1997 (Annex I.1). Both the SDDS and GDDS include data quality dimensions, in addition to dissemination aspects, such as data coverage, periodicity, and timeliness.

4. In 2001, the Fund introduced a comprehensive data quality framework (DQAF) to provide a common structure for the assessment of data quality. The DQAF was developed to provide a common structure for the assessment of data quality and recognizes the multi-dimensional nature of data quality. The DQAF focuses on evaluating country practices for the compilation and dissemination of selected datasets against internationally accepted standards. The generic DQAF reflects best practices and internationally accepted concepts and definitions in the compilation and dissemination of statistics, and the United Nations *Fundamental Principles of Official Statistics* (Annex I.2).

[1] Prepared by the Statistics Department under the supervision of Patrizia Tumbarello and by Xiuzhen Zhao with contributions from Ethan Weisman.

5. The 2011 Standard and Codes Review recommended a targeted approach to standards and prioritization of recommendations in accordance with countries' needs. Specifically, the IMF Executive Board endorsed the following recommendations in 2011:

- Adapt the coverage of the initiative to better safeguard financial stability, including by undertaking more targeted assessments when other analysis indicates weaknesses or possibly larger systemic repercussions in concrete policy areas;
- Promote efforts to meet standards in the context of overall surveillance; improve the link between ROSC assessments and capacity building, including by integrating them more systematically into area departments' Regional Strategy Notes (RSNs);
- Better integrate ROSC findings into Fund surveillance, improve the public's access to ROSCs and encourage their publication; and
- Enhance efficiency of the initiative through a broader application of targeted ROSCs.

B. Developments Since 2011

Modifications to the Data Quality Framework

6. In response to 2011 review, seven domain specific data quality assessment (DQAF) modules have been updated in 2012, along with the generic DQAF. Revisions reflect experience from applications in ROSC missions, and response to international statistical developments. The seven domain-specific DQAFs are: (1) national accounts, (2) consumer price index, (3) producer price index, (4) government finance statistics, (5) monetary statistics, (6) balance of payments and international investment position statistics, and (7) external debt statistics.[2] Revisions also reflect additional experience with data module ROSC missions and the updated statistical methodologies of the *2008 SNA* and *BPM6* as well as expanded coverage of the monetary statistics—the Other Financial Corporations (OFCs). Following the global financial crisis in 2008, there has been increased interest in OFC data—including to analyze developments in shadow banking.

7. The update of the DQAFs in 2012 was also triggered by the implementation of new statistical methodologies to ensure methodological soundness of the compiled macroeconomic statistics. Hence, new statistical methodologies have also played a role in the refinement and update of the DQAF. Issuance of *2008 SNA* and *BPM6* (2009) triggered a wave of revisions of related statistical methodologies, resulting in the publication of

- Public Sector Debt Statistics Guide for Compilers and Users (2011);
- International Reserves and Foreign Currency Liquidity Guidelines for a Data Template (2013);
- External Debt Statistics Guide (2013);
- BPM6 Compilation Guide (2014);

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[2] The DQAFs for these datasets are publicly available.

- Government Finance Statistics Manual 2014 (GFSM 2014); and
- Enhancements to Data Standards Initiatives.

8. **The enhancements to data standards initiatives were aimed at addressing new data needs (SDDS and SDDS Plus) and the slow statistical progress in GDDS countries.** In particular,

  - **The SDDS enhancements** approved by the Board in 2010 and 2012 included additional data categories, such as sectoral balance sheet, general government gross debt at nominal value, and financial soundness indicators on encouraged basis, and made international investment position (IIP) and the reserve data template required categories.
  - The **SDDS Plus** approved by the Board in February 2012 was aimed at economies with systemically important financial sectors. It was created to help address data gaps identified in the wake of the global financial crisis, requiring nine additional data categories. It is closely linked with the IMF/FSB G-20 Data Gaps Initiative (DGI).
  - An **enhanced GDDS** (**e-GDDS)** was endorsed by the Board in May 2015 to: (i) align the GDDS data categories with the common indicators used by the Fund for surveillance; (ii) promote publication of data in addition to metadata through the National Summary Data Page (NSDP), and (iii) set a path to achieving higher dissemination standards by the introduction of dissemination thresholds.

9. **The enhancements also included the introduction of the use of SDMX technology for data dissemination under the SDDS Plus and e-GDDS**.[3] The use of this technology improved the capabilities of the dissemination vehicle—the NSDP—by allowing data to be disseminated in machine-readable, time-series format, rather than the latest data point. Benefits include improved timeliness, expanded coverage, reduced reporting burden on countries, and lower observance costs by member countries and monitoring costs for the Fund.

C. Recent Experience and Prospects

Application of DQAF in Data Module ROSC Missions

10. **Since the DQAF was integrated into the data ROSC in 2001, over 100 data ROSC missions were conducted for 88 countries in different regions and at different stages of development (Figure 1a).**[4] Most data ROSC missions were conducted between 2002 and 2006 (Figure 1b).

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[3] SDMX is a global standard open format that offers push/pull capabilities to facilitate internal and external data sharing and coordination in a machine-readable format that is easily accessible for users.

[4] As of end-2016, 111 Data ROSC reports have been published.

Figure I.1a. Data Module ROSC Breakdown of Missions by Region
(In percent of total)

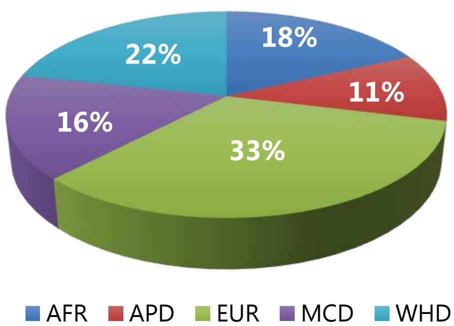
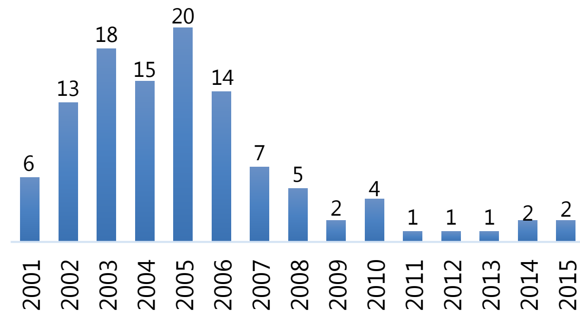


Figure I.1b. Data Module ROSC Number of Missions by Year
(as of end-2016)



Source: Statistics Department, IMF.

Findings and Feedback on the Data Module ROSCs and DQAF

11. The main conclusions and lessons emerging from the ROSC missions and developments in data standards include:

- The data ROSC findings and recommendations have continued to provide a useful framework for TA planning and prioritization for STA as well as other TA providers.
- Country authorities have welcomed the DQAF-based extensive and detailed documentation in the data ROSCs[5] and have used it to improve statistical operations. Publication of the data ROSCs include the authorities' intent to redress shortcomings identified in the reports.
- The current data ROSC places more weight on statistical processes, affecting data quality, rather than assessing data quality per se, as pointed by the 2016 IEO report on data and statistics ("Behind the Scenes with Data at the IMF").
- STA has also used the DQAF for guiding (i) the metadata standardization for the GDDS/e-GDDS, SDDS, and SDDS Plus; and (ii) single topic and multi-topic diagnostic missions conducting comprehensive reviews and identifying areas for improvements.
- The DQAF is also a tool for self-assessment aimed to help guide (i) countries' efforts to strengthen their statistical systems, including donor support; and (ii) data users—both in the private and the public sectors—in assessing data adequacy for meeting their own needs.

[5] The data ROSC consists of three parts: (i) a Summary Assessment by the IMF, (ii) Response by the Authorities, and (iii) Detailed Assessments of specific datasets, using the DQAF. The data ROSC assesses how data compilation and dissemination practices compare to international best practices.

- Data standards initiatives have increasingly focused on promoting the publication of data needed to support surveillance and reduce data gaps. Both the e-GDDS and SDDS Plus focus on standardized data dissemination in the format of SDMX as the key output.

- With a shift in focus toward disseminating data for Fund surveillance purpose, the e-GDDS facilitates identification of capacity development needs. By bringing together STA experts, area department country teams, and data producing agencies, the e-GDDS helps identify data gaps critical for surveillance and assists the Fund and member countries to set priorities to improve the availability and quality of data.

Table I.1. Data ROSC Missions Conducted Since 2011

Country	Year	Scope of ROSC[1/]	Motivation of the ROSC Mission
Russia	2011	Comprehensive assessment	Significant improvements in statistics since the 2004 ROSC, including (i) the adoption of new Statistical Law, and (ii) SDDS subscription.
Georgia	2012	Comprehensive assessment	Improvements made in all areas of statistics since 2003 ROSC, leading to participation in the GDDS and subscription to SDDS.
Mexico	2013	Modular assessment (CPI and PPI)	The previous ROSC in 2010 did not cover CPI and PPI.
Paraguay	2014	Comprehensive reassessment	Improvements made in statistics since 2006 ROSC, particularly those for (i) quarterly national accounts; (ii) new CPI and PPI series; and (iii) data access and advance release calendars.
Uruguay	2014	Modular reassessment (National Accounts, CPI, and PPI)	Improvements made in the three reassessed datasets since 2001 ROSC, which led to SDDS subscription.
Mexico	2015	Modular reassessment (National Accounts)	Improvements made in national accounts since 2010 ROSC, including (i) introduction of new standard classification system, (ii) implementation of 2008 SNA, and (iii) base year updating.
Oman	2015	Comprehensive reassessment	Improvements in statistics since 2005 ROSC, including (i) introduction of PPI, (ii) setup of the autonomous National Center for Statistics and Information; and (iii) increased interest to graduate to SDDS.

[1/] Comprehensive assessments cover all seven statistical areas under the DAQF as applicable, whereas modular assessments cover a few selected statistical areas.

12. The number of data ROSCs in recent years have been small, mostly due to the resource constraints (Table 1). Since 2011, only seven data ROSCs have been prepared. While feedback to the recent Standards and Codes Review suggests that data ROSCs are perceived by the authorities as the most useful among all the ROSCs, they are also among the costliest (Appendix II, IMF, February 2011). To this end, the current data ROSC is being reviewed with a view to producing a successor instrument that would improve cost efficiency, and enhance effectiveness.

D. Concluding Observations and the Way Forward

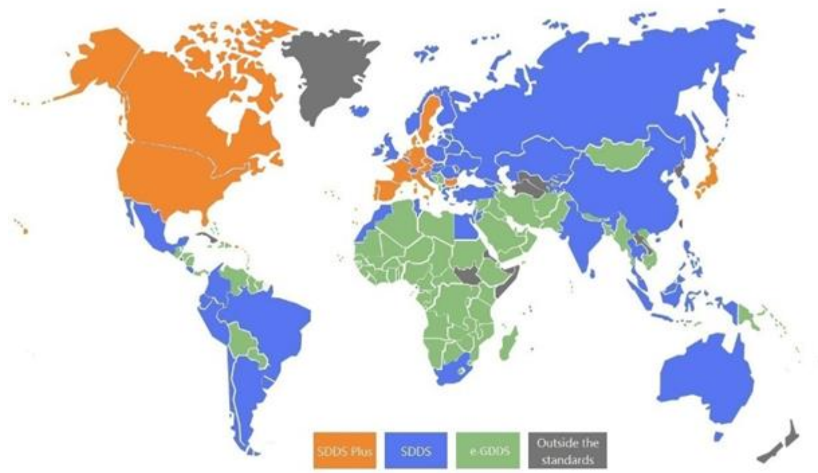
13. The 2017 review of the standards and codes initiative provides a timely opportunity to assess the need to reform the Fund's data policy transparency framework. The reforms would focus on data needs for effective policy making ('operational data"), and thus also facilitate better Fund surveillance of member policies. The current tiered approach (differentiating countries by capacity levels) will continue, but the content may be updated to reflect member countries' operational needs. It is expected that these reforms will be guided by the Fund's forthcoming strategy for data and statistics.

14. A new data ROSC will be developed to inform the assessment of data adequacy for surveillance and help guide statistical capacity development efforts. This new ROSC is expected to be partly based on the DQAF, and address the IEO recommendation for closer integration with IMF and UFR program work. It is envisaged that the successor instrument would be, as relevant, based on and complement other standards and diagnostics, such as Module I of the Fiscal Transparency Codes and the new monetary and financial policy transparency code. This instrument will be used to identify weaknesses in member countries statistical capacity, which could be addressed in turn by developing sequenced action plans and supported by statistical capacity development as needed.

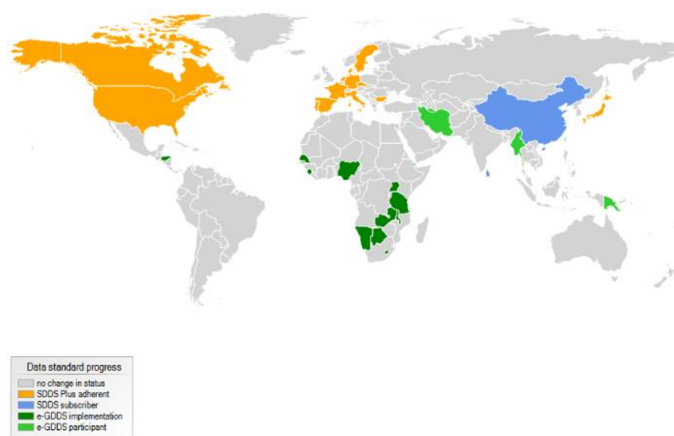
15. Once the new data ROSC has been developed, it would need to be tested through pilot exercises. Lessons from the pilots would be applied to refine the module and the outcome would be reported in the 11th review of the Fund's data standards, scheduled for 2019/20. The review will report on the allocation of outputs across the membership, and will consider and report on whether there is further scope for making modifications to assessments to improve the linkages to surveillance and integration with capacity development efforts. It also will assess the accessibility of assessments and, if necessary, make recommendations on how this can be improved going forward.

Figure I.2. Country Membership of IMF Data Standards Initiatives

Coverage of IMF Data Standards Initiatives as of April 2017



Countries' progress in IMF data Standard Initiatives during 2011-17



Source: Statistics Department, IMF.

Annex I.1. Data Standards Initiatives

The IMF's Data Standards Initiatives are designed to promote the dissemination of timely and comprehensive statistics. The initiatives have nearly universal coverage and are intended to contribute to the formulation of sound macroeconomic policies and the efficient functioning of financial markets. There are three tiers under the Initiatives:

- The **SDDS** was established in 1996 to guide members that have or that might seek access to international capital markets in providing their economic and financial data to the public. SDDS identifies four dimensions of data dissemination: (i) data coverage, periodicity, and timeliness, (ii) access by the pubic, (iii) integrity of the disseminated data, and (iv) quality of the disseminated data (http://dsbb.imf.org/pages/sdds/home.aspx). As of January 2017, 62 jurisdictions are participants in the SDDS.
- The **GDDS/e-GDDS:** GDDS was created in 1997 to guide countries in providing to the public comprehensive, accessible, timely, and reliable economic, financial, and socio-demographic data. Beginning from May 2015, an enhanced GDDS (e-GDDS) superseded the GDDS (http://dsbb.imf.org/pages/gdds/home.aspx). The e-GDDS aligned the data categories more closely with surveillance needs, placing a stronger focus on dissemination of data in addition to metadata. As of January 2017, 110 countries are participants in the e-GDDS.
- The **SDDS Plus** was created in 2012 as the third and highest tier of the IMF's Data Standards Initiatives with a view to helping address data gaps identified during the global financial crisis, including in the context of the G-20 Data Gaps Initiative (DGI). As of January 2017, 12 countries are participants in the SDDS Plus.

Annex I.2. Fundamental Principles of National Official Statistics

Background

The need for principles governing official statistics became apparent in the late 1980s when countries in Central Europe began to transition from centrally planned to market-oriented economies. It was essential to ensure that national statistical systems can produce appropriate and reliable data based on certain professional and rigorous standards. Towards this end, the Conference of European Statisticians developed and adopted the Fundamental Principles of Official Statistics in 1991 (CES/702), which were subsequently adopted in 1992 at the ministerial level as decision C (47). Statisticians in other parts of the world soon realized that the principles were of much wider, global significance. Following international consultation, the United Nations Statistical Commission at its Special Session of 11-15 April 1994 adopted the same principles–with a revised preamble–as the U.N. Fundamental Principles of Official Statistics.

The General Assembly, in its resolution 68/261 of 29 January 2014, endorsed the Fundamental Principles of Official Statistics.

Fundamental Principles of Official Statistics

Principle 1. Official statistics provide an indispensable element in the information system of a democratic society, serving governments, the economies and the public with data on the economic, demographic, social and environmental situation. To this end, official statistics that meet the test of practical utility are to be compiled and made available on an impartial basis by official statistical agencies to ensure access to public information.

Principle 2. To retain trust in official statistics, the statistical agencies need to operate based on strictly professional considerations, including scientific principles and professional ethics, on the methods and procedures for the collection, processing, storage and presentation of statistical data.

Principle 3. To facilitate a correct interpretation of the data, the statistical agencies are to present information according to scientific standards on the sources, methods and procedures of the statistics.

Principle 4. The statistical agencies are entitled to comment on erroneous interpretation and misuse of statistics.

Principle 5. Data for statistical purposes may be drawn from all types of sources, be they statistical surveys or administrative records. Statistical agencies are to choose the source based on quality, timeliness, costs and the burden on respondents.

Principle 6. Individual data collected by statistical agencies for statistical compilation, whether they refer to natural or legal persons, are to be strictly confidential and used exclusively for statistical purposes.

Principle 7. The laws, regulations and measures under which the statistical systems operate are to be made public.

Principle 8. Coordination among statistical agencies within countries is essential to achieve consistency and efficiency in the statistical system.

Principle 9. The use by statistical agencies in each country of international concepts, classifications and methods promotes the consistency and efficiency of statistical systems at all official levels.

Principle 10. Bilateral and multilateral cooperation in statistics contributes to the improvement of systems of official statistics in all countries.

II. THE FISCAL TRANSPARENCY CODE[1]

A. Background

1. This paper is a background reference to the 2017 Joint Review of the Standards and Codes Initiative (the Initiative). The paper discusses changes to the fiscal transparency standards since the Initiative's last review in 2011 and the use made of these standards in Fund's work.

2. Fiscal transparency is a critical element of effective fiscal management. It enables governments' economic decisions to be informed by a shared and accurate assessment of the current fiscal position, the analysis of the social and distributional impact of any policy changes, and the potential risks to the fiscal outlook. Fiscal transparency also provides legislatures, markets, and citizens with the information they need to make appropriate financial decisions and to hold governments to account for their fiscal performance and the utilization of public resources. Fiscal transparency facilitates international surveillance of fiscal developments and helps mitigate the risk of transmission of fiscal spillovers between countries. Finally, greater transparency can also help underpin credibility and market confidence. Empirical evidence points to a positive relationship between the degree of fiscal transparency and sovereign credit ratings (IMF, 2012a).

3. The IMF's Fiscal Transparency Code (hereafter, the Code) is the international standard for disclosure of information about public finances and is the centerpiece of the global architecture on fiscal transparency. The Code is part of the IMF's efforts to strengthen fiscal surveillance, support policymaking and capacity building, and improve fiscal accountability in its member countries.

4. The Code was first published in 1998 and updated in 2007 to provide the framework for conducting assessments of countries' fiscal transparency, as part of the IMF's Reports on the Observance of Standards and Codes (ROSC) initiative.

- In 1998, the IMF introduced the Code,[2] which led to a voluntary program of fiscal transparency assessments called fiscal transparency modules of ROSCs (fiscal ROSCs) that were the first comprehensive fiscal transparency diagnostics at the international level.[3] To expand and explain the principles of the Code, and to help guide the conduct of fiscal ROSCs, the first version of the *Manual on Fiscal Transparency* was also issued the same year.

[1] Prepared by the Fiscal Affairs Department (FAD) under the supervision of Manal Fouad and Carolina Renteria by an FAD team led by Sailendra Pattanayak and comprising Brian Olden, Ramon Hurtado, and Alpa Shah. Research assistance was provided by Rohini Ray and production assistance was provided by Sasha Pitrof.

[2] The emerging market crises of the late 1990s highlighted shortcomings in financial reporting in both the public and private sectors and regarding the linkages between the two (Lane and others, 1999). This lead to the introduction of the IMF *Code of Good Practices on Fiscal Transparency* in 1998 as one of twelve new international standards and codes designed to improve the functioning of the international financial system.

[3] After peaking in 2002, the annual number of fiscal ROSCs dropped significantly by 2012.

- In 2007, the Code (*Code of Good Practices on Fiscal Transparency*) was updated to reflect some new good practices and broaden the coverage of others, but retained the original four pillars of fiscal transparency: (i) clarity of roles and responsibilities; (ii) open budget processes; (iii) public availability of information; and (iv) assurances of integrity. The *Manual on Fiscal Transparency* was also revised in 2007.

- Reflecting the unique set of problems faced by countries that derive a significant share of revenues from natural resources, the IMF also issued a companion *Guide on Resource Revenue Transparency* in 2005, which was further updated in 2007. This provided a summary overview of generally recognized good practices for transparency of resource revenue management consistent with the principles of the Code, and formed the basis for the resource revenue transparency ROSC that would accompany the fiscal ROSC where relevant.

5. The 2011 Standards and Codes (S&C) Review recommended renewed attention to fiscal transparency, including a possible review of the 2007 Code. While the aftermath of the 1990s' Asian crisis resulted in standards being developed to encourage minimum levels of adherence across all countries, issues surrounding fiscal sustainability increasingly came into focus by the time of the 2011 S&C Review. In particular, the 2008 global financial crisis highlighted the importance of transparency in communicating medium-term fiscal strategies, by specifying the measures and timetable for implementing them, and thereby reassuring markets and restoring confidence in countries' ability to deliver. The greater attention to public sector and longer term fiscal sustainability issues also renewed the relevance of fiscal transparency and called for a review of the Code. Accordingly, the 2011 S&C Review recommended a revamp of the Code and Fiscal ROSC.[4]

6. The 2011 S&C Review also recommended a targeted approach to ROSCs and prioritization of recommendations in accordance with countries' needs. In particular, the review proposed that:

- more targeted assessments be undertaken when other analysis indicates that particular weaknesses are of more critical importance or could have larger systemic repercussions;

- the Fund ROSCs could be more systematically included in area departments' Regional Strategy Notes (RSNs) to promote consideration of standards in the context of their overall surveillance and TA priorities; and

- consideration could be given to establishing one or more topical trust funds to provide external financing for follow up technical assistance (TA), linked explicitly to each type of ROSC and modeled on the topical trust fund for TA for AML/CFT.

[4] See *2011 Review of the Standards and Codes Initiative*, February 2011, IMF and World Bank.

7. In a 2012 policy paper,[5] the IMF reviewed the state of fiscal transparency and proposed a series of improvements to international fiscal transparency standards and monitoring arrangements.

- First, the global financial crisis revealed that, even among advanced economies: (i) governments' understanding of their current fiscal position and the risks to that position was often inadequate, leading to the emergence of previously unrecognized fiscal deficits and debts and the crystallization of large, mainly implicit, government liabilities; and (ii) in many cases, countries had substantially underestimated the risks to their fiscal prospects, especially those emanating from the financial sector (Box 1). An improved fiscal transparency standard was, therefore, critical both to reflect the lessons of the crisis itself and to prevent a resurgence of fiscal opacity in its wake.

- Second, the fiscal ROSC's record in identifying problems that contributed to or exacerbated the fiscal impact of the crisis was mixed. Of the ten countries that experienced the largest increase in government liabilities during the crisis, nine had undergone a fiscal ROSC within the previous eight years. These reports identified some but not all the key transparency problems revealed by the crisis.[6] The ROSCs were most effective in identifying inadequate coverage of fiscal reports, lack of medium-term fiscal forecasts, and weak controls over budget execution. However, issues such as the need for fiscal risk analysis to explore a broader range of output scenarios or better surveillance of exposure to financial sector risks were generally not explored. Even where shortcomings were identified, their relative magnitude was generally not quantified and they were not always given due prominence in the summary recommendations.

8. The 2012 policy paper laid the groundwork for the revised Fiscal Transparency Code and Evaluation that replaced the 2007 Code and the related fiscal ROSC. The revised Code, described in the 2014 Update on the Fiscal Transparency Initiative addresses the shortcomings of the 2007 version. The revised Code reflects the lessons of the global financial crisis, incorporates developments in international standards, and builds on feedback from stakeholder consultations. Following an extensive consultation exercise in two rounds between December 2012 and August 2013, the first three pillars of the revised Code were finalized and approved by the IMF Board in August 2014, while the fourth pillar on natural resource management is currently under development. New Fiscal Transparency Evaluation (FTE) reports have replaced fiscal ROSCs. FTEs are carried out at the request of countries and (similar to fiscal ROSCs) FTE results are included in a formal report prepared by a staff team of the IMF. FTE reports are published upon consent by the authorities.

[5] See "Fiscal Transparency, Accountability, and Risk."

[6] See Appendix II of the 2012 policy paper for a summary.

Box II.1. Sources of Fiscal Shocks During the Crisis

For the ten countries that experienced the largest unanticipated increase in general government gross debt between 2007 and 2010, the deviations from forecast were due to three main factors:

- **Incomplete understanding of the country's underlying fiscal position** on the eve of the crisis as revealed by (a) revisions in the general government deficit and debt in 2007, (b) revisions due to the inclusion of hidden or implicit obligations to public corporations, public private partnerships (PPPs), and other public entities that were previously outside the general government perimeter, and (c) cash-to-accrual accounting adjustments to capture arrears and other net payables that were not captured in initial cash-based forecasts of revenue and expenditure;
- **Insufficient appreciation of the scale and likelihood of exogenous shocks to the government's fiscal position** including (d) unexpected changes in macroeconomic conditions (including output, interest payments, and the exchange rate), and (e) crystallization of implicit contingent liabilities to the financial sector; and
- **Endogenous shocks to the government's fiscal position** in the form of (f) unforecasted policy measures either to stimulate output or consolidate the fiscal position in the wake of the crisis.

Source: 2012 policy paper (Fiscal Transparency, Accountability, and Risk).

B. Revised Fiscal Transparency Code

Architecture of the Revised Fiscal Transparency Code

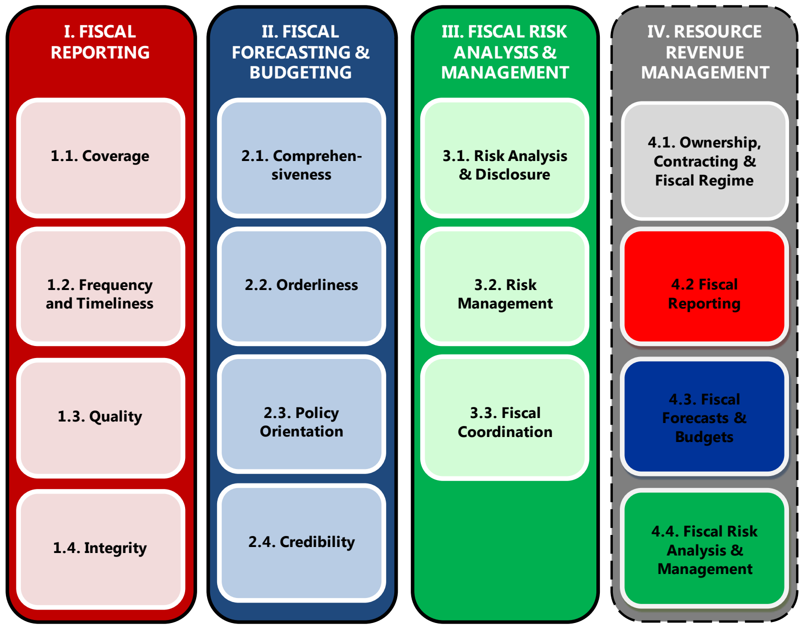
9. The revised Code comprises a set of principles built around four "pillars" (Figure 1) that reflect the IMF's focus on macro-critical issues:

- **Pillar 1: Fiscal Reporting**, to offer relevant, comprehensive, timely, and reliable information on the government's financial position and performance.
- **Pillar II: Fiscal Forecasting and Budgeting,** to provide a clear statement of the government's budgetary objectives and policy intentions, together with comprehensive, timely, and credible projections of the evolution of public finances.
- **Pillar III: Fiscal Risk Analysis and Management,** to ensure that risks to the public finances are disclosed, analyzed, and managed, and that fiscal decision-making across the public sector is effectively coordinated.
- **Pillar IV: Resource Revenue Management,** to provide a transparent framework for the ownership, contracting, taxation, and utilization of natural resource endowments.[7] The fourth

[7] This pillar is still under development. An initial draft of the fourth pillar was released for public consultation in December 2014. Many outreach events allowed for constructive debates of the framework's principles and practices with government, civil society and industry representatives. Extensive comments were received from a range of extractive industry stakeholders. Reflecting feedback from the consultations, the IMF released a revised draft of the entire Fiscal Transparency Code for further discussion and comment in April 2016. The final draft is expected to be submitted to the IMF Board in Q2/Q3 FY2018.

pillar draws out transparency considerations specific to resource-rich countries, which are not already covered by the other three pillars.

Figure II.1. Architecture of the Revised Fiscal Transparency Code



Changes from the 2007 Code

10. Compared to the 2007 Code, the revised Code focuses more on information needed for good fiscal management and decision-making (Box 2). Specifically, the revised Code:

- **Focuses on outputs rather than processes.** The 2007 Code had a procedural focus, and lacked in analysis of the quality and adequacy of reported outputs. The revised Code puts greater emphasis on the quality of published information as a more objective basis for evaluating the degree of effective fiscal transparency;[8]

- **Takes account of different levels of countries' capacity.** The 2007 Code provided a single best practice standard for each principle. In contrast, the revised Code differentiates between basic, good, and advanced practice. This allows countries to develop a sequenced path for reform by providing them with a clear set of milestones toward full compliance with international standards. The new approach also facilitates cross-country benchmarking. In particular, (i) basic practice would be viewed as a minimum standard that should be achievable by all IMF member countries; (ii) good practice provides an intermediate goal post that would

[8] Whereas 30 of the 45 principles under the 2007 Code were primarily procedural in nature or related to managerial issues, 31 of the new Code's 36 principles under its first three pillars relate to quality and content of available fiscal information.

require stronger institutional capacities; and (iii) advanced practice reflects relevant international standards, and is in line with the current "state-of-the-art";

- **Places greater emphasis on fiscal risk.** The 2007 Code devoted relatively little attention to disclosure and management of fiscal risks.[9] The revised Code devotes a full pillar (with 12 principles) to the analysis and management of fiscal risks. This includes risks arising from macroeconomic shocks, guarantees and other contingent liabilities, fiscal pressures from demographic and other long-term trends, budgetary contingencies, changes in asset and liability values, public-private partnerships, the financial sector, natural resources, environmental factors, sub-national governments, and public corporations;

- **Includes transparency principles for natural resource-rich countries in a unified framework.** While the 2007 Guide on Resource Revenue Transparency used the broad framework of the 2007 Code in setting out a separate set of transparency practices for resource-rich countries, the revised Code allows for a more structured approach which consolidates resource-specific principles into a single unified framework. Pillar IV completes the Code by stating unique principles and practices applicable to resource rich countries not covered under Pillars I-III. These principles and practices address transparency issues associated with the legal and fiscal regime governing the extraction of natural resources, the allocation of resource rights holdings, reporting by companies engaged in resource extraction activity, and the governance and operation of natural resource funds. They also reflect the changes in commodity markets and the structure of the extractive industries in recent years, and consider the development of new natural resource transparency standards and initiatives since 2007; and

- **Captures recent advances in fiscal management and international standards.**[10] Several new "advanced" practices were included in the revised Code (see Box 2), which now more systematically refers to relevant international reporting standards where they exist. In particular, the revised Code's principles relating to fiscal statistics and presentation/classification of data in fiscal reports are fully aligned with the IMF's Government Finance Statistics Manual (GFSM) 2014, which is the international standard for compiling and disseminating government finance statistics, including for publication in the IMF GFS Yearbook. This ensures synergy and consistency between these two international standards issued by the IMF. The revised Code also includes a new principle on public participation in budget deliberations, which was included in response to consultations with key stakeholders.

[9] The 2007 Code had only one principle devoted to fiscal risk disclosure with other dimensions of risk partially picked up in another five. Risks arising from the financial sector, public-private-partnerships PPPs), sub-national governments and public corporations—some of which contributed to, or exacerbated, the fiscal impact of the recent crisis—were not adequately covered in the 2007 Code.

[10] Other relevant international standards in this area include the IMF's Government Finance Statistics Manual (GFSM) in the area of fiscal statistics, International Public Sector Accounting Standards (IPSAS) in the area of government accounting, International Standards of Supreme Audit Institutions (ISSAI) in the area of external audit, and OECD Best Practices for Budget Transparency in the budget area.

Box II.2. Highlights of the Revised Fiscal Transparency Code

Places greater emphasis on the consolidated public sector as the broadest unit of fiscal analysis.

Encourages the publication of a full set of accounts, including comprehensive balance sheets covering the full range of financial and, eventually, nonfinancial assets and liabilities.

Incorporates new standards for fiscal forecasting, budgeting, and fiscal risks reporting.

Promotes monthly reporting on general government finances, especially for countries with a general government fiscal rule, and the publication of audited year-end financial statements within six months.

Promotes the alignment of reporting standards used in budgets, statistics, and accounts with any remaining discrepancies explained in reconciliation table.

Ensures that external oversight institutions and citizens have the information they need to hold governments to account.

C. Application of the Revised Code

New Fiscal Transparency Evaluations

11. The revised Code forms the basis of new fiscal transparency evaluations (FTEs) which have replaced fiscal ROSCs as the Fund's tool for assessing country fiscal transparency practices. FTEs provide countries with a comprehensive assessment of their fiscal transparency practices against the differentiated standards set by the revised Code.

12. The FTEs improve upon the fiscal ROSCs by:

- **providing rigorous and quantified analyses of the scale and sources of fiscal vulnerabilities**. The analysis focuses on the comprehensiveness and quality of published fiscal data and key sources of fiscal risks. This includes, for example, measures of the coverage of fiscal reports, quality of fiscal forecasts, and size of unreported contingent liabilities. These quantitative measures help to identify shortcomings in fiscal transparency practices that are critical for macro and fiscal outcomes;

- **including an accessible summary of the strengths and weaknesses of country practices related to fiscal transparency, and their relative importance.** This is achieved through a set of heat maps (Annex 1),[11] which facilitate benchmarking against comparator countries and

[11] In contrast, Fiscal ROSCs tended to be qualitative in presenting the results of an evaluation, and they lacked an accessible summary of a country's strengths and weaknesses both relative to the absolute standard of the Code and comparable countries.

different levels of practice, identification of reform needs, and prioritization of recommendations;

- **offering an option to specify a sequenced fiscal transparency action plan to help define reform priorities.** This identifies the concrete sequence of steps involved in implementing the FTE recommendations and identification of TA follow-up;[12]

- **allowing for modular assessments of the revised Code's individual pillars.** Modular FTEs would meet the need for more targeted evaluations aimed at addressing the most pressing transparency issues; and

- **offering a more flexible approach to the assessment of transparency issues in resource-rich countries.** Resource-rich countries have the option to include Pillar IV in their FTEs to assess resource-specific transparency considerations. The new framework, therefore, allows for assessment of natural resource transparency issues either to be integrated into a broader evaluation of fiscal transparency, or to be conducted as a standalone exercise.

Some Findings of the Fiscal Transparency Evaluations

13. As of February 2017, 21 FTEs have been conducted of which 15 have been published.[13] Of these, ten FTEs have been carried out in Europe, four in Africa, five in Latin America, one in Asia and one in the Middle-East. In terms of income level, five FTEs have been done in advanced economies, 11 in emerging markets, and five in low-income countries. Of the six FTEs that have not yet been published, most are being finalized and only one country to date has not consented to publication.

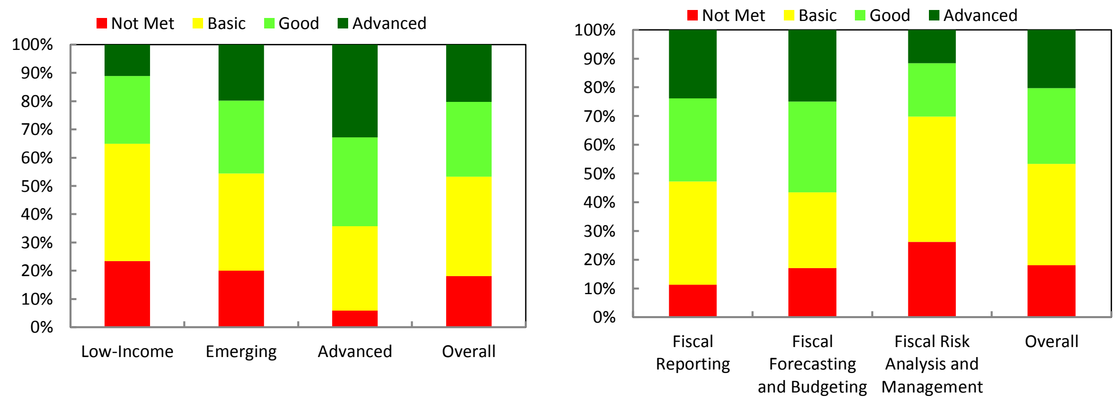
14. An initial analysis of FTEs completed to date reveals that fiscal transparency levels vary both across and within countries, and are positively correlated with the level of income (Figure 2). While low-income countries have had relatively lower scores than emerging and advanced countries, there is scope for countries at all income levels to improve practices, particularly in the areas of fiscal reporting and fiscal risk analysis and management which remains an area of institutional weakness in many countries (Figure 2).

[12] A separate action plan may not be called for where FTE recommendations can easily be incorporated into existing PFM reform strategies or where countries need time to reflect on the FTE findings and recommendations. It can be useful, however, where such reform strategies have not yet been elaborated and/or where countries want to request follow-up TA.

[13] See Fiscal Transparency.

Figure II.2. Summary Results of FTEs Conducted to Date

A. Results by Income Level (percent of total scores) *B. Results by FTE Level (percent of total scores)*



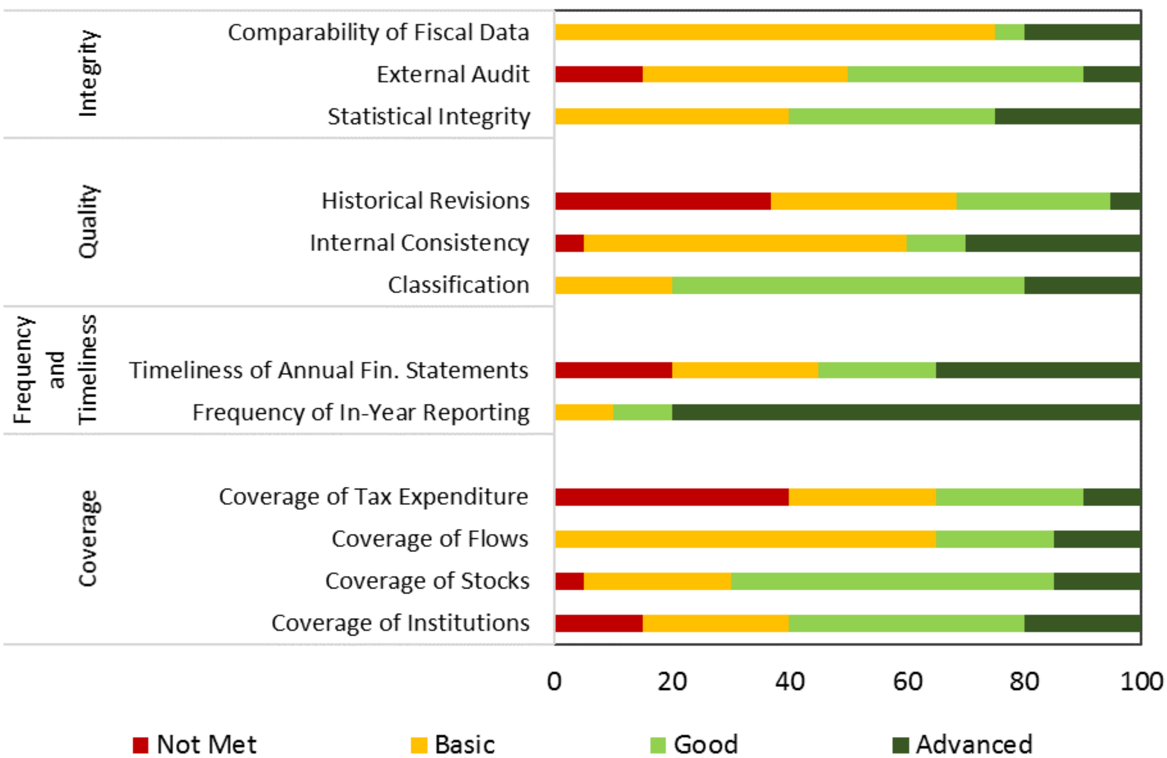
Note: As of February 2017, 20 FTEs had been completed of which 15 have been published.

15. Fiscal reporting is not as comprehensive as would be expected. Although some advanced and emerging economies have scored well in this area, a more granular analysis of the scoring reveals that a significant number of countries have achieved only basic ratings in terms of the coverage of fiscal activity (see Figure 3). For example, information on the liabilities of large public corporations are sometimes not included in published fiscal reports. Information on tax expenditures is also frequently absent or incomplete, making it difficult to determine the amount of revenue foregone through exemptions and other reliefs and dedications in the tax code, which in many countries can be a significant proportion of the overall tax code. Another area in need of strengthening concerns systematic reporting or explanation of revisions to historical data on fiscal aggregates. Many countries do not systematically do so, while most others either provide limited explanations or do not publish details.

A significant share of government assets and liabilities is often not disclosed. For example, government balance sheets sometimes exclude large oil and gas assets as well as public pension liabilities. In addition, in many EU countries, fiscal statistics make some accrual adjustments to reported government revenues to account for timing discrepancies but other non-exchange transactions are not included, including the annual net accrual of public service pension liabilities, thereby offering an incomplete picture of the state's balance sheet. Finally, some countries produce little or no balance sheet information in its fiscal accounts.

Figure II.3. FTE Pillar I – Fiscal Reporting

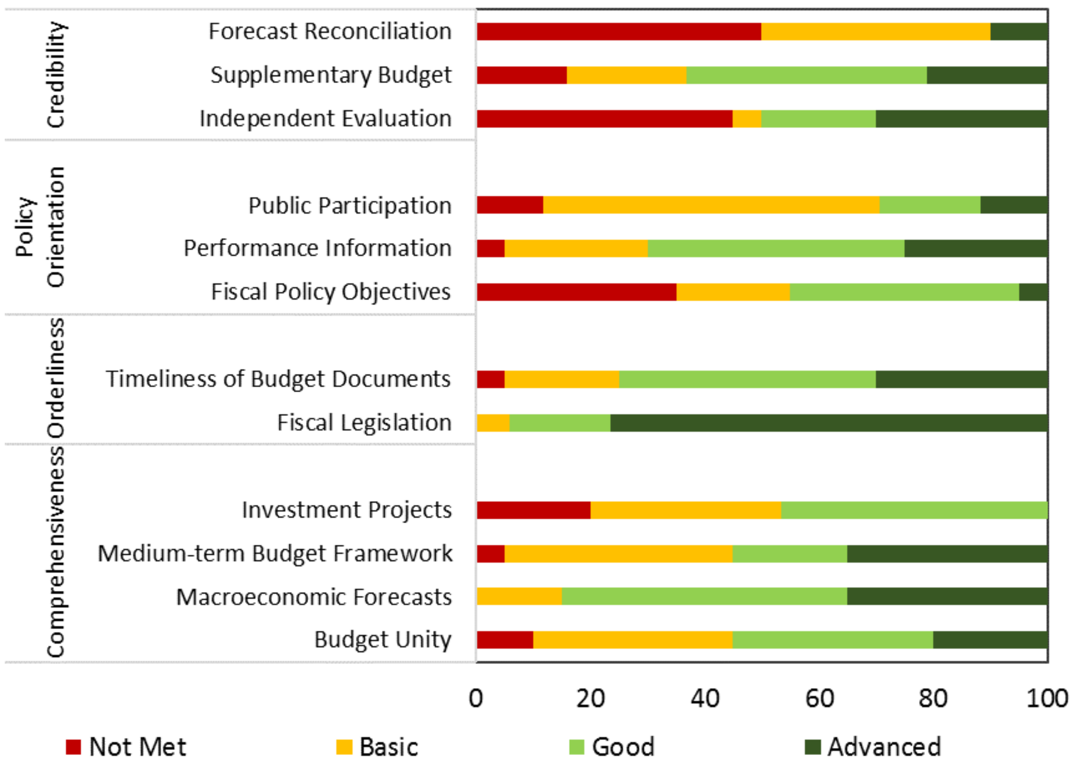
Percent of total scores



16. Country practices in relation to the Fiscal Forecasting and Budgeting Pillar are mixed (Figure 4). Countries have appeared to put an emphasis on improving the institutional frameworks and processes required for budgetary transparency with strong scores for areas such as having comprehensive fiscal legislation in place and establishment of agencies for independent evaluation of fiscal policy, especially but not limited to EU member States. However, the scoring is often not as strong in terms of the transparency of: public investment projects, where lack of information on the full lifetime costs of projects is compounded by weaknesses in project appraisal, selection, and implementation; public participation in the budget; and the finding that many countries still have problems in allowing adequate time for the public and the legislature to scrutinize the budget before it is voted and approved.

Figure II.4. FTE Pillar II – Fiscal Forecasting and Budgeting

(Percent of total scores)

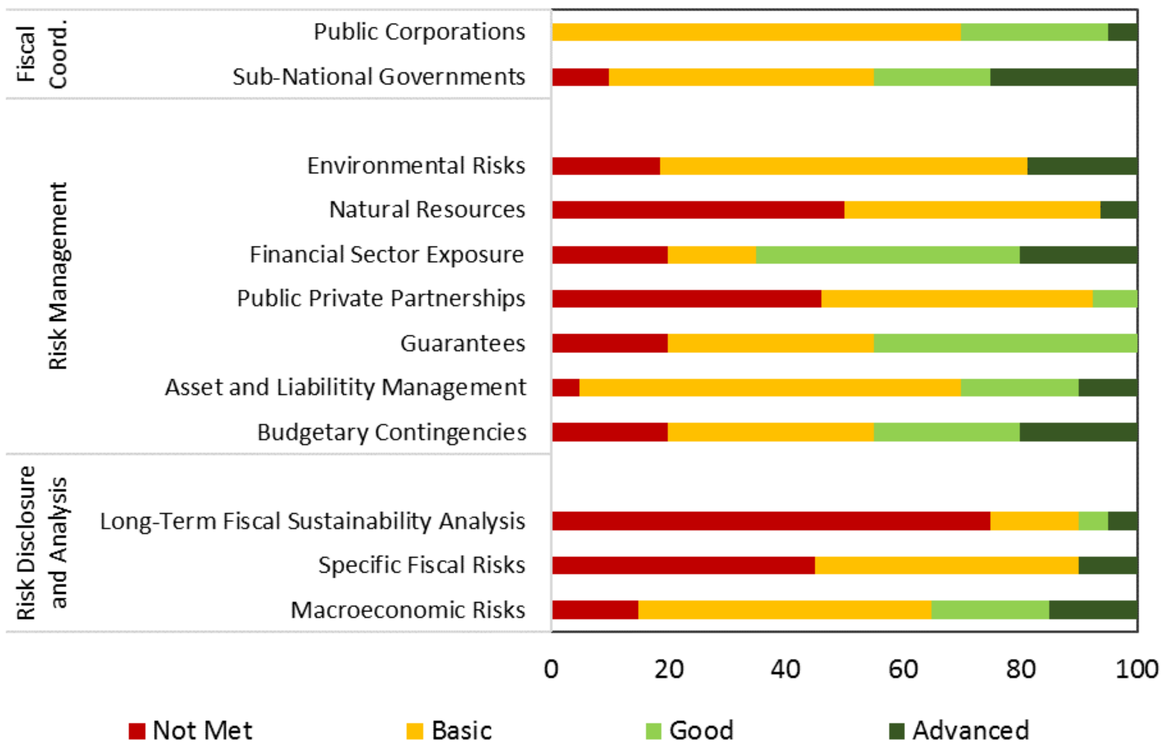


17. Disclosure of contingent liabilities and other fiscal risks is improving but remains incomplete (Figure 5). Of the 15 countries with published FTEs, only two produced a comprehensive fiscal risk statement at end-2016. In addition, few countries analyze and disclose their implicit contingent liabilities to the financial sector, although one has begun to comment on this in their annual fiscal risk statements. Worryingly, most countries have only made progress at the basic level in their oversight of risks emanating from public private partnerships (PPPs), public corporations, and natural resources. And few countries do any significant analysis of their long-term fiscal sustainability, despite the rising concerns over the fiscal costs associated with ageing populations and climate change.

In general, FTE scores against the fiscal risk pillar of the Code have proven to be the lowest ranking. This perhaps reflects the fact that in many countries awareness of the need to strengthen fiscal risk analysis and management has only taken root since the great recession when countries realized how serious was the impact of poorly understood or quantified risks on the economy in general and public finances in particular.

Figure II.5. FTE Pillar III – Fiscal Risk Analysis and Management

(Percent of total scores)



18. Although an in-depth analysis of country practices related to the fourth pillar (on natural resource revenues) is premature at this stage, the pilot assessments undertaken so far demonstrate the relevance and usefulness of this pillar. The initial FTE pilots in three countries, which included an assessment of resource revenue transparency, have demonstrated that these principles of the Code are both useful and relevant to countries at varying degrees of resource development and resource revenue dependence.[14] The pilots have also demonstrated the flexibility of the Code in adapting to different categories of resource-rich countries. Conducting a pilot in the UK, a country that has been extracting petroleum for several decades and has established many advanced transparency practices, helped to provide important inputs to ensure that the Code was appropriately calibrated.

[14] In conducting FTEs for resource-rich countries, all four pillars are used. Relevant Pillar I-III principles are applied in the context of natural resources to allow for consideration of important natural resource transparency issues such as those associated with national resource companies, resource revenue forecasting, commodity price risk analysis, allocation of resource revenues to sub-national governments, and public participation in the resource revenue management process. The amount of detail included for each issue depends on the level of resource revenue dependence, and the extent to which they are important for fiscal transparency.

Linkages with Other Fund Activities and with Other Agencies

19. FTEs have an important part to play in providing input to the Fund's surveillance through exposing weaknesses in institutional public finance management frameworks. In several cases, findings and recommendations from FTEs have fed into area departments' policy notes (PNs) in the context of Article IV or other surveillance related missions (Table 1).

20. Even within the short time-frame involved, there have been direct linkages between Fund program design and the findings and recommendations from the FTEs carried out since 2013. For example, the PRGT lending program for one member included a structural benchmark on producing a fiscal risk statement in its budget document as a direct result of the findings of the FTE, while in another member country several structural benchmarks to improve the coverage of fiscal reports, quantify the assets and liabilities of sub-national governments and improve debt management capacity were all informed by the findings of the FTE. While GRA financial programs were, or are in place in several countries that have undertaken an FTE since 2013, the respective FTEs took place towards the tail end of many of the programs. However, one member's FTE was directly informed by technical assistance that had been carried out during the program to assist the government in managing its payment arrears, developing its budget capacity, and improving controls over sub-national government finances.

21. There is a clear linkage between FTEs and demand for Fund's TA.

- **Demand for TA from FAD to help implement recommendations contained in FTEs has been noticeable** (Table 1). For example, one member has requested significant help in developing its medium-term budget framework, development of a credible fiscal rule, and enhancement of independent evaluation of fiscal policy, all areas that were identified in the FTE. Another member has requested and received substantial TA to help in its efforts to strengthen its budget management and reporting framework, which were identified as in need of improvement in the 2015 FTE. A third member has benefited from Fund TA following the FTE to improve its budget preparation, including the development of a multi-annual budget framework. A fourth member, following the FTE, was also supported by the Fund in strengthening its fiscal risk management and fiscal reporting frameworks. In addition, the authorities of that member country have recently requested a resident advisor to assist with capacity building of the Risk Management Unit in the ministry of finance.

- **FTE indicators are being increasingly used to monitor progress in reforms supported through Fund TA.** In particular, the Fund's new Results Based Management (RBM) framework includes several indicators drawn from the Fiscal Transparency Code and FTE.

Table II.1. FTE Inputs to Country Specific Policy Notes and TA Programs

Country	Issues identified by FTE picked up in staff reports	Areas supported by Fund TA following FTE
Albania	Enhancing transparency and management of public investment projects, including PPPs.	Medium-term budget framework, fiscal rules, and independent evaluation of fiscal policy.
Costa Rica	Managing fiscal risks from contingent liabilities arising from off-budget investments, and strengthening the financial position of the pension system.	Fiscal risk management, government accounting, and medium-term expenditure framework.
Guatemala	Improving fiscal reporting, identifying and monitoring fiscal risks, and improving control and audit of fiscal spending.	Fiscal risk management.
Kenya	Enhanced fiscal reporting and management of fiscal risks.	Intergovernmental fiscal relations.
Mozambique	Fiscal risks disclosure, financial oversight of public enterprises, and fiscal rules related to revenue from natural resources.	Fiscal risk management, fiscal risk statement, and fiscal reporting.
Peru	Multiannual commitments on investment projects (SIP 2016), contingent liabilities, sustainability of pensions, and assignment of natural resource revenues through a set of more transparent and equitable transfer mechanisms.	Multiannual macroeconomic and budget frameworks, credibility of the annual budget, and medium-term budget framework.
Philippines	Strengthening medium-term fiscal framework, and managing fiscal risks arising from PPPs.	Fiscal risk management (especially related to PPPs), and medium-term budget framework.
Portugal	Implementation of the Budget Framework Law.	Fiscal reporting and accounting, and revisions to the Budget Framework Law.
Romania	Integration of public investment planning into the budget process, and fiscal coordination across different levels of government.	Budget management, and fiscal reporting framework
Tunisia	Improving the sustainability of the pension system, financial monitoring/performance contracts for large state owned enterprises (SOEs), and organic budget law.	Fiscal risks disclosure and management, preparation of a fiscal risk statement, and strengthening financial oversight of SOEs.

22. There has been a sustained effort to ensure coordination and complementarity between FTEs and the initiatives of other agencies working on fiscal transparency. Fund staff has worked closely with other organizations—in particular, the Global Initiative for Fiscal Transparency (GIFT), International Budget Partnership (IBP), OECD and the World Bank—to ensure that the revised fiscal transparency code helps to anchor their work in this area and better complements other fiscal standards and evaluation tools, e.g., the Public Expenditure and Financial Accountability (PEFA) framework and the Open Budget Index. More recently, at the request of the G20 Anti-Corruption Working Group, Fund staff have contributed to the OECD and the GIFT's work, at the request of the G7 in developing a "Practical Toolkit on Budget Transparency", which provides a gateway to main diagnostic tools on budget and fiscal transparency including the FTE.

D. Feedback from the Survey

23. A recent survey conducted for countries that had an FTE shows that the majority of respondents value the revamped Code and FTE. [15] The authorities of beneficiary countries believe that the new Code and FTE have been instrumental in identifying their relative strengths and weaknesses in ensuring the transparency of public finances and prioritizing their future reform agendas in this area.

24. Some key themes emerging from the survey findings are as follows:

- **The increased emphasis on fiscal risks in the revised Code has been a welcome addition.** The survey results indicate that the fiscal risks pillar of the revised Code is regarded as the most important of the four pillars (Figure 6). This lends credence to the view that countries are focusing more on the need to identify and manage the fiscal risks that they face, especially following the realization of these risks during the global financial crisis. The fiscal forecasting and budgeting pillar was ranked as the second-most important pillar, with the fiscal reporting pillar ranked in third place. However, each of the three pillars were regarded as important by the majority of respondents. Understandably, as the Resource Revenue Pillar is more recent and many of the surveyed countries are not resource rich and did not conduct a Pillar IV module, it was ranked as the least relevant of the four.

- **Countries responded favorably to the graduated approach to evaluating their fiscal transparency practices.** About 90 percent of countries agreed that the graduated approach was, to a great or large extent, valuable in assessing their scores against comparator countries and setting milestones as they seek to implement reforms as part of their capacity building efforts (Figure 7).

- **All countries agreed that, to a great or large extent, that all the main elements of fiscal policy transparency were captured by the revised Code** (Figure 7). This appears to suggest

[15] A survey questionnaire on the revised Code and FTE was sent to the authorities of 20 countries who have conducted FTEs of which 11 countries responded to the survey.

that the revised Code has largely succeeded in developing a framework that accurately assesses the level of transparency inherent to countries' design and implementation of fiscal policy.

- **FTEs were viewed as extremely useful in identifying key fiscal institutional strengths and weaknesses, shaping reform programs, and prioritizing technical assistance needs.** Most respondents indicated that the FTE has been instrumental in helping the authorities identify areas of relative strength and weakness and develop prioritized reform strategies. All respondents also believe, at least to a certain extent, that FTEs provide new information that was not previously available to policy makers (Figure 8). This would suggest that while governments often have a good grasp of data requirements to shape fiscal policy, they did not necessarily use all the tools at their disposal to ensure that information is transparently presented and explained.

- **Countries welcome the idea of strengthening the linkage between the FTE and Fund surveillance.** Over 80 percent of respondents believed that, at least to some extent, the FTE could usefully contribute to surveillance (Figure 9). The FTE is a technical assistance instrument but a more systematic integration of its findings into surveillance, including for countries that have potential to enter into a financial arrangement with the IMF, would be useful in assessing the capacity of countries to design and implement fiscal policy.

- **Most survey respondents (80 percent) also believe that repeat FTEs should be considered to help countries assess their progress in meeting the standards of the Code** (Figure 10). On average the respondents believed that a three-year timeframe for a repeat assessment would be appropriate (Figure 11).

Figure II.6. Relative Importance of Pillars

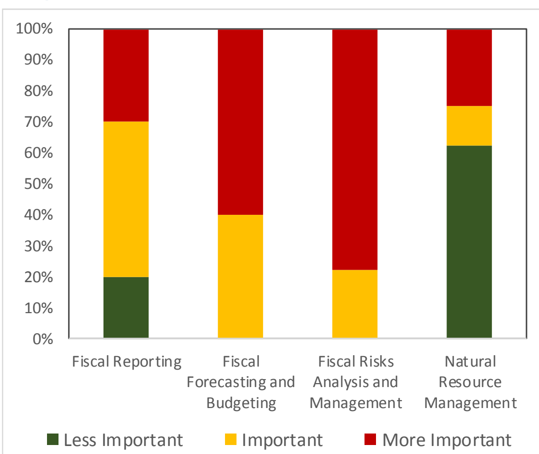


Figure II.7. Comprehensiveness of the FTC

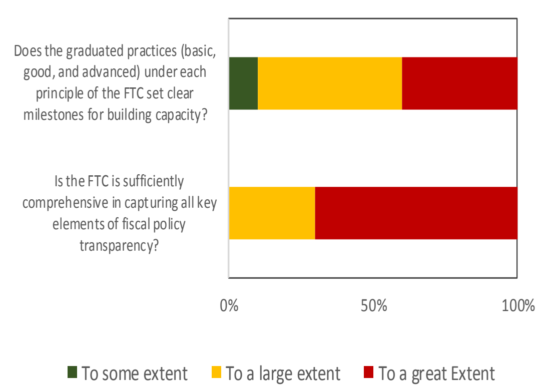


Figure II.8. Identifying and Prioritizing Reform Needs

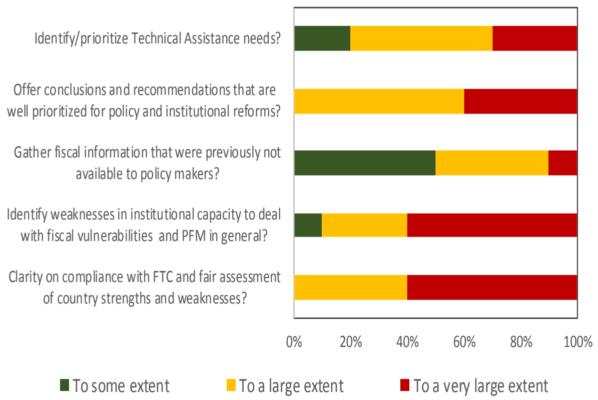


Figure II.9. Should the FTE Become a Surveillance Instrument?

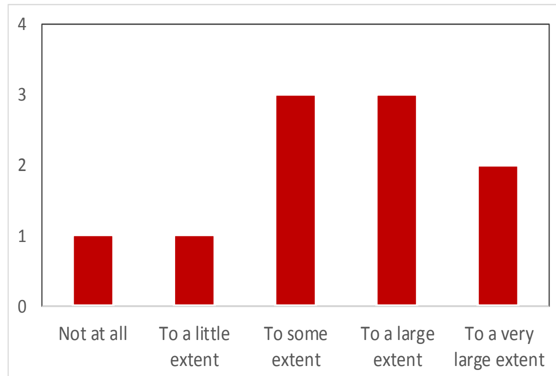


Figure II.10. Should a Repeat FTE Be Considered?

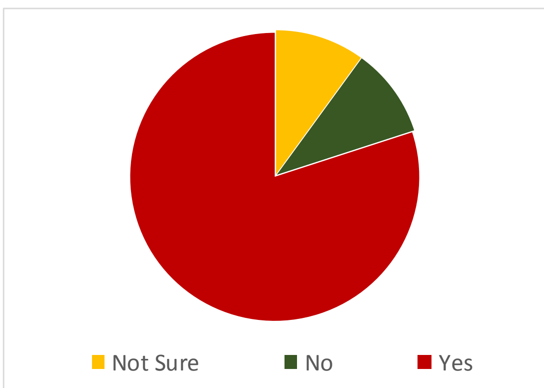
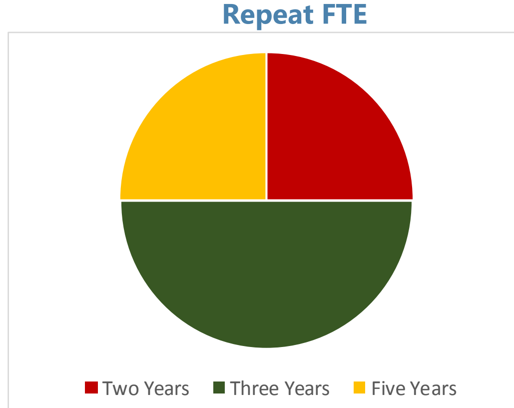


Figure II.11. Appropriate Time Frame for a Repeat FTE



E. Concluding Observations and the Way Forward

25. Next steps in the Fund's fiscal transparency initiative include:

- **Completing the Code's fourth pillar on natural resource transparency and submitting it for Board approval** (Q3 FY 2018). Reflecting feedback received from two rounds of public consultation and comments received from a range of extractive industry stakeholders, the final draft of Pillar IV of the Code is expected to be submitted to the Board in Q2/Q3 FY 2018;

- **Finalizing a two-volume Fiscal Transparency Manual, which will provide more detailed guidance on the implementation of the Code's principles and practices** (Q4 FY 2018); Volume I of the Manual will cover Pillars I, II, and III, and Volume II will focus on Pillar IV and integrate the previously separate *Guide on Resource Revenue Transparency*. The Manual will systematically set out why each principle in the Code is important, and describe recent trends in implementation of the principle, noting also relevant international standards. In addition, selected country examples will be cited for each level of practice. The Manual will aim to inform a range of different audiences: country authorities with an interest in enhancing fiscal transparency; Fund staff assigned to undertake FTEs and country surveillance work in the fiscal area; civil society organizations engaged in promoting fiscal transparency; and academia, which may find it a useful reference document;

- **Carrying out additional FTEs on the basis of the revised Code, at the request of countries** (ongoing). The current FAD resource allocation plan provides for five FTEs per year. A further scaling up of FTEs in response to country demand is not contemplated at this stage and would require additional resources; and

- **Developing and maintaining a database of FTE findings, including selected fiscal transparency indicators, for countries** (ongoing)**.** This will be used as an input to future research on developments in fiscal transparency practices across the Fund's member countries and for benchmarking FTE scores of countries against their relevant peers.

26. As pointed out in the recent Anti-Corruption Summit in London attended by the IMF's Managing Director, fiscal transparency is a powerful tool in the fight against corruption.[16] While the FT Code and FTEs are not (nor do they claim to be) a complete corruption diagnostic, they help countries to target improvements in disclosure of fiscal information to the public and contribute to tackling corruption and improving public financial management.

27. To keep abreast of developments in related standards[17] and reflect emerging good country practices on fiscal transparency, the Code and FTE will periodically be reviewed and updated as necessary. The next review could be undertaken in FY2020/FY2021 to take stock of country feedback on the usefulness of the revised Code and FTE and identify the scope for further improvement or innovation. This review would take account of practical experience of applying the revised Code in different country contexts, progress in the implementation of fiscal transparency standards, the Code's relevance for fiscal policy makers, the work of other stakeholders and standard setters in this area, and the relevance of FTE as a fiscal transparency diagnostic tool. It will report on the allocation of outputs across the membership, and will identify the scope for making modifications to assessments to further improve the linkages to surveillance and integration with capacity development efforts. Finally, it will assess the accessibility of assessments and, if necessary, make recommendations on how this can be improved.

28. The FTE framework will be further leveraged to support FAD's capacity building efforts, including the prioritization and delivery of technical assistance. In addition to including several FTE indicators in the Fund's RBM framework, countries and the international donor

[16] The Anti-Corruption Summit held in London in May 2016, was an initiative spearheaded by the former British Prime Minister, Mr. David Cameron, with high level participation from 17 countries and with the objective of galvanizing a global response to tackle corruption.

[17] While the Code sets out high level international standards on fiscal transparency, individual principles under the Code are linked/referenced to specific operational standards and norms in respective areas, e.g., International Public Sector Accounting Standards (IPSAS) for financial reporting in the public sector, and the IMF's Government Finance Statistics Manual (GFSM) and the United Nations' Classification of Functions of Government (COFOG) for classification/presentation of information in budgets and fiscal reports.

community will be encouraged to use the FTE as an overarching diagnostic tool to identify key sources of fiscal vulnerability and set out reform priorities that could be supported through TA.[18]

29. Opportunities for closer link between FTE and Fund's surveillance activities will be explored. The results from FTEs could be more systematically used to guide the policy dialogue with countries. Area departments country teams could also play a catalytic role in encouraging countries to undertake FTEs with a view to identifying key risks and vulnerabilities in the fiscal area.

30. Enhanced outreach by FAD and RTACs to foster greater understanding of the revised Code's principles and practices will be helpful. In addition to countries' central fiscal authorities, these outreach events could target national oversight and accountability institutions[19] to strengthen their fiscal transparency and hold governments accountable for the use of public resources. Relevant TA missions and other capacity-building activities in the fiscal area can aid in engaging more fully with those institutions. Regional seminars/workshops, including those organized by RTACs, would also provide useful fora for outreach to those institutions and raise their awareness for effective monitoring of compliance with the fiscal transparency standards.

31. Resources permitting, efforts will be made to increase the diversity of coverage of FTEs across the Fund membership. So far, it has been difficult to find an uptake of FTEs in some regions. It is expected that enhanced outreach (as proposed above), support of area department country teams, and enhanced engagement with regional bodies will help facilitate expanding the coverage of FTE.

32. FAD will consider further expanding its institutional relationship and engagement with other international standard setters and professional bodies on fiscal transparency.[20] FAD staff will also continue active engagement in multi-stakeholder initiatives and civil society groups on fiscal transparency.[21] The aim of such engagement would be to promote the alignment of international reporting standards; identify and address any gaps in the normative architecture for fiscal transparency; review progress in the implementation of those standards; and identify priorities for technical assistance and opportunities for mutual assistance.

[18] Since the FTE exercise is voluntary, countries will need to request the diagnostic assessment.

[19] These include parliaments/legislatures, supreme audit institutions (SAIs), parliamentary budget offices, national statistics agencies, and independent fiscal agencies.

[20] For example, the IPSASB.

[21] For example, the GIFT and IBP.

III. FINANCIAL SECTOR STANDARDS AND CODES[1]

A. Introduction

1. **This note is a background reference to the 2017 Joint Review of the Standards and Codes Initiative (the Initiative).** It focuses on six policy areas relevant for financial sector stability: the Basel Core Principles for Effective Banking Supervision (BCP), the Insurance Core Principles (ICP), the Objectives and Principles of Securities Regulation (IOSCO Principles), the Principles for Financial Market Infrastructures (PFMI), the Core Principles for Effective Deposit Insurance Systems (DICP), and the Key Attributes of Effective Resolution Regimes for Financial Institutions (KA). The note discusses changes to the international standards since the Initiative's last review in 2011 and the use made of financial sector standards in Fund's work.

2. **The financial sector standards underpin the integration of internationally agreed benchmarks into financial stability surveillance accountability mechanisms, and technical assistance (TA) at the Fund and World Bank.** Because the Standard Setting Bodies (SSBs)[2] are composed of expert agencies (central banks and prudential authorities) that develop standards through extensive international peer consultation, the standards represent an international consensus. There is a high level of recognition, credibility, and "buy in" of the financial sector standards by country authorities. The Fund and World Bank are therefore able to rely on them as evaluative tools and benchmarks to support financial sector policy recommendations. In turn, the Fund (along with the World Bank) acts as impartial arbiters in evaluating compliance with these standards, providing a valuable service to member countries and other stakeholders.

3. **Financial sector standards have been strengthened following the Global Financial Crisis (GFC).** Lessons from the crisis have had a profound influence on the post-2011 evolution of financial sector standards, as well as on their use by the Fund and others. Standards have been expanded in scope and improved to account for pre-crisis gaps. The most significant changes were made to BCP, PFMI, ICP, and DICP. In addition, a new financial sector standard was developed in 2011—the KA by the Financial Stability Board (FSB). Fund and Bank staff contributed to the development of these standards, incorporating lessons from their experience in assessing standards, and providing policy advice to the membership.

4. **The use of financial sector standards has also been influenced by the increased focus on systemic risk following the GFC.** Specifically, following the 2014 Review by the IMF Board, the Financial Sector Assessment Program (FSAP) has placed primacy on systemic risks and vulnerabilities

[1] Prepared by the Monetary and Capital Markets Department under the leadership of Udaibir Das with contributions from Veronica Bacalu, Cristina Cuervo, Karl Driessen, Jennifer Elliott, Jana Gieck Bricco, Tommaso Mancini Griffoli, Dong He, Eija Holttinen, Nigel Jenkinson, Lidija Joseph, Moses Kitonga, Fabiana Melo, Marina Moretti; Erlend Nier, Felipe Nierhoff, Alvaro Piris, Katherine Seal, Lilly Siblesz de Doldan, Ghiath Shabsigh, Nobuyasu Sugimoto, and Froukelien Wendt, in consultation with the World Bank.

[2] Standard Setting Bodies include BCBS, CPMI, IADI, IAIS, IOSCO, Islamic Finance Service Board (IFSB), and the FSB. Apart from its role as an assessor, the IMF is also a standard setter for transparency codes.

that could lead to financial system instability. This has required a broader macrofinancial orientation in Fund surveillance and FSAPs, to provide integrated assessments of systemic risk.

5. The combination of the increase in scope and complexity of financial sector standards alongside a greater focus on systemic risk has coincided with the flexible use of standards. Full, graded, and detailed assessments continue to be used to benchmark oversight frameworks where warranted. Staff has also intensified the use of financial sector standards for deeper reviews of select topics, and produced technical notes (TN) based on these standards. TNs drafted with references to financial sector standards are also used to help benchmark financial sector institutional frameworks and their reform, and to guide recommendations to foster financial stability and financial sector development. TNs have lent additional operational flexibility and allowed expert resources to be focused on prioritized risks and financial sector developmental challenges. Experience with this multifaceted approach shows that it has been helpful in supporting the Fund's focus on systemic risk and the Bank's on deeper and more inclusive financial systems.

6. The remainder of the paper is organized along the following lines. Section B discusses the evolution of financial sector standards since the Initiative's last review in 2011. Section C outlines how financial sector standards have been used in different work areas of the Fund and discusses current issues faced in the use of financial sector standards and codes. Section D makes some concluding observations.

B. Changes to Financial Sector Standards Since 2011

Basel Core Principles (BCP)

7. The revision of the BCP in 2012 reflected not only market and regulatory developments—such as the introduction of Basel III—but also lessons from the GFC. The Fund was a member of the drafting team and experience gleaned from FSAPs and TA was reflected in the 2012 BCP (see Box 1 for more details on the relationship between the IMF and SSBs). Building on the key elements of the previous version published in 2006, the updated BCP strengthens the focus on: (i) effective supervision of systemically important banks; (ii) application of a system-wide, macro perspective to microprudential supervision; (iii) effective crisis preparation and management, recovery, and resolution measures; and (iv) sound corporate governance, disclosure, and transparency. For the standards to be applicable to a broad spectrum of banks and jurisdictions, the concept of proportionality was also reinforced throughout the principles, both in terms of the expectations on supervisors for the discharge of their own functions and in terms of the standards that supervisors impose on banks. The 2012 update strengthened requirements by adding 35 new subprinciples (Table 1).

8. The 2012 BCP strengthen the financial stability focus of bank regulation and supervision, which is significant for the Fund's mandate. The updated BCP includes a greater focus on risk-based supervision and the capacity for early intervention and timely supervisory actions. Supervisors are now required to assess the profile of banks not only in terms of their risks and the efficacy of risk management, but also in terms of the threats they may pose to banking and the financial systems. In addition, supervisors need to consider how the macroeconomic environment, business trends, and the build-up and concentration of risk inside and outside the banking sector may affect the risks faced by individual banks. While the BCP sets out the powers that supervisors should have in addressing safety and soundness concerns, there is a heightened focus on the actual use of these powers, in a forward-looking approach through early intervention.

Box III.1. Fund's and World Bank's Relationship with Standard Setting Bodies (SSBs)

Fund and World Bank staff are closely involved with the financial sector standard setters. Staff and standard setters enjoy a robust dialogue on the content of the financial sector standards and their implementation. Staff participates on the main committees and subcommittees tasked with the development and implementation of financial sector standards. Fund and Bank staff were also involved at working level in the development of the 2010 revised IOSCO Principles, the 2011 revised ICP, the 2011 FSB-KA, the 2012 revised BCP, the 2012 revised PFMI, the 2014 revised DICP, as well as in the preparation of the (revised) assessment methodologies (or in the case of the DICP, the "handbook") that accompany these standards. The World Bank has been active with both the Organization for Economic Co-operation and Development (OECD) and International Organization of Pension Supervisors who together produce international standards on pensions. The OECD recently published revised standards on private pensions on which the World Bank provided extensive input. Fund and Bank staff are also engaged with the FSB on its implementation monitoring work. Most recently, staff has worked with the BCBS, IAIS, and IOSCO on ways to enhance integration of supervisory principles in FSAP financial stability analysis.[1/] Standard setting bodies have welcomed Fund and Bank staff participation and rely on staff's technical expertise and country experience.

The role of SSBs has increased in certain policy areas. Some SSBs have embarked on their own implementation monitoring exercises. The FSB's peer reviews have been used to assess the degree of implementation of the DICP (2012, which also made recommendations to strength the standard) and KA (two thematic peer reviews in 2013 and 2016). In banking supervision, the Basel Committee on Banking Supervision has strengthened the coverage of supervisory issues, many of which further articulate the standards expected in the BCP, through the work of the Supervisory and Implementation Group (SIG). In securities regulation, IOSCO has begun country reviews, involving members' self-assessments of the implementation of principles in this area. In addition, CPMI-IOSCO has started monitoring the implementation of financial market infrastructure practices. Similar efforts are also underway by the IAIS for its members implementing the ICP. Another encouraging trend relates to implementation monitoring of the post GFC reforms by the SSBs and the FSB to ensure consistency and completeness of implementation (such as the Regulatory Consistency Assessment Program of the BCBS on Basel III implementation).

The enhanced self-monitoring by SSBs is a welcome step to improve traction of standards across a range of countries. Self-monitoring assessments and peer reviews are not comparable to an independent assessment by a third party. Therefore, self-monitoring by SSBs is complementary to, rather than a duplication of the Fund's work. To address assessment fatigue, the FSB has decided to increase the cycle for country peer reviews from five years to eight years.

[1/] Board paper on MoUs with SSBs.

Table III.1. Changes in Supervisory Principles and Sub-Principles in Numbers

	Principles		Sub-Principles	
	2010	2016	2010	2016
BCP	25	29	196	231
ICP	28	26	-	-
IOSCO	30	38	-	-
IADI	18	16	-	98
Key Attributes	-	12	-	64

"-" means not applicable

Insurance Core Principles (ICP)

9. The 2011 ICP update incorporated lessons from the GFC by adding an enhanced risk-based solvency regime. The update also introduced additional principles related to macro-prudential surveillance and cross-border crisis management. These principles require insurers to adopt appropriate valuation techniques for assets and liabilities, as well as improved enterprise risk-management methods for solvency purposes. The ICP was significantly expanded in scope by assessing insurers both at the legal entity level and the group level, and by introducing more rigorous group-wide regulatory requirements. These changes reflect the weakness of group supervision revealed by the GFC.

10. The ICP was restructured to reflect ongoing shifts in the insurance market and to incorporate new work completed by the IAIS. These developments have led to a revision of the ICP almost every year. Of the 26 principles, 8 principles have been partially amended since 2011. While not all changes to the ICP and to the accompanying assessment methodology are significant, the frequency of changes presents a challenge to country authorities trying to meet international standards, as well as to assessment teams who must constantly refresh an understanding of the ICP. The number of changes has also made the ease of comparability across assessments problematic.

International Organization of Securities Commissions (IOSCO) Principles

11. The IOSCO Principles were revised in 2010 and the related assessment methodology was published in 2011. The update enhanced the role of securities regulators in managing systemic risk and brought new entities into the scope of regulation. The revised Principles require securities regulators to contribute to monitoring, mitigating, and managing systemic risk and have processes to identify and address regulatory gaps and conflicts of interest. In addition, the Principles require hedge funds/hedge fund managers and credit rating agencies be supervised and strengthen the oversight regime for auditors. Finally, the assessment methodology was reformed to strengthen requirements on internal controls, risk management, and governance practices were made in the assessment methodology in relation to the Principles for Collective Investment Schemes (CIS) and securities intermediaries. IOSCO recently released a new update to its assessment methodology to incorporate new policies developed in the past six years in key areas, particularly CIS and derivatives markets.

Principles for Financial Market Infrastructures (PFMI)

12. **New and revised international standards for safe and efficient FMIs were published in April 2012.**[3] The Committee for Payment and Settlement Systems (CPSS)[4] and IOSCO reviewed three existing sets of standards for FMIs and replaced them with a new set of Principles for Financial Market Infrastructures (PFMI). The PFMI reflects market and regulatory developments since 2000, considering the lessons learned from the GFC. It also accommodates the G20/FSB recommendations to strengthen core financial market infrastructure, not least to support the G20 central clearing mandate for standardized OTC derivatives. Although collectively FMIs performed well during the global financial crisis, certain events highlighted important lessons for effective risk management. The revised set of standards offers harmonized and, where appropriate, new and stronger standards for FMIs, in areas of risk management, such as credit and liquidity risk, recovery and orderly winding-down, and interdependencies and interoperability.

Deposit Insurance Core Principles (DICP) and Key Attributes (KA)

13. **The GFC underscored the need to develop effective frameworks to resolve financial institutions and to strengthen financial safety nets.** The absence of regimes capable of resolving large, complex financial institutions meant that national authorities were left with little alternative but to commit public resources to support failing institutions during the crisis. Moreover, poorly designed deposit insurance schemes failed to prevent financial contagion. "Crisis Resolution and Deposit Insurance" was added as a new policy area under the list of key standards relevant for financial stability in 2011, and initially included the DICP. A key milestone was the 2011 adoption of the Key Attributes of Effective Resolution Regimes for Financial Institutions by the FSB. The KA were further revised in 2014. The DICP was revised in 2014 to enhance guidance in several areas, including governance, coverage, funding, and payouts. In 2014, the FSB also published additional guidance on the application of the KA for insurers, FMIs (essentially, central counterparties), and the protection of client assets in resolution. The KA is a multi-sectoral standard with a modular assessment methodology (by sector). The first module, for the banking sector, was finalized in October 2016. The assessment methodology for insurance will be completed tentatively by end-2017, but possibly later given the need to pilot the draft methodology. FMIs will take longer still.

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[3] A difference between an FMI assessment and other standard assessments is FMI assessments not only cover the regulatory and supervisory structure, but also the risk management framework and governance of individual FMIs.

[4] The name of the CPSS was changed into CPMI in September 2014.

C. Use of Financial Sector Standards in Fund and Bank Work

14. Financial sector standards are used across the Fund's and Bank's key work areas. They assist in FSAPs, TA, Article IV surveillance and Fund and Bank supported programs (see Box 2 for some examples of how financial sector standards are used in Fund's and Bank's work).

15. Financial sector standards are the benchmark for Detailed Assessment Reports (DARs). DARs are typically produced in the context of FSAPs. The decision of whether to undertake a DAR is made through an agreement between Fund and Bank staff, and the national authorities.[5] BCP DARs are done in many countries; ICP, IOSCO, and PFMI DARs are done in countries where insurance, securities markets or financial market infrastructures are critical to systemic factors or risks to financial stability. DICP DARs have been conducted where strengthening deposit insurance featured as one of the authorities' high priorities.

16. The resource intensity of undertaking a full, graded DAR has increased for both the member country that undergoes the assessment and the assessors (Figure 1). As set out above, financial sector standards have been enhanced to address gaps exposed by the GFC. These revisions have increased the depth and breadth of each of the standards.[6] Furthermore, the implementation of the financial sector standards as an accountability mechanism has raised expectations from country authorities who have become more aware of financial sector standards. Several reforms have been undertaken to revise existing systems of oversight, regulation, and supervision to meet them. Third party assessments are now more likely to be published and scrutinized. Before the GFC, a BCP DAR was considered long at around 60 pages, whereas now, even in mid-sized countries, a full graded assessment is typically more than 200 hundred pages in length, involving significant research, writing, and review by the assessment team, peer reviewers, and the country authorities. [7]

[5] Factors that are typically taken into consideration in the decision-making process are the importance of the specific sub-sector vis-à-vis the jurisdiction's financial sector, the extent of changes in the sub-sector since the last DAR, the degree of vulnerabilities, and the overall priorities of the FSAP.

[6] For example, with the increase in the number of BCPs from 25 to 29, the document setting out the Principles has gone up from 48 pages to 85 pages. The number of essential criteria that assessors need to review to determine whether a jurisdiction is compliant with the principles has expanded from 196 to 231.

[7] The revised methodology and more emphasis on actual implementation have increased workload in preparing self-assessments of the BCP and other technical material which are usually prepared by authorities as an important input into the assessment and other FSAP work streams. These were once around 50 pages in length, but are now are on average 200 pages long, and for large financial systems, run into several hundreds of pages of detailed technical material that must be prepared by the authorities and reviewed and discussed by the assessment team.

Box III.2. Utilization of Standards in Fund's and Bank's Work: Some Examples

Basel Core Principles

The BCP have been used in a wide range of Fund surveillance and technical assistance activities. Detailed BCP assessments are typically conducted as part of FSAPs, although stand-alone assessments are also possible. Even when detailed assessments are not conducted, the BCP is still used as the international benchmark to substantiate FSAP recommendations on banking regulation and supervision. The BCP utilized as a source for Fund/Bank advice related to banking supervision and regulation, particularly in assisting the mainstreaming of financial sector issues in program countries and in TA. Examples of recent use of standards in Fund programs include Ukraine, Iceland, Ireland, Myanmar, Moldova, and Sao Tome and Principe. Many TA missions (more than 400 a year) on banking supervision and regulation issues are also underpinned by the standards and principles. For the Bank, country examples of the use of standards in loan and TA in some recent operations include Mozambique, Papua New Guinea, and Colombia.

Deposit Insurance Core Principles and Key Attributes

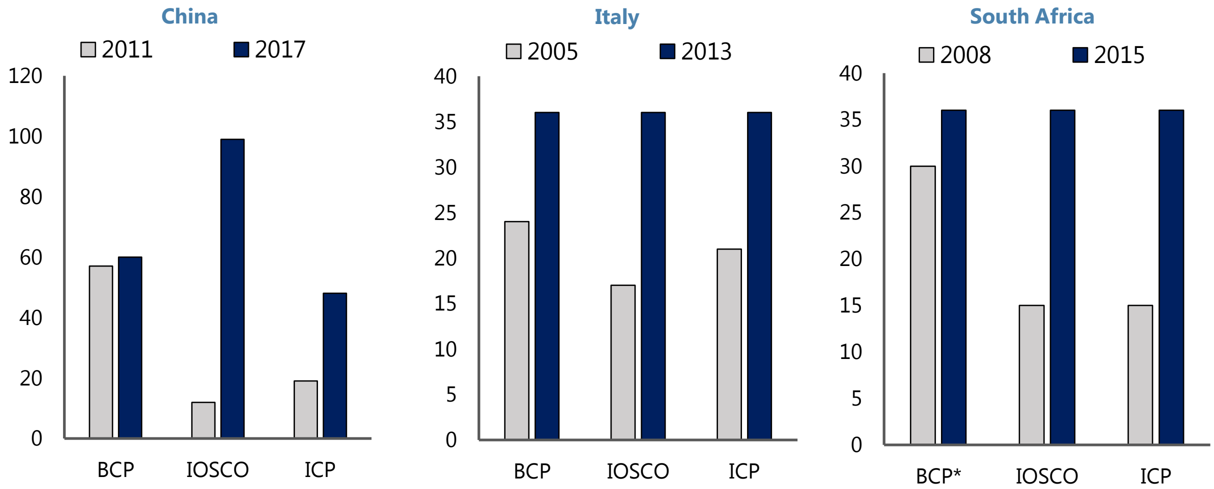
The assessment of crisis management frameworks has become a key building block for FSAPs, and demand for TA in this area has soared, despite few full, graded DARs to date. The 2009 FSAP Review highlighted crisis management as one of three key elements of an FSAP, effectively establishing that every FSAP would include a technical note on this topic. Requests for TA on strengthening resolution and financial safety net frameworks also materially increased, reflecting the increased international emphasis on crisis preparedness frameworks post-GFC. Financial standards guide not only TA but also FSAP Technical Notes, usually without a full, graded DAR—partly because the assessment methodology for the KA was not yet finalized. Since 2012, seven full DICP DARs have been conducted and six TNs produced on deposit insurance. Three pilot assessments/reviews of the KA were carried out—two of them jointly with the FSB and the World Bank—as part of efforts to develop an assessment methodology. All three-covered bank resolution and one covered insurance resolution. No pilot assessment of resolution for central counterparties has been conducted. The KA assessment methodology for the banking sector was completed in October 2016, incorporating lessons from the pilot assessments/reviews. Fund and Bank staff have been involved in the development of the assessment methodology from the outset, participating in the FSB's drafting committee and providing substantial feedback to the committee based on the three pilot assessments, including on issues of relevance to the broader membership of the Fund and Bank (notably proportionality).

Insurance Core Principles

Through technical assistance projects, the World Bank provides support and guidance to clients to conduct ICP self-assessments (as recently undertaken by the West African regional insurance supervisory authority). Analytical research into the potential impact of International Capital Standards on insurers' ability to invest in emerging market infrastructure projects is due to be launched shortly. On pensions, the World Bank provided extensive input on the revised standards on private pensions recently published by the OECD. The Bank drew on its work on achieving long-run outcomes (Stewart 2014, Price and others 2016) and an assessment framework it has developed that incorporates the pension standards along with other areas to review on which no standards exist. As a result, the new OECD standards incorporates the outcomes used by the Bank when assessing countries, stating that "private pension systems should have clear and well-defined objectives regarding coverage, adequacy, security, efficiency and sustainability." Assessments of supervisory capacity using international standards were recently conducted in client engagements including in Uganda and Zambia.

Figure III.1. Illustrative Examples of Increased Resource Requirements in Standard Assessments[1/]

Days Spent on Mission by Assessors



* The BCP Assessment was done as a stand-alone assessment in 2010.

1/ Please note that general conclusions should not be drawn from this chart since this is a limited sample which was selected for illustrative purposes. Days spent on mission is only one element of the overall resource input.

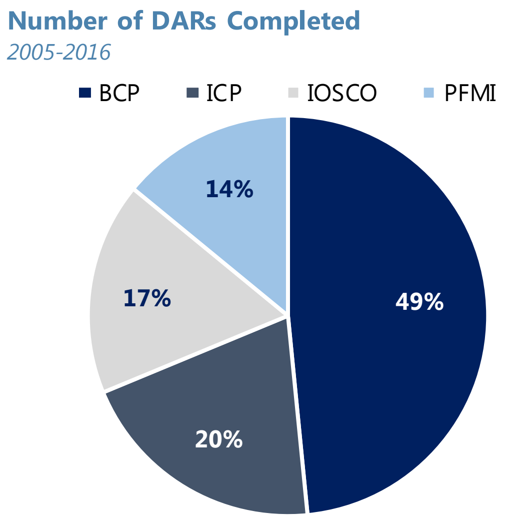
17. Even when detailed assessments are not conducted, the financial sector standards are actively used as the international benchmark. This helps to substantiate financial policy recommendations on regulation, supervision, risk management, resolution, financial market infrastructure, and financial safety nets. BCP assessments (and the resulting recommendations) are also sometimes used as benchmarks in Fund programs where the failure of supervision or regulatory gaps has contributed to distress in the banking system (see Box 3 for an overview of country compliance with financial sector standards). BCP recommendations have also been used to set up policy conditionality in Policy Development Loan operations of the Bank.

18. The flexible approach to the Fund's use of financial sector standards is proving beneficial. Flexibility is appropriate when an FSAP focuses on risks that are particularly important in a jurisdiction, or on a high priority topic.

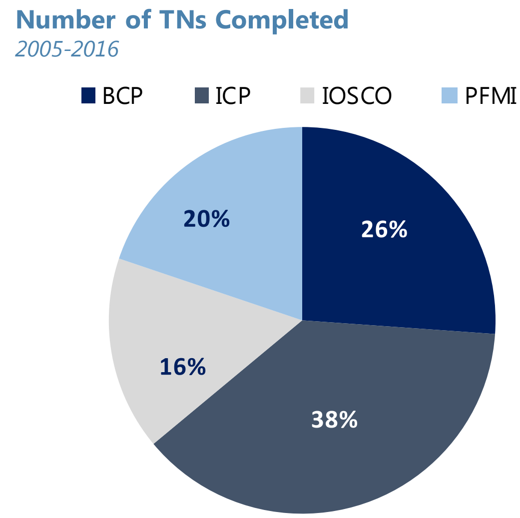
19. Technical notes on supervision, crisis management and resolution, and financial market infrastructure are frequently produced. These draw on financial sector standards to frame the evaluation and recommendations. Technical notes on crisis management and resolution have been an expectation of the FSAP since 2010, and now incorporate elements set out in the KA. These have developed over time to cover a consistent set of topics, while maintaining a flexibility to focus on issues of concern in greater depth. Since 2012, financial sector oversight has been covered via 122 DARs and 54 TNs (Figure 2).

Figure III.2. Number of DARs and TNs Conducted 2005–2016

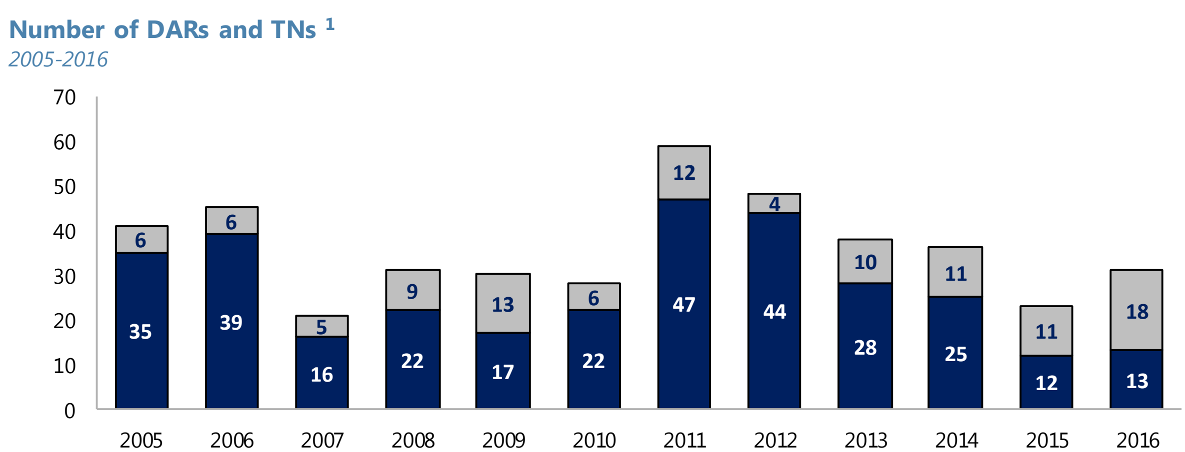
While BCP DARs are most common,



TNs are more evenly spread across the standards



Although the use of DARs has steadily decreased since 2011 to pre-crisis levels (the peak in 2011 was due to strong demand for reassessment of frameworks after the GFC and has abated since), the use of TNs has increased in recent years.



[1]BCP, ICP, IOSCO and PFMIs

20. Technical notes allow staff to delve more deeply into issues where important vulnerabilities exist. A focused approach is particularly useful in jurisdictions where compliance with financial sector standards has been established (based on earlier DARs) but where specific areas of systemic risk warrant deeper coverage. For example, the recent FSAP for one member conducted an evaluation of conglomerate supervision, resulting in a TN. Another member's recent FSAP included a deep-dive on oversight of asset management companies drawing on the IOSCO standard but not leading to another full, graded DAR.

21. A focused approach is also used in the case of a nascent or a developing financial system and oversight function. In such instances, it is often more suitable to discuss priority areas for reform and suggest plans for capacity development. Some recent examples are TNs on banking supervision in FSAPs for one low income member and another emerging market member. In all cases, the work draws heavily on the financial sector standards as internationally agreed benchmarks for findings and recommendations, but focuses on a subset of relevant standards.

22. Assisted self-assessments of financial sector standards are becoming a useful platform for developing TA action plans. Standards also offer essential guidance in particularly technical areas of financial oversight, the largest individual component of the extensive TA provided on financial sector issues.[8] This includes TA on capital and liquidity for banks, governance of banks, regulation of collective investment schemes and legal powers and the independence of supervisors are a few examples.

23. Standard assessments, or self-assessments, are increasingly being used as a source of verifiable indicators for reporting progress to external donors. There have been many requests, particularly in the past several years, for technical assistance in the form of a full detailed BCP to serve as the basis for a medium or long term action plan for supervisory agencies. In all these cases, the agreed international financial sector standards provide Fund staff with credibility and authorities with a level of comfort, in both the process of diagnosis and in generating recommendations. In the case of the other financial sector standards, such as PFMI, KA, and DICP, regional workshops are often used as a platform to build capacity at central banks and other authorities implementing these standards.

24. Financial sector standard assessments are also informing bank and insurance stress testing done in FSAPs. The risks addressed in the BCP or the ICP are closely connected to the risk analysis in stress tests. Although these exercises approach risk from different perspectives, combining observations helps FSAP teams form a holistic view of the extent of risks in a jurisdiction. If a standard assessment finds a member country to be non-compliant with respect to the BCP on credit risk (CP 17), then this analysis can help improve the risk identification process and vulnerability analysis. Both exercises inform each other, thereby enhancing the financial stability risk analysis in FSAPs.

25. Survey results show that country authorities value standard assessments but see room for streamlining (Figure 3). The survey conducted in the context of the 2014 IMF FSAP Review showed that about 75 percent of respondents either strongly agreed or agreed that standards assessments adequately identify the main risks to the financial system, provide robust evaluations of the regulatory and supervisory framework, and are well aligned with other parts of the FSAP. However, more than 50 percent of respondents also saw room for streamlining standards assessments and focusing on those principles most relevant to the country.

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[8] TA on regulation and supervision forms around 40 percent of the TA on financial sector issues. The Fund employs 18 full-time long term experts in these areas on the ground, across the globe in regional technical assistance centers as well as some member jurisdictions.

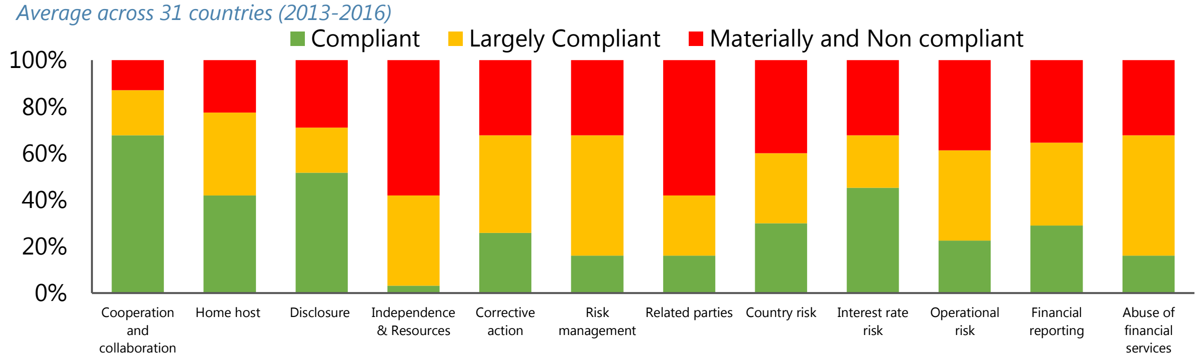
Box III.3. Cross-Country Experience with Compliance in Standards and Codes

Basel Core Principles

A look across BCP assessments reveals common strengths and key weaknesses across jurisdictions. A high degree of compliance has been observed in some areas, such as cooperation and collaboration between domestic and foreign authorities. But supervisory independence has often been inadequate, due to weak governance and institutional arrangements, as well as insufficient legal safeguards. Exposures to related parties is another common area of weakness, with supervisors failing to set appropriate definitions and upper limits, or failing to obtain the necessary information for strict enforcement, such as ultimate beneficial ownership. A high degree of compliance is observed in some risk categories—including credit and liquidity risk—but country and transfer risk remains challenging in many jurisdictions.

BCP Compliance

Average across 31 countries (2013-2016)

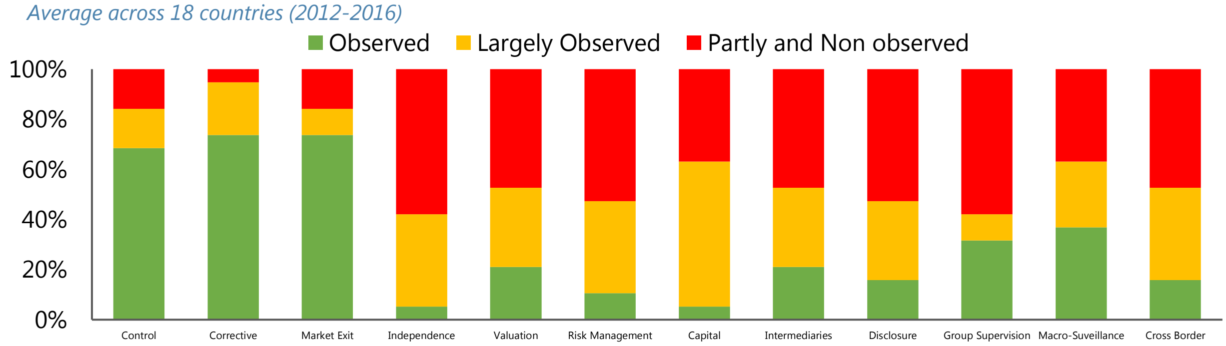


Insurance Core Principles

An analysis of ICP assessments demonstrates that compliance with the ICP has improved over time. Assessments continue to find material shortcomings in key prudential requirements such as group supervision, capital adequacy, disclosure, and crisis management. Compliance is generally stronger in advanced countries but even home supervisors of large and globally active insurers have been found to be materially non-compliant against key prudential requirements. Emerging market supervisors face even greater challenges, as detailed in the assessments, raising concerns about the oversight of rapidly growing markets. Lack of supervisory independence and resource constraints are areas of concern, and insurance supervisors face challenges in attracting and retaining staff with specialized skills, such as actuarial experience.

ICP Compliance

Average across 18 countries (2012-2016)



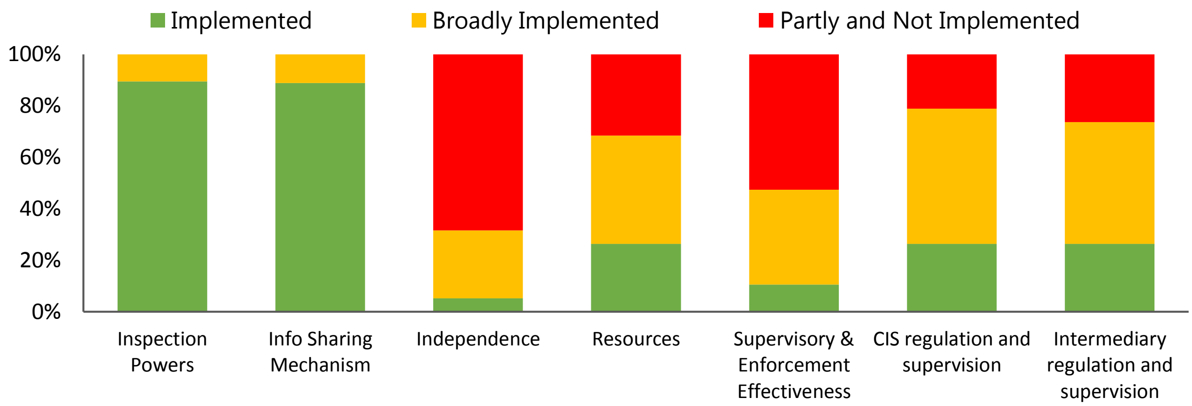
Box 3. Cross-Country Experience with Compliance in Standards and Codes (continued)

International Organization of Securities Commissions Principles

Overall, the level of implementation of the IOSCO Principles is reasonably good when assessing the content of regulatory requirements and powers available to the regulator. Notable gaps affecting both emerging and advanced economies have been identified in supervisory independence, adequacy of resources, and effectiveness of supervisory and enforcement programs. In general terms, low income countries fare significantly worse in the implementation of many of the Principles when compared to high and upper middle income jurisdictions.

IOSCO Compliance

Average across 19 countries (2012-2016)

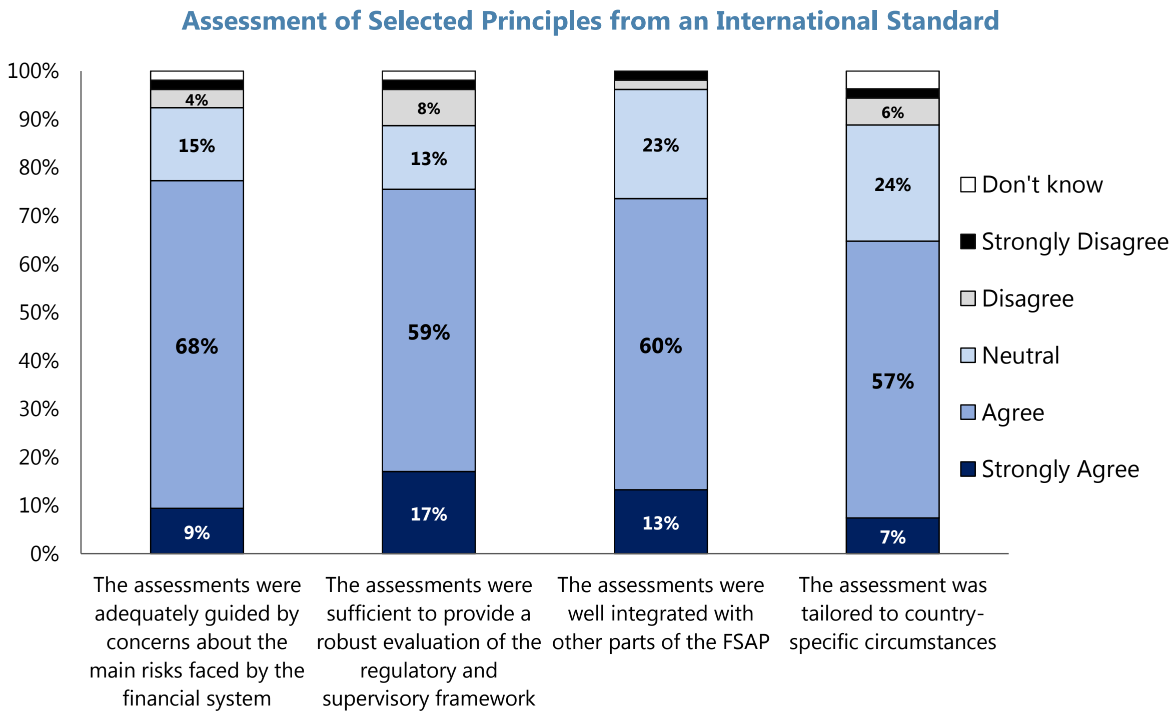


Principles for Financial Market Infrastructures

Findings show broad compliance with the PFMI. Weaker compliance is often found in newer areas of the PFMI, such as recovery planning of FMIs, the management of interdependencies, and the adoption of a holistic approach to risk management. With respect to the supervision and oversight of FMIs, FSAP findings show that authorities could improve their cooperation and coordination with foreign authorities in the supervision and crisis management of FMIs operating internationally. Finally, most FSAP reports recommend that authorities increase their staff resources dedicated to FMI supervision and oversight.

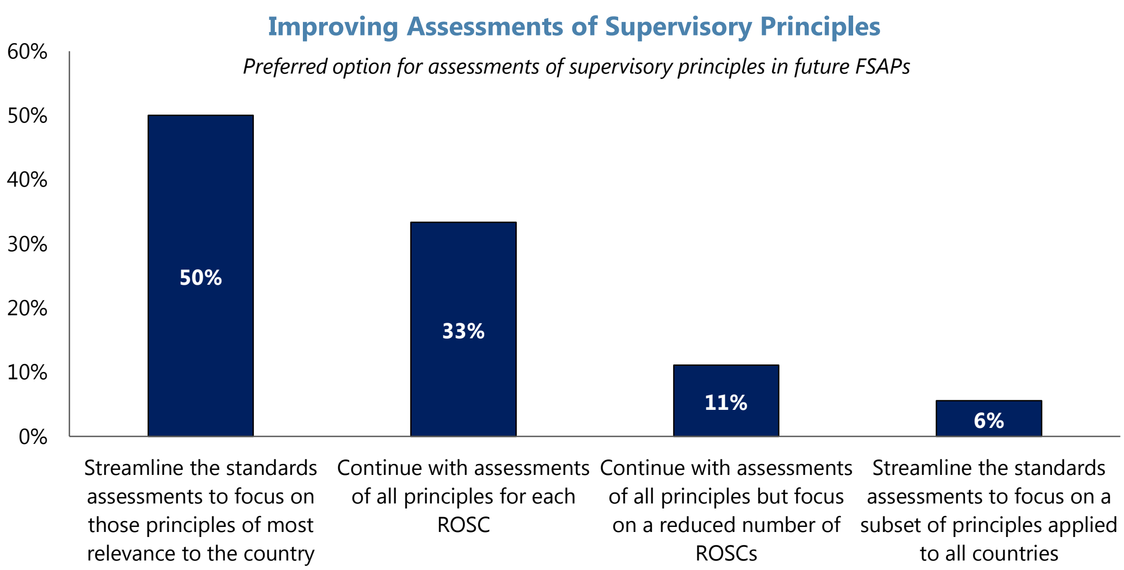
Figure III.3. Survey Results from the 2014 FSAP Review

Country authorities regard standards assessments favorably …



Source: FSAP Survey and IMF Staff Calculations

… while also acknowledging possible improvements going forward.



Source: FSAP Survey and IMF Staff Calculations

D. Concluding Observations and the Way Forward

26. Financial sector standards are an integral component of Fund's financial stability surveillance and technical assistance work. They are used extensively to evaluate and guide enhancements to financial sector institutional and oversight frameworks and are a key source of policy advice. Developed in international expert fora by well recognized Standard Setting Bodies (SSBs), these standards enjoy strong support among country authorities and carry credibility that lends effectiveness to the Fund's work.

27. Following the Global Financial Crisis (GFC), financial sector standards have been enhanced in coverage and depth, in some cases significantly. These improvements are welcome and have benefitted from Fund staff inputs and participation. The technical complexity of the financial sector standards has also increased. The implementation and assessment of these standards now require greater specialized skills, resources, and time.

28. Fund staff continue to use financial sector standards in carrying out full, detailed assessments of compliance as well as in focused analytical reviews. In a focused review, the financial sector standard is used as the basis for a deeper analysis of selected elements of the oversight framework for financial stability, adding flexibility to the way financial sector standards are used and helping to focus attention on priority risks. This multifaceted mode of using financial sector standards has been instrumental in supporting the Fund's work on financial surveillance while managing its other post crisis responsibilities.

29. Going forward, staff will continue to keep the standards up to date, including through ongoing cooperation with the SSBs. Staff will also continue to promote the implementation of financial sector standards. In addition, more formalized ways will continue to be developed to integrate outcomes based on standards with the Fund analysis of risks and vulnerabilities. Staff plans to assess the use of financial sector standards in the context of the FSAP Review planned for 2019. The review will report on the allocation of outputs across the membership, and will consider and report on whether there is scope for making modifications to standards assessments to improve the linkages to surveillance and integration with capacity development efforts. It also will assess the accessibility of standards assessments and, if necessary, make recommendations on how this can be improved going forward.

IV. ANTI-MONEY LAUNDERING AND COUNTERING THE FINANCING OF TERRORISM (AML/CFT)[1]

A. Background

1. This note is a background reference to the 2017 joint review of the standards and codes initiative (the initiative). It focuses on the international standard on combating money laundering and the financing of terrorism and proliferation (the AML/CFT standard) and the associated assessment methodology. The note provides background information on AML/CFT and the Fund's role in this context, explains the unique burden sharing arrangement with respect to AML/CFT assessments, and describes the main changes that have occurred since the initiative's last review in 2011, as well as the different Fund work streams that address AML/CFT issues. It also discusses some preliminary findings of the implementation of the current assessment methodology, and outlines some of the issues that may be discussed in the next review of the Fund's AML/CFT strategy.

Money Laundering and Terrorist Financing

2. Money laundering and terrorist financing[2] are both financial crimes with economic effects. They can threaten the integrity and stability of a country's financial sector or its external stability more generally. Effective AML/CFT regimes are essential to protect the integrity of markets and the global financial framework as they help mitigate factors that facilitate financial abuse. Action to prevent and combat money laundering and terrorist financing thus responds not only to a moral imperative, but also to an economic need.

3. For these reasons, the international community has made the fight against money laundering and terrorist financing a priority.

The Fund and AML/CFT

4. In response to a call from the international community, the Fund expanded its work in the area of AML in 2000, and to CFT in 2001. Since then, the Fund has been providing advice to its members on AML/CFT issues in a number of work streams (detailed below).

5. The Fund's Executive Board has reiterated the importance of AML/CFT on several occasions. Most recently, in March 2014, the IMF's Executive Board notably reviewed the Fund's

[1] Prepared by the Legal Department under the leadership of Nadim Kyriakos-Saad with contributions from Richard Lalonde and Nadine Schwarz (LEG). Further information on the Fund's AML/CFT program can be found here.

[2] Money laundering is a process by which the illicit source of assets obtained or generated by criminal activity is concealed to obscure the link between the funds and the original criminal activity. Terrorist financing involves the raising and processing of assets to supply terrorists with resources to pursue their activities. While these two phenomena differ in many ways, they often exploit the same vulnerabilities in financial systems that allow for an inappropriate level of anonymity and non-transparency in the execution of financial transactions.

AML/CFT strategy and gave strategic direction for the work ahead (see below). In May 2014, the Fund started the second five-year phase of a donor-supported trust fund that complements existing accounts financing AML/CFT capacity development activities in its member countries.

The AML/CFT Standard and the Financial Action Task Force (FATF)

6. The Financial Action Task Force (FATF) is an inter-governmental body established in 1989 by the Ministers of the G7. Its objectives are to set standards on AML/CFT and promote effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing, and other related threats to the integrity of the international financial system. It currently comprises 37 members[3] and a range of observers, including the IMF.

7. The FATF standard is multi-disciplinary and broad ranging. First issued in 1990, the FATF Recommendations (the AML/CFT standard) were revised in 1996, 2001, 2003, and most recently in 2012, and are intended to be of universal application. They cover a range of authorities and private sector professional. They focus on the necessary measures to prevent money laundering, terrorist financing, and to some extent, the financing of proliferation of weapons of mass destruction, and on ensuring that the authorities have the necessary tools to effectively combat money laundering and terrorist financing.

8. A key criterion for countries' membership in FATF is a commitment to undergo regular assessments against the FATF Recommendations. The FATF monitors the progress of its members in implementing the standard through mutual evaluation (peer reviews) and follow-up processes. It also reviews money laundering and terrorist financing trends and typologies, and promotes the adoption and implementation of AML/CFT measures globally, notably through its International Cooperation Review Group (ICRG).

The FATF Network

9. Nine FATF-style regional bodies (FSRBs) have been established.[4] Like the FATF, they conduct peer reviews of their members' level of compliance with the standard.

[3] Argentina, Australia, Austria, Belgium, Brazil, Canada, China, Denmark, the European Commission, Finland, France, Germany, Greece, the Gulf Cooperation Council, Hong Kong SAR, Iceland, India, Ireland, Italy, Japan, the Republic of Korea, Luxembourg, Malaysia, Mexico, the Kingdom of the Netherlands, New Zealand, Norway, Portugal, the Russian Federation, Singapore, South Africa, Spain, Sweden, Switzerland, Turkey, the U.K., and the U.S.

[4] The FSRBs are: the Asia/Pacific Group on Money Laundering (APG); the Caribbean Financial Action Task Force (CFATF); the Council of Europe Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL); the Eurasian Group (EAG); the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG); the Financial Action Task Force of Latin America (GAFILAT); the Inter-Governmental Action Group against Money Laundering in West Africa (GIABA); the Middle East and North Africa Financial Action Task Force (MENAFATF); and the Task Force on Money Laundering in Central Africa (GABAC).

10. Together, the membership of FATF and the FSRBs includes some 198 countries. Through this network, the vast majority of the Fund's membership has committed to implementing the FATF standard and undergoing regular mutual evaluations against that standard.

B. A Unique Burden Sharing Arrangement

11. In addition to the FATF and FSRBs, both the Fund and the World Bank also conduct assessments against the FATF standard, thus bringing the total number of AML/CFT assessor bodies to 12. All assessor bodies conduct their assessments on the basis of the same assessment methodology.

12. Arrangements are in place to share the assessment burden and avoid unnecessary duplication. Pursuant to these arrangements, assessments conducted by the FATF and FSRBs may generate IMF AML/CFT Reports on the Observance of Standards and Codes (ROSCs), and assessments conducted by the Fund/World Bank may be adopted as a FATF or FSRB mutual evaluation through the peer review process. AML/CFT ROSCs consist of the executive summary of the detailed assessment report (if prepared by Fund or Bank staff), or of the mutual evaluation report (if prepared by the FATF or FSRBs), supplemented, where relevant, by the authorities' response. The ROSCs that are produced by other assessor bodies are subject to a pro forma review by Fund staff. These burden sharing agreements have been in place since July 2002, when the Fund began its 12-month pilot program of AML/CFT assessments.

13. The burden sharing arrangements enable a significant leveraging of the Fund's resources. Since 2014, the Fund has a mandate to conduct two to three AML/CFT assessments per year – in practice, however, due to resource constraints, Fund staff conducts one to two assessments per year. The FATF and FSRBs conduct a total of 17 to 20 mutual evaluations per year, and it is anticipated that these numbers will increase to up to 25 evaluations per year. All of these evaluations may result in an IMF AML/CFT ROSC if the assessed country requests it.

14. The multiplicity of assessor bodies raised issues of quality and consistency of assessment reports, as well as coordination challenges. Concerns were notably raised in the past by the Fund Board with respect to the quality of some reports produced by some FSRBs under the previous round of assessments. These concerns led to the establishment of stronger review mechanisms by the FATF and FSRBs (described below). The coordination challenges, however, could not be addressed, mainly due (i) to the different planning horizons of the FATF/FSRBs mutual evaluation schedules and the FSAP schedule, and (ii) differing priorities under the FSAP and the mutual evaluations programs. As a result, the previous mandatory link between FSAPs and comprehensive AML/CFT assessments was replaced in March 2014 by a more flexible approach to the discussion of AML/CFT issues in the context of FSAPs, whereby Fund staff may derive key findings on AML/CFT from other available sources of information.

C. Changes Since 2011

15. Important changes occurred in 2012 and 2013, especially with respect to the content and modalities of AML/CFT assessments.

The 2012 FATF Recommendations

16. The 2012 review of the FATF Recommendations was driven by the need to ensure that the standard remained up-to-date and addressed relevant threats to the international financial system. It introduced an enhanced focus on the risk-based application of AML/CFT measures (i.e., the risk-based approach), strengthened parts of the previous standard (e.g., on transparency of legal persons and arrangements, inclusion of tax crimes as predicate offenses to ML, strong anti-corruption tools), and included measures to combat the financing of the proliferation of weapons of mass destruction.

The 2013 Methodology for Assessing Compliance with the FATF Recommendations and the Effectiveness of AML/CFT Systems

17. The 2013 methodology introduced a focus on the effectiveness of AML/CFT measures. Prior to 2013, AML/CFT assessments focused on the level of compliance of countries' laws, legal, regulatory and institutional framework with the standard (i.e., assessing technical compliance with the standard), and, to a limited extent, implementation. The 2013 assessment methodology added a new dimension, namely the systematic assessment of the effectiveness of national AML/CFT systems—to establish how well countries achieve the objectives set out in the methodology. This change was introduced to respond to concerns that, with most countries now having AML/CFT laws in place, there was a need to concentrate on an informed discussion of the effective implementation of the standard. Sound laws and regulations remain essential, and it is equally important that they are used effectively to deliver results to protect the financial system, detecting and helping to prevent money laundering and terrorist financing.

18. The 2013 assessment methodology therefore comprises two inter-linked components:

- The technical compliance component, which addresses the specific requirements of the FATF Recommendations, principally as they relate to the relevant legal and institutional framework and the powers and procedures of competent authorities. The level of compliance with each Recommendation is indicated with ratings (from Compliant to Non-compliant).

- The effectiveness component, which addresses the extent to which a country achieves a defined set of 11 outcomes that are central to a robust AML/CFT system. The effectiveness ratings range from High level of effectiveness to Low level of effectiveness. This component is now the main focus of AML/CFT assessments.

19. The new focus on effectiveness constitutes a fundamental change in the way assessments are conducted. It requires a greater understanding of the country's specific ML and TF risks, and of its general context—the results obtained by countries under each of the outcomes set out in the methodology are assessed against the backdrop of those risks and that context. The assessment of effectiveness, therefore, also entails a greater level of subjectivity than the assessment of technical compliance.

20. The 2013 methodology comprises two sets of ratings. There are four ratings for both technical and effectiveness compliance (Compliant / Largely Compliant /partially compliant /non-compliant (technical) and high / substantial/ moderate / low (level of effectiveness)).

Quality and Consistency Review

21. During the previous rounds of assessments, the IMF Executive Board, as well as the FATF, expressed concerns about the varying quality of assessment reports, especially those produced by some of the FSRBs. To address these concerns, the FATF strengthened the review mechanisms for assessments conducted under the 2013 methodology by requiring, in the universal procedures, that all assessor bodies must adhere to (i) a mandatory involvement of external reviewers (including, at a minimum, one reviewer from another assessor body) during the assessment, and (ii) an ex-post review that immediately follows the adoption by the FATF or FSRB of a mutual evaluation report and through which major quality and consistency problems may be raised (Global Quality and Consistency Review).

22. In line with the Executive Board's conclusion of the 2014 discussion of the Fund's AML/CFT strategy, Fund staff actively participates in the review mechanisms, as resources permit. Similarly, the Fund's draft assessments reports are reviewed by external reviewers, as well as by delegations to the FATF or relevant FSRB prior to being discussed and adopted by the relevant plenary as mutual evaluation reports.

2014 Review of the Fund's Strategy on AML/CFT

23. In March 2014, the Board reviewed the Fund's AML/CFT strategy. It notably (i) endorsed the revised FATF AML/CFT standard and assessment methodology, (ii) encouraged staff to continue its efforts to integrate financial integrity issues into its surveillance and in the context of Fund-supported programs, and (iii) decided that AML/CFT issues should continue to be addressed in all FSAPs albeit on a more flexible basis. It was also agreed that reports adopted by the FATF and FSRBs would continue to be converted into AML/CFT ROSCs following a pro forma review by staff. ROSCs essentially replicate the Executive Summary of reports published by the FATF, FSRBs, Fund and World Bank.[5] Directors reaffirmed the usefulness of AML/CFT ROSCs (whether based on a Fund-led assessment or on a FATF/FSRB mutual evaluation), and some mentioned that the membership remains interested in the issuance of an AML/CFT ROSC in addition to the publication of their respective assessment or mutual evaluation reports.

[5] See press release and board paper.

AML/CFT in Other Work Streams

Assessments

24. Fund staff conducts one to two AML/CFT assessments per year, mainly as part of its burden sharing with other assessors. As encouraged by the Executive Board in 2014, staff also participates in the review of the quality and consistency of FATF and FSRB reports. In determining what jurisdictions to assess, Fund staff generally focuses on jurisdictions with systemically important financial sectors or unique ML/TF risks. Through May 2017, Fund staff has completed, under the new methodology, the assessments of Italy and Canada, and is in the process of assessing Mexico and Colombia. Upcoming Fund-led assessments include China (2018) and Iran (2018/2019).

25. Fund policies allow for the possibility of targeted AML/CFT ROSCs based on the FATF/FSRBs fifth year follow-up assessments. The first follow-up assessments are planned to take place in 2019. The FATF is currently discussing the scope and modalities of these follow-up assessments to ensure that they remain feasible in light of the increased resources required by the assessment round (which, until all members have been assessed against the prevailing standard, will continue to run in parallel to the follow-up assessments).

FSAPs

26. Every FSAP must include an update on AML/CFT. Since April 2014, that input varies in depth and scope: While a comprehensive or targeted assessment against the prevailing standard is preferred, when such an assessment is not available, staff may derive key findings from other available material. It is therefore no longer necessary for every FSAP to be accompanied by a comprehensive AML/CFT assessment. As directed by the Executive Board, Fund staff provides AML/CFT input on a flexible basis: key findings are derived from a recent assessment against the 2012 standard, an analysis of written material provided by the authorities, or more in-depth discussions with the authorities of a selected number of AML/CFT issues reflected in a technical note.

Surveillance

27. Staff addresses financial integrity issues in Article IV consultations on a mandatory basis when they threaten a country's balance of payments, domestic stability, or the effective operation of the international monetary system. In this context, AML/CFT policy recommendations have been provided to address underlying financial integrity issues in recent Article IV discussions. In addition, even where domestic or balance of payments stability or global stability are not at risk, it is possible for staff and the member to agree to discuss these issues on a voluntary basis in the Article IV consultation. This has been the case in the 2016 Article IV consultations with the United States and the United Kingdom on correspondent banking and the transparency of legal persons and arrangements.

Fund-Supported Programs

28. Staff addresses financial integrity issues in Fund-supported programs when they are critical to financing assurances or to achieve program objectives. In this context, AML/CFT measures have been included as conditionality in recent Fund-supported program on issues such as corruption and terrorism financing, AML/CFT compliance, and corruption.

Capacity Development (CD)

29. Staff provides technical assistance and training on a range of AML/CFT issues. Most CD activities are funded by donor-supported accounts, mainly through the AML/CFT Topical Trust Fund (TTF), which was launched in 2009. A new five-year phase of the TTF started in May 2014. Donors (France, Japan, Luxembourg, the Netherlands, Norway, Qatar, Saudi Arabia, Switzerland, and the UK) pledged more than $27 million to support this second phase. The TTF complements existing accounts that finance the IMF's AML/CFT CD activities in member countries, bringing the number of countries assisted each year to over 30 and totaling over $6.5 million annually in direct technical assistance and training. Recently completed projects include the enhancement of the financial intelligence and risk-based supervisory capacity of Afghanistan (2013–2017), Nepal (2014-2017), and Mongolia (2014–2017).

Policy

30. Fund staff addresses AML/CFT issues when they are relevant to current key issues, such as the withdrawal of correspondent banking relationships,[6] Islamic financing,[7] and virtual currencies.[8]

D. Concluding Observations and the Way Forward

31. The next review of the AML/CFT program is expected in 2018. Staff will report on its AML/CFT program in all work streams, including assessments. The review will report on the allocation of outputs across the membership, and will consider and report on whether there is scope for making modifications to standards assessments to improve the linkages to surveillance and integration with capacity development efforts. It also will assess the accessibility of standards assessments and, if necessary, make recommendations on how this can be improved going forward.

32. The review will delve more deeply into experience with the 2013 assessment methodology. It is anticipated it will report on the number of assessments conducted by the Fund,

[6] This was notably the case in the context of a recent conference on the risks that the withdrawal of correspondent banks pose to the Caribbean, See also Staff's Discussion Note on The Withdrawal of Correspondent Banking Relationships: A Case for Policy Action.

[7] See for example Islamic financing.

[8] See for example Staff's Discussion Note reflecting initial considerations on virtual currencies.

Bank, and FATF network and main challenges faced by countries and assessors. It will also discuss the resources implications of the current methodology and of the enhanced review mechanisms.

33. While it is still early in this round, some preliminary conclusions can be drawn:

- **The new focus on the effectiveness of AML/CFT systems is a challenging but necessary change**. This change is welcome, as it ensures that AML/CFT assessments focus on the results obtained by countries in protecting their financial systems from abuse, and in preventing money laundering and terrorist financing. This new focus is useful for the assessed country, as well as the AML/CFT community at large. The new standard is also challenging due to requirements regarding transparency of legal persons and arrangements.
- **AML/CFT assessments now appear more useful, but are also more resource intensive**. This is due to the effectiveness component, which requires an in-depth understanding of the countries' ML/TF risks, and an assessment of the results of efforts to mitigate those risks. Assessed countries must provide assessors with appropriate information to demonstrate their effectiveness, and assessors must draw on expert judgement to evaluate the performance of countries considering their specific risks and context. The combination of the technical compliance and effectiveness components renders assessments resource intensive for all assessor bodies. FATF members recently decided to increase their minimum contribution of assessors and similar discussions may need to be held in the FSRBs.
- **Burden sharing arrangements among assessors ensures the Fund can leverage its assessment resources and avoid duplication of assessment efforts**. Evaluation reports prepared by FATF and the FSRBs may result in AML/CFT ROSCs, and Fund-led assessments are adopted by the FATF and FSRBs for their respective mutual evaluation programs.
- **While a detailed review of the quality and consistency of assessment reports from the current round has not been conducted, the strengthened review mechanisms appear to work.** They generate discussion and debate prior to the adoption of the reports, and in two cases, the publication of an FSRB report was pushed back while the assessors addressed the significant quality and consistency issues raised in the context of the ex-post review.
- **AML/CFT assessment reports—whether produced by the Fund or by other assessor bodies—continue to play an important role in the Fund's work.** While no longer a mandatory for all FSAPs, assessments continue to inform the discussions of AML/CFT in the FSAP and in several other work streams, including Fund surveillance, programs, and CD.
- **Experience with the modular approach will be forthcoming.** According to FATF guidance, countries should have a comprehensive assessment using the new methodology before a targeted approach is applied. Staff expect the second round of assessments to start in 2020.

V. ACCOUNTING AND AUDITING[1]

A. Introduction

1. This note describes the World Bank's Accounting and Auditing (A&A) ROSC program, which is led by teams from the Governance Global Practice within the Equitable Growth, Finance, and Institutions Vice-Presidency (EFI) of the World Bank Group. The note reviews the standards used in the assessment program, key changes following the global financial crisis (GFC), recent developments including the overhaul of the assessment methodology and the results of a survey of authorities.

Table V.1. Standard Setting Bodies and Standards[2]

Standard Setting Bodies	Standards
2016 Assessment Methodology Module A	
International Accounting Standards Board (IASB)	International Financial Reporting Standards (IFRS) IFRS for SMEs
International Auditing and Assurance Standards Board (IAASB)	International Standards on Auditing (ISA)
2016 Assessment Methodology Module B	
International Ethics Standards Board for Accountants (IESBA)	Code of Ethics for Professional Accountants
International Accounting Education Standards Board (IAESB)	Education Standards for Professional Accountants
International Forum of Independent Audit Regulators (IFIAR)	Core Principles for Independent Audit Regulators

B. The A&A Standards

2. High quality corporate financial reporting and robust A&A frameworks are critical elements underpinning corporate governance, financial market stability, and private sector development. Financial reports are prepared in accordance with internationally recognized financial reporting and auditing standards which are sound legal, regulatory, and quality assurances frameworks; and properly trained and supervised professional accountants and auditors help provide unbiased, transparent, and relevant information on the condition of businesses (including

[1] Prepared by the World Bank's Financial Markets Global Practice (F&M GP) unit under the supervision of Aurora Ferrari by an F&M GP team led by Mariano Cortes and comprising Henry Fortin, and Jael Billy (both Governance GP), and with contribution from Zsuzsa Munkacsi (IMF).

[2] Section D below presents Modules A and B referenced in this table as part of the revised A&A ROSC program assessment methodology.

financial intermediaries). Such reports support investors' and other market participants' resource allocation decisions, the development of financial markets, and the effective oversight of markets and financial intermediaries. They aid in cross-border markets integration because reports are prepared using the same standards. Furthermore, they are an essential input for the effective discharge of risks management and corporate governance functions for public and private sector firms.

3. Since the start of the standards and code initiative the World Bank has been tasked with assessing the extent to which local standards and practices in accounting and auditing meet international standards and best practices. Such assessments support adoption of the standards and inform World Bank financial and private sector development work. The A&A ROSC program initially focused almost exclusively on public interest entities (PIE),[3] benchmarking rules and practices for PIEs against the International Financial Reporting Standards (IFRS) and the International Standards on Auditing (ISA) (Table 1). Overtime the focus of the program widened taking a more development-oriented approach by also covering small and medium enterprises (SMEs) and state-owned enterprises (SOEs). These companies represent a significant portion of the economy in many partner countries.

4. The A&A program assessment methodology (AM) focuses on the enabling environment that underpins effective implementation of the standards, including the education and training of professional accountants and the overall enforcement framework, such as audit quality assurance mechanisms (Table 1). The AM inter-alia draws on the Code of Ethics for Professional Accountants issued by the IESBA on the work and conduct of accountants and auditors to benchmark countries. It also draws on the 2011 Core Principles for Independent Audit Regulators issued by the IFIAR to identify the most relevant issues for countries' quality assurance review frameworks, particularly for PIEs. As of September 2015, the number of jurisdictions that require listed companies and financial institutions to prepare IFRS-based financial statements has grown to 116. Another 14 jurisdictions permit the use of IFRS.

Changes following the Global Financial Crisis

5. The global financial crisis underscored shortcomings with fair value accounting and its application among other A&A-related matters.[4] For example, under U.S. accounting standards companies in the U.S. subprime mortgage market could report certain gains on loan securitization products using historical performance. This distorted risk-taking incentives and delayed recognition of impairments. In July 2009, the Financial Crisis Advisory Group (FCAG), convened at the behest of the IASB and the U.S. FSAB, put forward recommendations to address shortcomings and boost

[3] Public interest entities are defined by the nature of their business, their size, their number of employees, or their corporate status with a wide range of stakeholders. Examples of include credit institutions, insurance companies, investment firms, pension firms, listed companies, and other economically significant business entities.

[4] See for example "the 2008 FSB Enhancing Market and Institutional Resilience", at the policy level, and Kothari and Lester (2012) ("The Role of Accounting in the Financial Crisis: Lessons for the Future", Accounting Horizons: June 2012, Vol. 26, No. 2, pp. 335-351).

investor confidence. It also highlighted the need for global accounting standards to converge. The GFC also raised concerns regarding the effectiveness of corporate governance and the quality of financial and other information provided by companies. Investors called for greater transparency in auditing and the judgments underpinning auditors' pass/fail opinions.

6. The IASB and to a lesser extent IAASB have introduced significant changes to the standards since the GFC.

- The IASB took steps to improve accounting and reporting on financial instruments (e.g., derivatives, collateralized debt obligations), off-balance sheet items, and very recently insurance contracts. The IFRS revised standards regarding fair-value measurement, financial instruments, consolidated financial statements, revenue recognition, and leases. Regarding the standard setting process, the IASB revamped its international consultation process to foster transparency, providing opportunity for ample public consultation and comment. Follow up is supported by regular meetings of the IASB with interested parties.

- A revised accounting standard for SMEs will become effective in 2017. The SMEs standard is based on IFRS but requires substantially fewer disclosures. The need for simplified standards for SMEs is apparent given that 95 percent of private companies worldwide are SMEs and that preparing financial reports using high quality standards may improve access to credit. As of December 2016, IFRS for SMEs was required or permitted in 84 jurisdictions.

- IAASB sought to improve the structure and content of the auditor's report. To that end it revised standards on auditor reporting and introduced a new standard on communicating key audit matters (KAM). The KAM are those that the auditors judged to be the most significant during the audit of financial statements. Whereas previously such issues were brought to the attention of the Board of Directors or Audit Committee, they will now be made public for PIEs.

C. A&A Assessments

A&A ROSC Objectives

7. Assessment of A&A standards aims to help countries identify vulnerabilities, benchmark their policies, strengthen domestic institutions, and bolster policy frameworks and transparency. More broadly, A&A assessments aim to improve prospects for inclusive growth and development, as well as greater resilience to shocks by supporting better risk assessment and investment decisions.[5]

8. The A&A ROSCs are prepared in modular form with two main objectives:

- Analyzing the robustness of a country's legal and institutional framework in accounting and auditing, including: (i) assessing key differences between national accounting and auditing

[5] The quality of a country's A&A practices is relevant to the new Sustainable Development Goals (SDGs). For example, Goal 8 promotes inclusive and sustainable economic growth, employment and decent work for all, and Goal 9 promotes building resilient infrastructure, promote sustainable industrialization and foster innovation.

standards and international standards; (ii) gauging the quality of implementation and enforcement of applicable accounting and auditing requirements; and (iii) assessing strengths and weaknesses of the overall enabling environment, e.g., capacity of the accounting profession, quality of accounting education; and

- Assisting the country in developing and implementing reform plans based on the recommendations of the ROSC and improving institutional capacity to strengthen the country's financial reporting regime.

9. A&A assessments are conducted under the presumption that IFRS should be mandatory for PIEs. They also presume that a simplified financial reporting regime is in place for the small and medium size enterprises (SMEs).

10. Since its inception, the A&A ROSC program has emphasized the importance of adequate statutory frameworks, and the institutional framework supporting implementation and enforcement of standards.[6] Legal requirements for the preparation and disclosure of financial statements and regarding the appointment of statutory auditors are key foundations of a strong A&A framework. The lack of an effective mechanism to ensure compliance with established standards weakens the financial reporting environment, even when national standards conform with internationally recognized standards.[7]

11. A&A ROSCs are designed for a wide range of stakeholders. These include policymakers, regulatory authorities (e.g., financial sector supervisors), professional bodies that oversee the industry, educational institutions that train accountants and auditors, investment professionals, and credit rating agencies. A&A ROSCs also assist World Bank country management units and private and financial sector specialists who use the findings in technical assistance activities and as inputs into country-engagement documents. In lending operations, A&A ROSC recommendations have featured as triggers and prior actions. Overall, recommendations lead to many policy level reforms to strengthen financial architecture.

Country Participation

12. Since the A&A ROSC program was launched in 2000, 155 assessment reports have been prepared covering 119 countries. These include 118 initial assessments and 37 reassessments, and relate to countries of all income levels (Figure 1). Notwithstanding the IMF Executive Board's encouragement during the 2011 Review, only a few high-income countries have participated. The A&A ROSC program has a high publication rate. Of the 155 assessment reports, 141 were published and are available on the World Bank's ROSC website.

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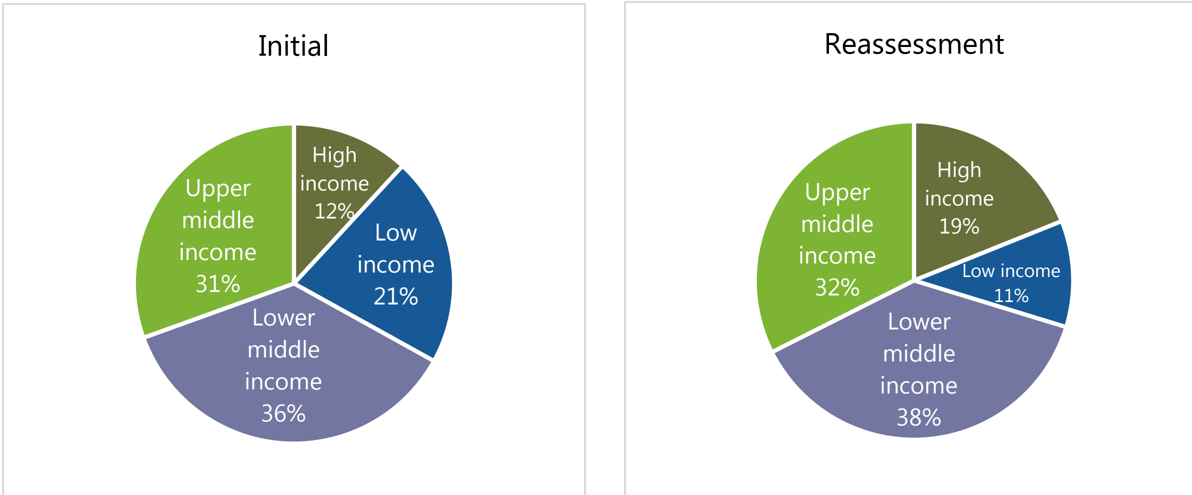
[6] The institutional framework includes (i) the legislative framework, (ii) accounting profession, (iii) accounting education and training, (iv) the A&A standard setting process, and (v) the arrangements for ensuring compliance.

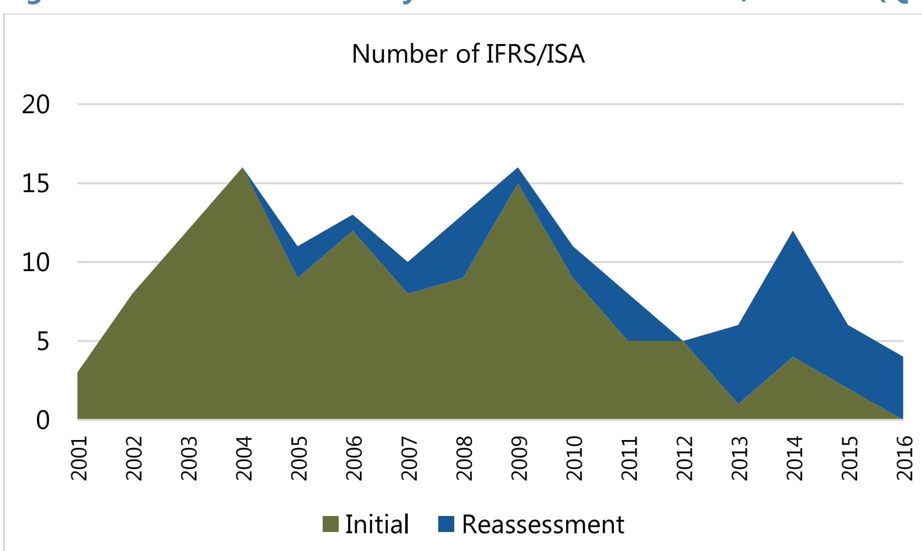
[7] By providing a snapshot of the A&A practices and its publication, the A&A ROSCs may exert pressure on stakeholders to implement reform.

Figure V.1. A&A ROSCs: Initial Assessment and Reassessments by Country Income



13. The annual number of assessments in the aftermath of the GFC has been on a declining trend (Figure 2). After reaching a peak of 16 assessments in 2009, the number declined despite the use of focused reviews of selected A&A issues. The decline in the number of assessments reflects that many countries had already undertaken an initial assessment before the GFC, the standards were being revised, and the budgetary reallocation within the World Bank.

Figure V.2. A&A ROSCs—Yearly Number of Assessments, 2000–16 (Q2)



14. To assist in the implementation of ROSC recommendations, the World Bank has supported countries' policy efforts to strengthen their A&A frameworks through TA. This has focused in particular on: (i) strengthening the institutional capacity of the government, regulators, professional organizations; (ii) developing A&A legislative frameworks; (iii) preparing detailed mappings of standards gaps and support to IFRS and ISA adoption; (iv) institutional strengthening for professional accountancy organizations; (v) aligning academic curricula for tertiary education institutions; (vi) capacity building in IFRS for financial regulators; and (vi) developing audit quality assurance and public oversight systems. While this follow-up assistance is much appreciated by countries mobilizing sufficient funding has been an important challenge for the program especially for middle-income countries.[8]

15. The A&A ROSC program has been a springboard for the development of several regional knowledge programs on corporate financial reporting. One of these is the CReCER conference, launched in 2007, which provides a platform for Latin American and Caribbean policymakers, regulators and practitioners to review current international and regional trends in A&A. In Europe and Central Asia, the "Road to Europe Program of Accounting Reform and Institutional Strengthening" (REPARIS) has supported reforms and capacity development in A&A through a combination of knowledge sharing, peer learning and country-level TA interventions. In Sub-Saharan Africa, the Bank has supported seventeen Francophone-area countries in their efforts to modernize their financial reporting and adopt IFRS in the context of the Organization for the Harmonization of Company Law in Africa ("OHADA").

Results of a Survey

16. Staff asked 101 authorities in 31 countries to participate in the survey, including most of the countries that had undergone an assessment since the 2011 Review of the Initiative. Two-thirds of the countries and one third of the authorities responded to the survey. Questions covered the quality of the assessment, the efficiency of the assessment process, and its impact. Respondents were asked to select the extent of agreement/satisfaction with various statements for each question of the survey.

17. Survey results indicated that country authorities generally have a positive view of the A&A ROSC and technical note program, and its impact on their A&A framework (Figures 3-8):

Quality

- Almost all respondents agreed that the A&A ROSC reports were clear, well-structured, comprehensive and written at an appropriate level for technical and non-technical audiences;
- Most respondents agreed that the ROSCs and TNs highlighted the most relevant issues and presented them in an accurate and balanced manner;
- Most respondents were satisfied with the overall assessment, conclusions, and various components of the assessments;

[8] This was not always the case. In 2009, the OPCS Department carried out a survey covering the 62 countries for which an A&A ROSC had been completed, which found that 65 percent of the countries had received follow-on support from the Bank. Funding was provided by the Bank's Institutional Development Fund, the FIRST Initiative, and other trust fund- or Bank-funded programs.

- All respondents were satisfied with the results in general; and
- A majority of respondents agreed to undertake a reassessment or update to assess progress, and an even higher share considered that a TN covering specific topics would be beneficial. The primary reason for not agreeing to a reassessment was that reforms were still being implemented.

Process

- A large majority of respondents agreed that key stakeholders were actively engaged and participation was broad. Further, a majority agreed that communication with the World Bank team was adequate, sufficient time was provided for comments and suggestions, and the assessment was completed in a timely manner.
- A small minority reported that more time was needed for the process, and a few raised concerns about resource demands associated with the assessment.

Impact

- Large majority of the respondents agreed the priorities and policy recommendations in the ROSCs and technical notes were relevant and tailored to country circumstances. In addition, most of the survey participants reported implementation support was available.
- Respondents were, however, less enthusiastic regarding the impact of the ROSC on establishing priorities for policy actions and reforms, and enhancement of education, the audit quality system, and oversight. [9]

[9] While the share of respondents that were at least satisfied with the aspects of the review covered in the first two sentences ranged between 75 and 90 percent, that share drops to between 60 and 70 percent for the rest of the issues. Furthermore, those respondents that were not in agreement with the survey statements were driven by issues of inadequate follow-up resource support, inaction by professional bodies, and reforms that were already ongoing at the time of the assessment.

Figure V.3. Structure

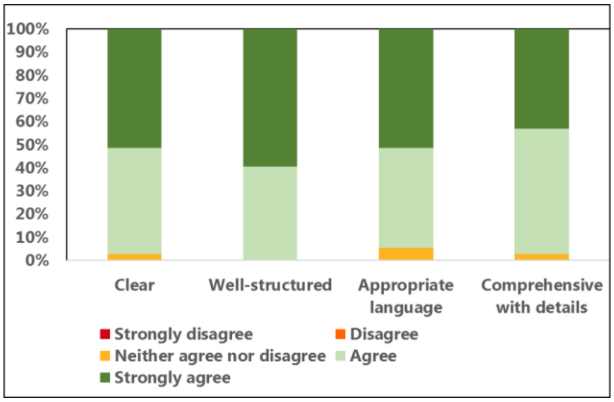


Figure V.4. Presentation

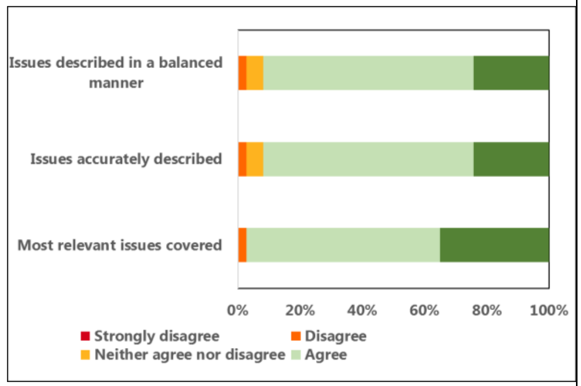


Figure V.5. Topics

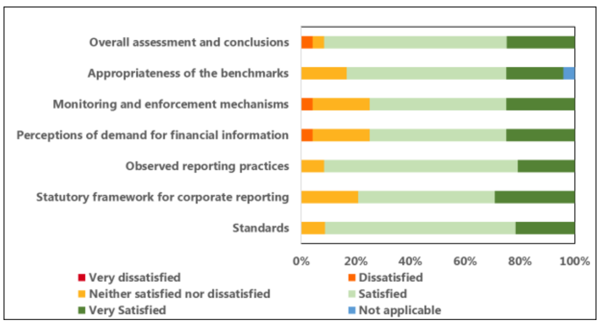


Figure V.6. Process

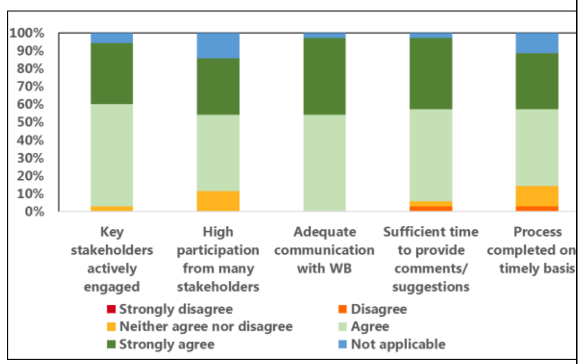


Figure V.7. Impact

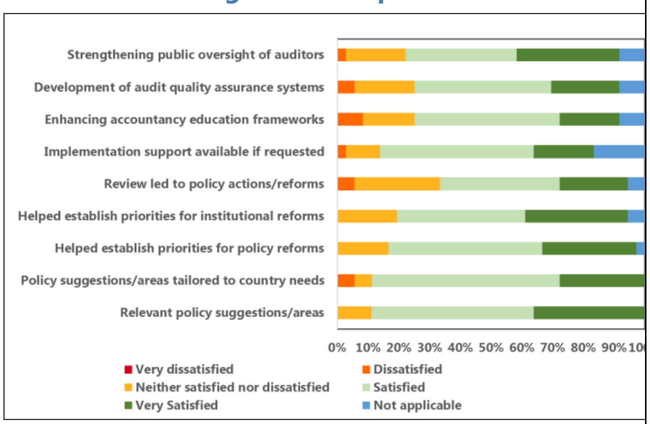
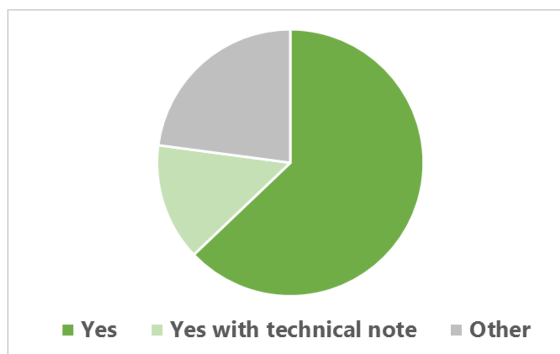


Figure V.8. Repeat?



D. Recent Reforms to the A&A ROSC Program

18. After fifteen years, a wealth of experience has been accumulated regarding critical dimensions of countries' A&A frameworks and the assessment methodology. Over time, application of the AM became more ad-hoc. The AM had very limited flexibility in country application. For example, the AM questionnaire required a range of information and level of detail that was not relevant to countries at an early stage of A&A framework development. This unnecessarily taxed the authorities' resources. Assessment teams sought to overcome such rigidities by carving out sections of the AM not deemed relevant to country circumstances. At the same time, some teams developed and used ad-hoc questionnaires covering accountancy education and perceptions of the demand for financial reporting for some (but not all) countries. Such ad hoc approaches reduced cross country consistency.

19. As it had not been updated, the AM did not assess some key elements of a modern corporate financial reporting framework which had evolved since 2001, when the S&C initiative was launched. For example, the issue of quality assurance and public oversight of the audit profession evolved significantly (e.g., IFIAR was founded in 2006); IFRS for SMEs were introduced in 2009.

20. In addition, the World Bank changed the way it allocates resources for the ROSC program. In the past, ROSCs were funded with earmarked resources over which assessment teams and program managers had direct control. As a result of recent budget restructuring of the World Bank, funding now comes from country engagement budgets, and assessment decisions are subject to wider considerations. This shift offers the opportunity to more seamlessly integrate the A&A ROSCs findings and output into World Bank country work, but there is less certainty that resources are available for ROSCs.

21. These developments provided an impetus for a substantial review of the AM, which was introduced in 2016. The revisions to the AM seek to address issues noted above by revising questionnaires to reflect current international standards and good practices and the implementation guidelines for assessors. The guidelines seek to sharpen the materiality of the findings, provide flexibility within modules, and ensure consistency and cross country comparability.

22. The 2016 AM tool comprises three modules:

- **Module A** (*Accounting and Auditing Standards*) seeks to document significant differences between IFRS/ISA and national standards and encourages assessors to focus on key standards/areas where differences are more likely to arise;

- **Module B** (*Institutional Framework for Corporate Financial Reporting*) has nine thematic sub-modules covering the key components of a country's A&A framework (commercial enterprises, including SMEs; listed companies; PSCs, banks; insurance; accountancy profession; accountancy education; audit regulation, quality assurance and public oversight; accounting standard-setting; and auditing standard-setting).

- **Module C** (*Observed Reporting Practices and Perceptions*) aims to gauge the quality of corporate financial information that is produced in the jurisdiction. It surveys perceptions of the demand for and quality of financial information from users of financial statements. The module also includes a review of the quality of a sample of financial statements prepared by companies, as well as an analysis of reports from financial sector, audit and other regulators. It comprises three sub-modules (a review of financial statements; a review of regulatory findings; and a survey of perceptions).

23. The modular approach and guidelines introduced by the 2016 AM are expected to:

- Sharpen the focus of assessments on the most relevant areas and help provide country authorities with concrete suggestions for improving the overall corporate financial reporting framework;

- Right-size the assessments, as they would include only those sub-modules that are relevant to country's A&A framework. For example, if there is no active securities market, then assessors would not cover the sub-module for listed companies. In the case of updates, the modular approach also allows teams to apply only those modules where changes have occurred since the previous assessment;

- Focus more systematically and comprehensively on actual implementation of standards in Module C, with two new sources of evidence complementing the teams' review of a sample of financial statements;

- Better support the value-added, while reducing the costs of A&A assessments for both country stakeholders and the World Bank; and

- Foster consistency among World Bank assessment teams

E. Concluding Observations and the Way Forward

24. The World Bank will seek to continue improving implementation of the A&A ROSC program including by developing a suite of performance indicators as a complement to the recently revised A&A diagnostic tool. These indicators would provide a snapshot of a country's position with respect to corporate financial reporting frameworks and an objective way to measure and track progress.[10] The World Bank will continue to support the implementation of the 2016 AM and update/introduce new modules as needed, provided that funding is made available. For example, to assess the capacity of a country's standard setters to address financial reporting challenges arising from emerging trends, such as financial reporting for Islamic Finance.

25. As discussed in the main report, the World Bank plans to adopt a new mechanism to review developments for standards that it assesses, including A&A. The review will report on

[10]Some survey participants raised concerns about the adequacy of tracking progress and impact which could be addressed by those indicators.

the allocation of outputs across the membership, and will consider and report on whether there is scope for making modifications to standard assessments to improve the linkages to surveillance and integration with capacity development efforts. It also will assess the accessibility of standards assessments and, if necessary, make recommendations on how this can be improved going forward. Other issues that may arise include:

- An overview of future changes in the standards;
- How countries are progressing based on summary of scores, key weaknesses, and areas of improvement;
- Assessment issues, such as integration of the results with FSAPs and other ROSC modules and evaluation of A&A ROSCs based on surveys of stakeholders and Bank staff; and
- The design and implementation of a stand-alone diagnostic toolkit for “mini” or “quick” ROSCs, including for low income countries where the institutional framework for A&A is generally much less developed.

VI. CORPORATE GOVERNANCE[1]

A. Description of the Code and Methodology

1. Corporate governance (CG) refers to the structures and processes for the direction and control of companies. It concerns the relationships among the management, the board of directors, the controlling and minority shareholders, and other stakeholders. Over the past ten years, and especially since the global financial crisis, energy and attention has been focused on improving the ability of boards, managers, and owners to prudently steer their companies through rapidly changing and volatile market conditions.

2. A large body of academic evidence attests to the benefits of good corporate governance, including higher valuation, better access to finance, and lower cost of capital.[2] Corporate governance also directly impacts financial stability; the IMF's October 2016 Global Financial Stability Report (GFSR) finds that improvements in corporate governance make emerging markets more resilient to financial downturns and foster deeper and more liquid capital markets, which allow them to absorb shocks better.[3] More robust corporate governance also enhances stock market efficiency, by making equity prices less sensitive to external shocks and less prone to crashes. Poorly-governed firms experience sharper declines in their stock prices when financial markets are in turmoil. The GFSR finds that moving from the lower to the upper end of the firm-level governance index reduces the impact of global shocks by an average of 50 percent for emerging-market firms. Emerging markets with better corporate governance and investor protection generally have stronger corporate balance sheets. And better-governed firms typically have lower short-term debt ratios and default probabilities and can borrow at longer maturities.

3. The OECD Principles are the recognized international benchmark for corporate governance, and for corporate governance ROSCs.[4] The Principles are "intended to help policymakers evaluate and improve the legal, regulatory, and institutional framework for corporate governance, with a view to support economic efficiency, sustainable growth and financial stability." They focus on publicly traded (listed) companies, both financial and non-financial. The Principles are presented in six chapters: i) ensuring the basis for an effective corporate governance framework; ii) the rights and equitable treatment of shareholders and key ownership functions; iii) institutional investors, stock markets, and other intermediaries; iv) the role of stakeholders; v) disclosure and

[1] Prepared by the World Bank's Financial Markets Global Practice (F&M GP) unit under the supervision of Aurora Ferrari by an F&M GP team led by Mariano Cortes and comprising Alexander S. Berg.

[2] For a review of recent literature and a summary on the impact of corporate governance on development, see Corporate Governance and Development— An Update, Global Corporate Governance Forum, 2012.

[3] Chapter on corporate governance in the IMF's October 2016 GFSR.

[4] The OECD also produces separate standards for state-owned enterprises (OECD Guidelines on Corporate Governance of State-Owned Enterprises). State-owned enterprise corporate governance is sometimes discussed in specific ROSCs, but all benchmarking is carried out using private sector standards.

transparency; and vi) the responsibilities of the board. The Principles also serve as the basis for the guidelines on corporate governance for banks issued by the Basel Committee on Banking Supervision and the OECD Guidelines on Insurer and Pension Fund Governance[5] and for insurance companies under the Insurance Core Principles issued by the IAIS.

4. The Bank's corporate governance S&C work focuses on listed companies and benchmarks against the recognized international standards. It has been mainstreamed in a wide range of World Bank activities, such as assessment of and technical assistance for private or state-owned companies, financial institutions, and other enterprises. In addition, the World Bank's Doing Business indicators benchmark corporate governance for more than 180 countries.

5. The Corporate Governance Committee of the OECD, which is responsible for the Principles, includes representatives from all OECD member countries, as well as "enhanced engagement" countries (e.g., Brazil, South Africa, or Indonesia). As an observer on the committee, the World Bank comments on documents, and participates in revisions to the Principles and the assessment methodology. The Bank also cooperates with the OECD on corporate governance matters in general, including the Global Corporate Governance Forum, the OECD's regional corporate governance roundtables, and the FSB's 2016 Thematic Review of Corporate Governance.

B. Changes in the Code and Assessment Methodology Since 2011

6. The Principles were issued in 1999, revised in 2004, and again in 2015. The 2015 revisions included a new chapter on the role of shareholders (especially institutional investors). The revisions were more evolutionary than revolutionary; significant reorganization resulted in improved clarity and focus. In a few areas (related party transactions, board evaluations, and board training) the revisions focused on key topics important for emerging market countries (see Table 1).

7. The revisions also incorporated lessons from the GFC, based on the OECD's 2009 report on Corporate Governance and the Financial Crisis. The main finding was that the crisis highlighted the need for an increased focus on governance, namely, "… the financial crisis can be to an important extent attributed to failures and weaknesses in corporate governance arrangements … when they were put to a test, corporate governance routines did not serve their purpose to safeguard against excessive risk taking in a number of financial services companies". The key issues identified in the report included: (i) effective implementation of risk governance and management, (ii) governance of the management remuneration process, (iii) board practices, including board evaluation and training, and (iv) the role of institutional investors.

[5] See OECD Guidelines on Insurer Governance, OECD, 2011, and OECD Guidelines for Pension Fund Governance, OECD, 2009.

Table VI.1. 2015 Revisions to the OECD Principles of Corporate Governance	
Chapter	**Key Changes**
Effective corporate governance framework	• More emphasis on the importance of public, independent supervision and enforcement; • More emphasis on governance of regulators; • More focus on role of stock exchanges, noting conflicts of interest between profit maximization of exchanges and supervision and enforcement in the market; • Additional guidance on corporate governance impact of cross-border listed entities.
Rights and equitable treatment of shareholders and key ownership functions	• Merger of two previous chapters; • New principle on related-party transactions; • More transparency of ultimate beneficial ownership.
Institutional investors, stock markets, and other intermediaries	• New chapter to emphasize the role of institutional investors and stock markets in corporate governance; • Guidance is included on the role of proxy advisers and asset managers in corporate governance—a better approach for global application, including new focus on fee structures, conflicts of interest; • Other issues—multiple stock market listings, cross-border impacts, and the application of corporate governance rules.
Role of stakeholders in corporate governance	• Remained largely unchanged.
Disclosure and transparency	• Recognition of increased importance of nonfinancial reporting; • Disclosure of related-party transactions; • Clarity about the responsibilities of chairperson versus CEO; • More mention of independent audit regulators, high-quality audits, and audit oversight.
Responsibilities of the board	• Specifies requirement for boards to undertake periodic self-evaluations; • Clarifies requirement for board training and development; • All committees not recommended for all companies, such as risk.

Changes in the Assessment Methodology

9. **Like the other standard setters, the Corporate Governance Committee has developed an assessment methodology that, together with the standards, forms the basis for voluntary assessments undertaken by the Bank.** The Methodology for Assessing the Implementation of the OECD Principles of Corporate Governance was first issued in 2007. Following revisions of the OECD

Principles in 2015, and their endorsement by the G20, the OECD updated the assessment methodology in 2016.

10. The World Bank played a major role in drafting and revising the original methodology. World Bank comments included: (i) highlighting elements that required improvement, (ii) requesting clarifications, and (iii) identifying elements that could be overly complex.

11. In 2016, the FSB organized a peer review of its members to take stock of how they apply the Principles to publicly listed financial institutions (e.g., banks, insurers, asset managers, or financial holding companies) and to identify effective practices and gaps. The peer review also influenced the update of the assessment methodology and governance-related aspects of the FSB's work. Lastly, the peer review helped identify areas of follow-up or where more work could be undertaken to promote effective governance within financial institutions. The World Bank participated and a report was issued in April 2017.

Experience with Implementation and Practical Considerations

12. The CG ROSC program is the World Bank's main product for assessing CG frameworks for listed companies. The goals are to: (i) benchmark corporate governance frameworks against international standards, (ii) identify strengths and weaknesses in CG frameworks and current practices, (iii) recommend policies and foster policy dialogue, and (iv) inform markets (especially international investors).

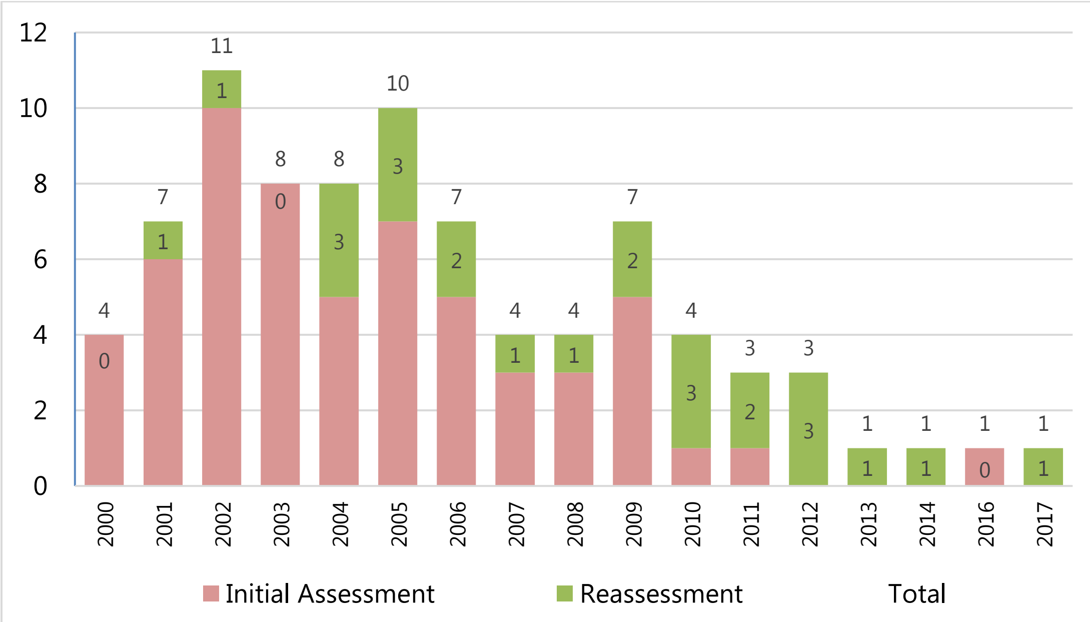
13. The audience for reports has been corporate governance policymakers, especially securities market regulators. However, evidence suggests that the reports are also useful to the private sector, international investors, information vendors (especially proxy service firms), academics, and World Bank teams delivering technical assistance. In several instances, CG ROSCs have been used to monitor and evaluate frameworks for IFC advisory services projects.

14. The CG ROSC program was launched in 2000. As of today, a total of 84 ROSCs have been undertaken in 59 countries, including 25 reassessments (Figure 1). Since 2011, 10 reports have been completed (including a reassessment underway in Pakistan).[6] The demand for reassessments has remained strong, especially in middle income countries considering reforms. Demand for new assessments has been less, as most countries with active capital markets have been assessed.

15. The World Bank's ability to respond to country requests has been significantly constrained recently. The number of CG ROSCs has declined due to: (i) changes in the assessment methodology that increased the resources needed to complete an assessment, (ii) prioritizing implementation over new diagnostics, (iii) reducing the number of staff able to complete a CG ROSC, and (iv) elimination of central budgetary support for the CG ROSC program.

[6] El Salvador, Ghana, Mauritius, Brazil, Malaysia, Thailand, Russian Federation, Vietnam, Cote d'Ivoire, and Pakistan (underway).

Figure VI.1. CG ROSCs Completed Since 2000



16. CG ROSCs are carried out at the invitation of country authorities and most are published. In about a quarter of cases, the CG ROSC was part of an FSAP. The CG ROSC is published separately, with the conclusions usually included in the FSAP. Of the 84 completed reports, 72 have been published and the proportion has increased over time.

17. The CG assessment methodology includes three key tools: (i) an international benchmark (the OECD Principles) and its assessment methodology, (ii) a detailed questionnaire on the country framework and practices for corporate governance (now called the "Detailed Country Assessment" (DCA)), and (iii) a standard report. The DCA collects basic information and serves as a "calculator" to score each of the OECD Principles. Given the complexity of the DCA, the World Bank usually engages a local consultant to assist with drafting and whose local knowledge is essential.

18. For each of the 70 Principles, the ROSCs present an implementation score (from 0-100) and a summary assessment ("fully implemented", "broadly implemented", "partially implemented," or "not implemented"). The implementation scores are used to give a broad picture of a country's implementation of the Principles, and to make cross-country comparisons. Reassessments can be used to measure progress over time.

19. The CG ROSC program traditionally applied the methodology to a wide variety of countries without much tailoring. For some small countries with limited capital markets, this resulted in inappropriately complex reports and limited impact. As part of recent reforms, the World Bank only carries out CG ROSCs for countries with large capital markets and sophisticated corporate governance frameworks. Other tools (which are not considered ROSCs) have been developed for smaller countries.

20. Over time, CG ROSCs have increased in length, scope, and cost, while the number of ROSCs per year has declined. For example, reports increased in length from an average of five pages in 2000–01, to 15 pages in 2001–05, to 15 pages with a 30-40-page annex in 2005–09, to a 60-80-page report plus published DCA since 2009.

Figure VI.2. Evolution of the CG ROSC Methodology Over Time

Version 1: Pilots — ~ 50k

- 2000 (10 reports)
- 5 pages
- No template
- No Benchmarking
- 10 per year

Version 2: Basic ROSC — ~ 60k

- 2001-2005 (~40 reports)
- Initial "template" questionnaire for local consultant
- 15 pages (maximum)
- Benchmarking of 32 high-level principles
- 10 per year

Version 3: Enhanced with annex — ~ 100k

- 2005-2009 (~20 reports)
- Improved template
- 5-10 page main report plus 30-40 page annex
- Benchmarking of 64 high-level principles
- Annex captures much more of template (in one document)
- 5 per year

Version 4: ROSC plus Detailed Country Assessment — ~ 150k

- 2010-present (12 reports)
- Template now "living" as DCA (intended as database)
- 60-80 page main report with cross-country tables
- Benchmarking of 64 high-level principles (calculated in DCA)
- 3-4 per year

21. Standard setters and assessors continue to reflect on the value of benchmarking. Under the current approach, assigning ratings to approximately 500 questions drives much of the complexity of the DCA and increases the time required to carry out the work and review the report with counterparts. ROSCs under some standards (e.g., the B-ROSCs, A&A, and ICR) do not give ratings. As the OECD Principles were not designed for diagnostic work, they are not conducive to benchmarking. For example, principles are not equally important, although they are given equal weight. And some countries (especially lower, and lower-middle income countries) express little interest in benchmarking and do not pay much attention to it.

22. However, there are also strong arguments for continuing to benchmark. It usefully summarizes the overall framework and allows cross-country comparisons. Advanced countries expect benchmarking and pay close attention to the results.

23. The World Bank traditionally centralized both financial and human resources for CG ROSCs. ROSCs were drafted by a dedicated team of around five staff. However, for the past five years ROSCs have been financed by countries or trust funds, which has reduced demand. In addition, the CG team has been reduced to three staff, while its responsibilities have expanded beyond ROSCs to a variety of advisory and operational work on other types of companies (especially financial institutions and state-owned enterprises).

24. As shown in Figure 2, the resources required to complete a CG ROSC has increased several fold. For a major middle income country, ROSCs cost upwards of $150,000. The combination of a decline in budget resources, reduction in available staff, and increase in costs of compiling a ROSC has resulted in a significant reduction in the annual number of ROSCs produced.

Reforms in CG ROSCs: Country Focus, Methodology, and Benchmarking

25. In 2016, the World Bank CG team made significant changes to the assessment methodology including: (i) country focus, (ii) methodology, and (iii) benchmarking. The revised approach is now being piloted as part of an assessment in Pakistan. In line with limited resources, the AM has also been tailored to the size and sophistication of the country. For purposes of determining the appropriate CG intervention, countries have been placed into one of three tiers (see Table VI. 2). It is expected that this tailoring will lead to assessments having greater impact while being more closely tied to other World Bank country activities.

26. In addition to tiering, the World Bank has refocused the CG ROSC to better integrate with existing advisory services projects. The overall goal is to build a robust CG practice across the World Bank that leverages and is highly linked to other interventions. The highest priority for CG ROSC diagnostics will, therefore, be Tier 2 countries with existing advisory and technical assistance programs, and where significant outside funding is available. The second priority will be strategic work in Tier 1 countries where corporate governance issues are an important policy concern. The third priority will be Tier 3 countries. In each case, a differentiated report will be produced that responds to the needs of the country.

27. Other revisions to the World Bank's assessment methodology are: (i) incorporating the 2015 revisions to the CG Principles, (ii) streamlining DCAs and the benchmarking process to lower costs and the burden for assessors, and (iii) shortening and simplifying the presentation of the standard report format. To streamline DCAs, the total number of questions for Tier 1 and Tier 2 countries has been reduced to about 500 questions (from more than 700). For Tier 3 countries, the World Bank has developed a simplified DCA with about 115 questions that focus on company law reforms.

28. The revised methodology also introduces differentiated benchmarking by tier. For Tier 1 countries, assessments will continue to benchmark but use data from the simplified DCA. This will streamline assessments at the expense of deviating somewhat from the OECD methodology. For Tier 2 countries, benchmarking will be optional based on a discussion between the assessment team and their counterparts. The World Bank will only collect data and complete the DCA for principles addressed in the main report and will not benchmark against the optional principles. For Tier 3 countries, the World Bank will not benchmark but will provide extensive examples on how CG issues are regulated in different countries.

Table VI.2. CG ROSC Goals and Approach by Country Tier

	CG ROSC Goals	CG ROSC Approach
Tier 1 countries: These countries have relatively deep and well developed equity markets and legal and regulatory frameworks of corporate governance, and typically include the largest emerging market economies.	In these markets, corporate governance remains an important Priority for governments; however, the World Bank Group has no specific programs to support corporate governance reforms. As a result, the key interventions in these countries will probably continue to be the comprehensive, public, standardized CG ROSC. Countries or donors will have to contribute financially to defray the costs of this work (e.g., through RAS or EFO agreements). There is not necessarily any expectation of follow-up technical assistance or a country action plan (although they can be put in place in special situations).	The original goals of the ROSC program remain relevant and the overall approach remains the same: • Benchmark the local framework against international standards, • Develop policy recommendations, • Hold policy dialogue on CG. • Garner good CG practices for other country tiers.
Tier 2 countries: These countries have equity markets and the basic regulatory framework of corporate governance. However, their markets are smaller and less sophisticated than in Tier 1 countries.	These countries will more often be the focus of WBG capital markets or corporate governance technical assistance programs, and significant outside funding will often be available. The CG ROSC program will develop detailed policy recommendations and country action plans, and will help support implementation through follow-up advisory work.	CG ROSCs will be carried out as a part of an on-going WB/IFC capital markets/corporate governance program. The approach in these cases goes beyond policy dialog and recommendations, to the development of a country action plan and ongoing reform implementation support. The CG ROSC can also serve as a monitoring and evaluation tool for long-term programmatic interventions.
Tier 3 countries: These countries generally do not have an equity market and in many instances, lack the basic regulatory framework of corporate governance.	Interventions will focus on technical notes to improve the corporate governance legal and regulatory framework, and participation in thematic workshops to raise awareness of the importance of good corporate governance. Implementation support to introduce international standards can also be provided to the extent that funding is available.	A CG ROSC will generally not be carried out in these countries. The approach instead is to provide high-level recommendations to improve the basic corporate governance framework, generally in the area of company and securities law reforms and to raise awareness of the importance of corporate governance over the long term. In addition, technical notes will provide targeted, confidential advice to client country governments in specific policy areas.

C. Concluding Observations and the Way Forward

29. A review of the CG program will report on the allocation of outputs across the membership, and will consider and report on whether there is scope for making modifications to standard assessments to improve the linkages to surveillance and integration with capacity development efforts. It also will assess the accessibility of standards assessments and, if necessary, make recommendations on how this can be improved going forward. Additionally, it could cover the: (i) impact of previous assessments, (ii) experience with the revised 2017 assessment methodology, the tiered approach, and informal assessments and TNs, (iii) integration of CG ROSC capacity building and TA projects with other World Bank operations; (iv) collaboration on standards with the OECD; and (v) other challenges, such as budgetary and staffing issues and the demand for assessments.

VII. INSOLVENCY AND CREDITOR RIGHTS[1]

A. Background

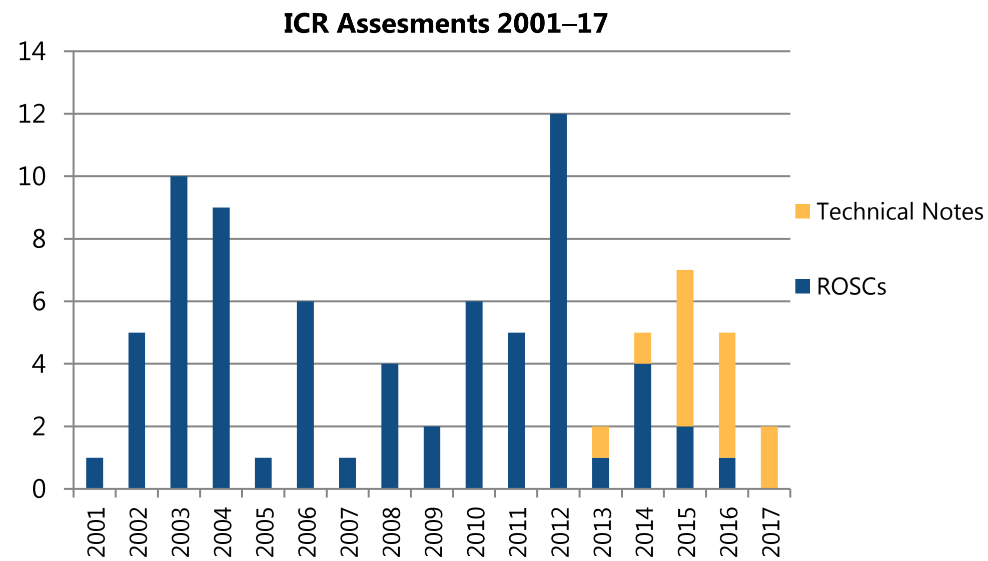
1. **From the beginning of the standards and codes initiative, it was recognized that effective creditor/debtor rights and insolvency systems are important for financial system stability**. The G20 (through the Financial Stability Board) mandated that the World Bank assume the role of standard setter and assessor for Insolvency and Creditor/Debtor Rights (ICR), and thus began a broad consultative process to develop a framework for assessing key aspects of any country's ICR system. This framework was eventually contained in a paper entitled Principles for Effective Insolvency and Creditor/Debtor Regimes (The Principles). In 2005, the United Nations' Commission on International Trade Law (UNCITRAL) produced the Legislative Guide on Insolvency Law, which offers a blueprint for implementing best practices. As the Principles and Legislative Guide are complementary, it was agreed that they should form the Unified Insolvency and Creditor Rights Standard.

2. **The Principles are divided into four sections**: (i) The relationship between the cost and flow of credit (including secured credit) and the laws and institutions that recognize and enforce credit agreements (Part A); (ii) Key features related to the legal framework for risk management and informal corporate workout systems (Part B); (iii) Formal commercial insolvency law frameworks (Part C); and (iv) The implementation of these systems through sound institutional and regulatory frameworks (Part D). The Principles thus present a broad-spectrum assessment framework to assist countries in their efforts to evaluate and improve core aspects of their commercial law systems that are fundamental to a sound investment climate and the promotion of economic growth.

3. **Assessments are completed as standalone exercises, and as part of FSAPs (both of which would result in a full ROSC), or as a focused review (which results in a Technical Note summarizing the findings and recommendations)**. In each case, the evaluation demands extensive preparatory work, including a detailed due diligence report by a local legal expert and one or more missions by a World Bank-led team. The detailed assessment is then submitted to a peer review. It remains confidential, unless the recipient country consents to a waiver. As reflected in their low publication rate (19 percent), most reports remain confidential since much of the information is sensitive and publication may hinder dialogue between the authorities and the World Bank. The findings are normally disseminated via seminars and workshops for private and public sector stakeholders. As of December 2016, 70 full ICR ROSCs and 11 TNs had been completed, covering 67 countries (Figure 1).

[1] Prepared by the World Bank's Financial Markets Global Practice (F&M GP) unit under the supervision of Aurora Ferrari by an F&M GP team led by Mariano Cortes and comprising Mahesh Uttamchandani.

Figure VII.1. Number of ICR Assessments Since 2011



B. Recent Developments

4. **Based on practical experience and following extensive consultations with stakeholders and partners, the ICR standard has been periodically revised**. In 2005, amendments were adopted to streamline and in 2011, the Principles were revised to incorporate updates to the Legislative Guide. In particular, two Principles were added to reflect international best practice on insolvency of enterprise groups (domestic and international). Changes in 2015 amended the principles dealing with credit registries, the enforcement of claims, the institutional framework for risk management, and substantive aspects of formal insolvency proceedings. The revised 2015 Principles now contain more details regarding director liability and adopt a more nuanced approach to the treatment of financial contracts in insolvency.

5. **Additional steps are required before the ICR standard can be finalized**. The 2015 changes were endorsed by Bank Management (the Office of the Legal Counsel). The next step, currently underway, is for UNCITRAL to undertake revisions to its Legislative Guide on Insolvency Law. Once this step in the process of revising the ICR standard is concluded, UNCITRAL and the Bank will jointly undertake revisions to the Unified Insolvency and Creditor Rights Standards. This last step is expected to be finalized in FY 2018 followed by Bank Management endorsement, while the Bank Board will be informed about the revisions to the Unified ICR Standards.

Applications to other World Bank Activities

6. **In 2017, the IFC launched a new Investment Risk Platform (IRP) designed to serve as the primary risk assessment tool for IFC investments**. The ICR standard is seen an effective guidance tool to help determine the extent of loss given default in commercial lending transactions.

As such, the IRP contains a loss-given default methodology that, among other things, uses a high-level measurement of a country's insolvency regime and its consistency with the ICR standard. While this measurement is less robust than an ICR ROSC or TN, it influences IFC risk ratings for countries which, in turn, influence the pricing of loans to the private sector.

7. The World Bank's annual Doing Business Report benchmarks 10 dimensions of the legal and regulatory regime for private and financial sector development across 187 countries. The "Resolving Insolvency" indicator reflects a survey of practitioners regarding the time and cost of an insolvency. In 2014, an "offline" pilot was conducted, using 16 different aspects of the ICR standard as a proxy for the measurement of the quality of an insolvency law. This legal index was found to correct many of the anomalies associated with the original case-study methodology. It was introduced in 2015 to complement the case-study and represents the single largest change to the Doing Business methodology since its inception.

C. Challenges

8. In 2014, the World Bank undertook a budget restructuring, including the transfer of ROSC budgets to World Bank regional groups. This impacted ROSCs by co-mingling ROSC budgets with Country Engagement (CE) funds. ROSCs must now compete with other country priorities. Not surprisingly, there has been a significant reduction in the number of ICR ROSCs. For ICR, the budget restructuring also resulted in the de facto transfer of the standard-setting budget to CE with a reduced level of activities financed through the central Global Engagement budget.

9. As the ICR Standard has become more sophisticated and expanded, ICR assessments have become more complicated, lengthy, and costly. Authorities have indicated they believe ROSCs are too academic, repetitive, and some recommendations are impractical. This adversely affects ROSCs as a tool to facilitate policy dialog and support meaningful reforms.

D. Concluding Observations and the Way Forward

10. The World Bank and its partners periodically review the ICR standard to ensure it remains current, effectively addresses relevant issues, and supports the World Bank's development work. One area of special need is the impact of insolvency regimes on micro, small and medium enterprises (MSMEs).

11. MSMEs are key drivers of growth and employment in most economies. An IFC study of 132 countries found that, on average, there were 31 MSMEs per 1,000 people. Additionally, between 2000 and 2009, the number of MSMEs per 1,000 people grew at 6 percent per annum.[2] An estimated 60 percent of private sector employment, or one-third of the world's labor force, is attributable to MSMEs. MSMEs are key topic in the G20 agenda, as reaffirmed at the 2015 G20

[2] Khrystyna Kushnir, Melina Laura Mirmulstein, and Rita Ramalho. 2016. Micro, Small, and Medium Enterprises Around the World: How Many Are There, and What Affects the Count?," The World Bank/IFC.

Antalya Summit where leaders placed a “special focus” on promoting programs that contribute to MSME growth and employment.

12. MSMEs comprise the vast majority of business failures across the world and the legal and regulatory regimes for MSME insolvency are generally underdeveloped. Since insolvency regimes are frequently designed with large corporate insolvencies in mind, they are not effective at dealing with specific issues raised by the failure of an MSME. These relate to the personal nature and varying formality of these businesses. For example, they may be financed with a mix of personal and corporate debt. Hence, the failure of an enterprise could lead to severe consequences for the entrepreneur and his/her family. If a country does not have personal insolvency laws or no/delayed discharge, entrepreneurs may not be willing to re-enter the market. In addition, MSMEs often lack liquidity so that a temporary or minor problem can result in liquidation. Finally, MSMEs may lack good record keeping systems, which hampers the efficiency and fairness of the insolvency process.

13. Good insolvency procedures for MSMEs should be rapid, simple to follow (e.g., with easy to use forms), require minimal court involvement, improve debt recovery, and enable entrepreneurs to get back to productive activities faster. An ICR Task Force comprised of experts in insolvency law from around the world provides guidance to the World Bank with respect to updating the Principles and issued a Report on the Treatment of MSME Insolvency in January 2017.

14. To improve their use as a tool to facilitate dissemination of international best practices, the content, format, and structure of ICR ROSCs should be improved. Changes should include streamlining to emphasize specific issues affecting the country and to provide practical and actionable recommendations (while maintaining the high level of technical analysis that has proven successful in the past). While commercial insolvency law (Part C of the Principles) should be the central component of every ROSC, lengthy analysis of theory and compliance should be avoided.

15. The planned 2019 FSAP review will report on the allocation of CG outputs across the membership, and will consider and report on whether there is scope for making modifications to standard assessments to improve the linkages to surveillance and integration with capacity development efforts. It also will assess the accessibility of standards assessments and, if necessary, make recommendations on how this can be improved going forward. Other issues for consideration include: (i) amending ICR standards to address MSME insolvency[3] (ii) taking stock of recent experience with ROSCs and TNs, (iii) developing a strategy to revise the assessment methodology, (iv) reducing the length of, and repetition in, ROSCs and making the findings more user-friendly, and (v) and refocusing ICR ROSCs on practical issues.

[3] The World Bank presented a preliminary background paper at the 51st session of UNCITRAL Working Group V on May 10, 2017.

June 22, 2017

THE 2017 JOINT REVIEW OF THE STANDARDS AND CODES INITIATIVE BACKGROUND PAPER—SUMMARY THEMATIC REVIEW OF CASE STUDIES

EXECUTIVE SUMMARY

This report was prepared by two external consultants with a remit to conduct a thematic review across all 12 Standards and Codes (S&C). It evaluates recent changes to individual standards and codes and the evolution of their use by the IMF and World Bank. The report examines revisions to the 12 S&C and the IMF and World Bank's approaches to assessment and reviews of individual S&C.

All but two of the S&C have been revised since the 2011 review. The most significant changes were made to the six financial regulatory standards and the fiscal transparency code. Common goals which motivated these revisions included: (i) placing greater attention on risk analysis, (ii) incorporating lessons from the Global Financial Crisis, (iii) disseminating evolving best practice, and (iv) putting more emphasis on the effectiveness of implementation.

The analysis finds that revisions to the S&C and improvement in the quality of assessments have significantly enhanced their value for country authorities and the work of the IMF and the World Bank. They have increased the relevance of the S&C to country authorities and to the IMF and World Bank in identifying risks to countries' economies and prioritizing recommendations. The S&C initiative has also enhanced the IMF's surveillance and guided technical assistance work by the IMF, World Bank, and other providers.

The number of formal S&C assessments and resulting outputs has fallen, with assessments of some policy areas falling markedly. Several factors explain these developments: (i) many countries have already completed a comprehensive formal assessment for relevant standards, (ii) a few policy areas have not been updated and may have become less relevant, (iii) revisions to some standards (e.g., AML/CFT) delayed assessments, and (iv) revisions to standards and improvements in assessment methods appear to have increased resource costs for both members and assessors.

Going forward, the IMF and World Bank could consider several steps to enhance the initiative. First, limited resources have increased the tension between the comprehensiveness and the number of assessments. The IMF and World Bank should consider how costs can be accounted for in the design of the standards for which they are standard setters. Second, consideration could be given to the decision of when to conduct a formal assessment or focused review, based on factors such as the degrees of vulnerabilities, the priorities of the country, and the extent of changes to the standard or country circumstances since the last assessment. Third, the IMF and World Bank should endeavor to make the results more accessible to high-level policy makers and the public by ensuring that non-technical summaries are available.

Approved By
Hugh Bredenkamp (IMF), and Ceyla Pazarbasioglu and Carlos Felipe Jaramillo (WB).

Prepared by external consultants R. Barry Johnston and Arne Petersen

CONTENTS

Acronyms

AML/CFT	Anti-Money Laundering / Combating the Financing of Terrorism
BCPs	Basel Core Principles for Effective Banking Supervision
CG	Corporate Governance
CP	Core principles
CRDI	Crisis Resolution & Deposit Insurance
DAR	Detailed Assessment Report
DQAF	Data Quality Assessment Framework
FATF	Financial Action Task Force
FSAP	Financial Sector Assessment Program
FSSA	Financial Sector Stability Assessment
FTC	Fiscal Transparency Code
FTE	Fiscal Transparency Evaluation
GFC	Global Financial Crisis
G-SIFIs	Global Systemically Important Financial Institutions
IAIS	International Association of Insurance Supervisors
IADI	International Association of Deposit Insurers
ICPs	Insurance Core Principles
ICR	Insolvency & Creditor Rights
IFRS	International Financial Reporting Standards
IOSCO	International Organization of Securities Commissions
ISA	International Standards on Auditing
KA	Key Attributes of Effective Resolution Regimes for Financial Institutions
PFMI	Principles for Financial Market Infrastructures
ROSC	Report on Standards & Codes
S&C	Standards & Codes
SIFIs	Systemically Important Financial Institutions
TA	Technical Assistance
TN	Technical Note

Key Terms

Formal Assessment: refers to a full assessment against all the principles for the relevant standard and code (S&C) based on an agreed assessment methodology (AM). For most standards, they are synonymous with ***graded assessments***. However, some standards and assessment methodologies (e.g., A&A, CG, and ICR) do not include grades. The output of a formal assessment is either a detailed assessment report (DAR), or a summary report on observance of standards and codes (ROSC), or both.

Focused Review: uses the relevant standard and code as a benchmark to analyze a specific issue or subset of principles. It does not involve a graded assessment. The output of a focused review is either a technical note (TN), a Background Note (BN), or an input into a Financial System Stability Assessment (FSSA) report. For the standards for banking, insurance, and securities markets the IMF and standard setting bodies (SSBs) reached agreement on sets of base principles that serve as the starting point for discussions between staff and the authorities regarding the scope of a focused review.

Modular Approach: Some standards allow staff and authorities to focus on particular components of relevant standards. For example, the Fiscal Transparency Evaluation (FTE) has four pillars on fiscal reporting, forecasting, risk analysis, and resource revenue management.

Proportionality / Tailoring: is a principle under some standards that assessments should consider the context and complexity of the system under consideration. For example, under the Basel Core Principles assessors consider the risk profile of the institutions subject to the standard and the systemic importance of compliance with the standard. Similarly, under corporate governance, countries are placed in one of three tiers and assessments are tailored according to the size and sophistication of the country.

Financial Sector Assessment Program (FSAP): is a comprehensive examination of the financial system of a country that assess risks and ways to promote development. Many of the S&C are incorporated into an FSAP. The resulting DARs, ROSCs, and/or TNs become inputs for the Financial System Stability Assessment (FSSA) report, the main output of the FSAP.

BACKGROUND

1. **The World Bank and the International Monetary Fund jointly launched the standards and codes initiative ("the initiative") in 1999 in the wake of the Asian crisis**. The initiative is intended to enhance economic and financial stability by strengthening domestic economic and financial institutions by encouraging the implementation of internationally agreed standards. The initiative has undergone changes, in response to revisions and enhancements to the underlying standards and codes (S&C), as well as Board guidance on the application and scope of the initiative. Currently, the initiative covers the application of internationally recognized S&C in twelve policy areas assessed by the IMF/World Bank.

2. **The initiative has promoted the dissemination, adoption, and implementation of internationally agreed S&C by member countries, mainly through World Bank and IMF assessments of the status of countries' progress in each area**. A key element of the initiative has been the publication of the findings of assessments in the form of Detailed Assessment Reports (DARs) and Reports on the Observance of Standards and Codes (ROSCs). The ROSCs and DARs have served the Bank and Fund as important tools to detect potential weaknesses that could pose risks to the economy and to provide a focused and prioritized list of recommendations for country action. The findings are used in the surveillance work by the IMF and have served as benchmarks for follow up technical assistance work by the IMF, the World Bank, and other providers. IMF and World Bank staff also use the S&C as a benchmark for focused reviews on specific topics. The focused reviews result in technical notes (TNs) or provide input into the Financial System Stability Assessment (FSSA).

3. **The main objective of this study is to identify cross cutting issues since the last review in 2011**. Specifically, this background paper focuses on: (i) revisions to the 12 S&C and their assessment methodologies (AM) since the 2011 review, and (ii) approaches to assessment and review of the individual S&C, based on examination of an extensive sample of published assessments and reviews conducted since 2011. The paper does not assess the quality of assessments or their use by the IMF & World Bank, national authorities, or the private sector.

4. **The S&C are grouped into three broad categories**. These relate to transparency, financial sector, and institutional and market infrastructure. Table 1 below lists the areas currently covered, the different bodies that set standards, hyperlinks to the latest standards, and the institutions acting as assessors.

Table 1. Standards and Codes Relevant for Bank and Fund Work

Area	Standard (with hyperlink)	Issuing Body	Assessor
	Transparency		
1.1 Monetary & financial policy transparency	Code of Good Practices on Transparency in Monetary and Financial Policies (MFPT)	IMF	IMF
1.2 Fiscal policy transparency	Code of Good Practices on Fiscal Transparency (FTC)	IMF	IMF
	Guide on Resource Revenue Transparency	IMF	IMF
1.3 Data	Data Quality Assessment Framework (DQAF)	IMF	IMF
	Data Dissemination Standards (e-GDDS, SDDS, and SDDS Plus)		
	Financial Sector		
2.1 Banking supervision	Core Principles for Effective Banking Supervision (BCP)	BCBS	WB/IMF
2.2 Securities regulation	Objectives and Principles of Securities Regulation (IOSCO)	IOSCO	WB/IMF
2.3 Insurance supervision	Insurance Core Principles (IAIS)	IAIS	WB/IMF
2.4 Crisis Resolution and Deposit Insurance (CRDI)	Core Principles for Effective Deposit Insurance Systems (IADI)	IADI	WB/IMF
	Key Attributes of Effective Resolution Regimes for Financial Institutions (KA)	FSB	WB/IMF
2.5 Financial Market Infrastructure	Principles for Financial Market Infrastructures (PFMI)	CPMI/ IOSCO	WB/IMF
	Institutional and Market Infrastructure		
3.1 Insolvency	Insolvency and Creditor Rights (ICR)	WB/ UNCITRAL	WB
3.2 Corporate Governance	Principles of Corporate Governance (CG)	OECD	WB
3.3 Accounting and Auditing	International Financial Reporting Standards (IFRS)	IASB	WB
	International Standards on Auditing (ISA)	IAASB	WB
3.4 Anti-Money Laundering/ Combating the Financing of Terrorism	International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation (AML/CFT)	FATF	WB/IMF/ FATF/ FSRBs

REVISIONS TO THE STANDARDS AND CODES

5. **This section reviews the changes to the S&C taking a thematic approach.** There are five broad categories of revisions to the S&C since the last review: (1) the lessons from the GFC; (2) experience with and approaches to the assessments; (3) changes in best practices; (4) consistency across the S&C; and (5) other changes, mainly in structure and organization. The review includes both the changes to the S&C themselves and to the related AM that determine how the assessments are to be conducted in practice.

A. Revisions to Reflect Lessons from the GFC

6. **Many of the S&C have been revised to reflect lessons from the GFC; others, such as the CRDI, were adopted directly as a result.** Incorporating these lessons has enhanced the relevance of the S&C as tools for identifying and mitigating risks. The approaches taken to incorporate the lessons of the GFC have varied across the standards. The first eight lessons listed in Table 2 are discussed below.

Table 2. Lessons from the Global Financial Crisis

Need for increased attention to:	**Standard revised**
1. Systemic risk by incorporating a system wide perspective	BCP, IOSCO, IAIS, CRDI, PFMI
2. The risks posed by SIFIs	BCPs, IOSCO, IAIS, CRDI, PFMI
3. Effective contingency planning and crisis management	BCP, IAIS, CRDI, PFMI, IFRS/ISA, KA
4. The perimeter of regulation and the risks posed by unregulated entities	BCP, IOSCO, IAIS.
5. Avoidance of perverse incentives that create excessive risk taking	IOSCO, CRDI, CG, IAIS
6. Enhancing market discipline through increased transparency	BCP, IOSCO, IAIS, PFMI
7. Corporate governance arrangements	CG, BCP, IAIS, CRDI, PFMI, ISA
8. Domestic and cross border collaboration	BCP, IAIS, KA, PFMI, ICR
9. Oversight of key market participants – auditors, credit rating agencies, hedge funds, central counterparties, institutional investors	IOSCO, PFMI, CG, IAIS
10. Timely reporting of credit risk build-up	IFRS, BCP
11. Independence and resources of regulatory authorities	BCP, CRDI
12. Regulation and supervision of complex groups	BCP IAIS

7. **Attention to mitigating systemic risk and the risks posed by Systemically Important Financial Institutions (SIFIs) are new elements in the regulatory standards**. These elements are incorporated in the **BCP** as part of the existing Core Principles (CPs) as topics requiring enhanced supervision rather than as new supervisory standards. The BCPs now require that supervisors take account not only of the risk profile of individual institutions but also the systemic risks they pose to the financial system and the economy. **IOSCO** addresses systemic risk by including a new CP (CP 6)

that identifies the role of the securities regulator in contributing to the regulatory process to identify and mitigate systemic risk, recognizing that this process will involve multiple agencies. **IAIS** includes a new CP (CP 24) on macro-prudential surveillance requiring the insurance supervisor to take account of systemic factors in insurance supervision. The **KA** identify an effective framework for systemic risk identification and mitigation as one of the preconditions for effective resolution regimes. Addressing the risks posed by SIFIs is a central reason for the creation and adoption of the KA as a new S&C. The new Principles for **FMIs** includes a section on systemic risks in the introductory chapter and Principle 2 stresses that an FMI should have objectives that "explicitly support financial stability." The focus on SIFIs is strengthened by requiring separate assessments for Central Securities Depositories and by providing additional guidance for over the counter CCPs and trade repositories.

8. The enhanced importance given to contingency planning and crisis management arrangements in preventing serious disruptions to financial systems is reflected in the revisions to several of the standards. This is also rationale for the development and adoption of the **KA** as a new S&C, which is specifically designed to address the legal and institutional framework necessary for the orderly resolution of financial institutions, as well as the revisions to the **IADI CPs.**[1] Among the individual regulatory standards, **IAIS** introduced a new CP (CP 26) on cross border cooperation and collaboration on crisis management to ensure that a cross border crisis involving a specific insurer can be handled effectively. The **BCP** introduced new criteria specifically discussing crisis arrangements and resolvability. **PFMI** stresses the importance of arrangements for the recovery or orderly wind down if an FMI becomes non-viable. Winding down is addressed explicitly in principle 3 and implicitly in several principles dealing with the handling of risk.

9. The risks posed by regulatory arbitrage and the growth of financial activities in unregulated financial institutions and shadow banks are reflected in the standards by the increased attention to the perimeter of regulation. These risks are addressed by **IOSCO** by incorporating a new CP (CP 7) that requires a regular review of the perimeter of regulation, noting that the review will need to address the risk of regulatory arbitrage arising from changes to the intensity of regulation across the financial sector. In the **BCP** the perimeter of regulation is addressed as an essential criterion in CP 8 (Supervisory Approach) which requires that if supervisors become aware of shadow banking they are to draw it to the attention of the responsible authority. If the supervisors become aware of banks restructuring their activities to avoid regulation, they are required to address this, and generally note the importance of non-banking entities in any assessment of the risks run by a bank or banking group, and the financial system. **IAIS** also introduced a new CP (ICP23) that requires comprehensive group wide supervision, including group wide reporting, inspections, capital adequacy, investment and market conduct. This would address regulatory arbitrage activities undertaken by insurers, as in the case of credit derivatives trading conducted by AIG during the GFC.

[1] IADI CPs include a new principle (CP 6) on deposit insurer's role in contingency planning and crisis management, CP 13 discusses the deposit insurer's role as part of the framework for the early detection and timely intervention in troubled banks, and other CPs (CPs 9, 14) elaborate on the deposit insurer's role in resolution.

10. The problems that perverse incentives can cause excessive risk taking are addressed in several of the standards. IOSCO has added a new CP (CP 8) to ensure that conflicts of interest and misaligned incentives are avoided. Conflicts of interest are covered in the **BCP** (CP 20) dealing with transactions with related parties and stricter requirements for the risk and control functions were introduced in various CPs (CP 14, CP 15, CP 26, CP 27). Stricter rules on related party transactions are also included in **CG (**Chapter III). The **KA** seek to address the moral hazard created by the problem of "too-big-to-fail" by providing a framework for resolution of SIFIs without the use of public funds while maintaining their critical functions. The **IADI** CPs elevate the attention to moral hazard concerns, which are now addressed within all relevant CPs. **ISA** recognizes the importance of that incentives play in the role of auditors in presenting their findings to Directors. **IAIS** also introduced a new risk management CP (ICP 16 enterprise risk management), including risk appetite and own risk solvency frameworks.

11. The need for enhanced disclosures to strengthen market discipline is highlighted across the financial regulatory standards. The **BCPs** include a new CP (CP 28) on disclosure and transparency on bank reporting and publications. Disclosure requirements are highlighted by **IOSCO** CPs 16 and 18 on the quality of accounts**. IAIS** includes a new CP (CP 20) on Public Disclosure that requires insurers to disclose information to give policy holders and market participants a clear view of their business, performance and financial position. **IADI CPs** include a new principle (CP 10) on public awareness that notes that to protect depositors and contribute to financial stability, it is essential that the public be informed of the benefits and limitations of deposit insurance. To enhance the value of external audits, **ISA** now requires auditors to report to shareholders and boards on key audit matters (ISA 701). Enhanced regulation for loan loss provisioning (IFRS 9) also reflects a response to shortcomings in underlying conditions. Finally, transparency provisions were strengthened in the **PFMI** (principles 23 and 24).

12. The role of strong corporate governance arrangement in mitigating risk has been reflected in several S&C. The **CG** code was strengthened significantly in 2015, including an enhanced attention to the role of the Board in risk management. The **BCP** included a new principle (CP 14) enhancing the requirements for robust corporate governance policies and processes. **IAIS** (CP 7) introduced a similar requirement for the insurance supervisor in its oversight of the insurance industry. The importance of cooperate governance is also reflected in revisions to **IADI** (CP 3), requiring the deposit insurer be operationally independent, well governed, transparent, accountable and insulted form external influence. Corporate governance provisions were also strengthened in the **PFMI** (principle 2).

13. The importance of domestic and cross border collaboration and cooperation is elevated as part of the revisions to the S&C. These revisions are usually accompanied with more specific guidance in the CPs on information exchange with domestic and foreign authorities. For example, the **BCPs** enhanced its requirements for cooperation and collaboration with domestic and foreign supervisors in a revised CP 3. **IAIS** revised its CP on supervisory cooperation and coordination (CP 25) to help ensure effective entity and group wide supervision, and adopted a new CP (CP 26) on cross border cooperation in crisis management. The **KA** outline the standards that should apply for collaboration and cooperation in the recovery and resolution of G-SIFIs with an international presence in several jurisdictions, including the need to establish cross border crisis management groups (CMGs) and cooperation and information sharing arrangements (COAGs) for all G-SIFIs. Cooperation and coordination among supervisors and overseers of FMIs were explicitly addressed in Responsibility E of the **PFMI**. Also, the revised **ICR** includes a new principle dealing with the insolvency of international enterprise groups.

B. Revisions to Reflect Lessons from and Approaches to Assessments

14. Revisions to the S&C and the related assessment methodologies (AM) have taken account of the experience with assessments. Two issues have received greater attention: (1) How to ensure that assessments are proportionate to the country circumstances and the risks posed by the sector? and (2) What role should an assessment of the effectiveness of the application of the S&C in achieving their objectives play in evaluating compliance with the S&C? These issues are important for the role of S&C assessments in supporting national policies as well as IMF surveillance and World Bank development objectives. The greater the attention to "proportionality" and to "effectiveness", the greater the policy relevance of the assessments.

Proportionality of assessments

15. An ongoing challenge in designing the S&C and the related AM highlighted in assessments of the standards is how to take account of different country circumstances. While the S&C are often presented as the minimum standards that all countries should comply with, assessments find that that the country circumstances vary greatly in terms of the stage of development, complexity, sophistication and national and international importance of the sector under review. The risks posed by individual sectors to the financial system and the economy can vary greatly between countries at the same stage of development. The challenge is how to reflect the differences in the country circumstances in the S&C and/or the approach taken in the assessments, while maintaining the S&C as a benchmark that is applicable across countries.

16. The standard setters have adopted different approaches to introducing proportionality into the assessments. Historically, the IOSCO CPs, recognizing the diversity among securities markets, have taken the approach that there is "often no single correct approach to a regulatory issue." The CPs explicitly acknowledge that legislative and regulatory structures vary across jurisdictions, reflecting local market conditions and historical development. To assess IOSCO CPs, assessors must have a complete and clear description of the jurisdiction's capital markets to identify the topics to be addressed. A jurisdiction could satisfy an assessor that its approach, while not explicitly described in the AM, nonetheless meets the objectives of a principle, or could explain why that principle is not applicable.

17. The revisions to the AML/CFT standard and AM represent a significant increase in focus on the "risk-based approach" and country circumstances. The assessment of a country's ML/TF risks are now to be at the center of the countries' efforts, and of AML/CFT assessments. A new CP, Recommendation 1, requires countries to identify, assess, understand and mitigate their

ML/TF risks. It requires country to apply a risk-based approach to ensure that measures to prevent or mitigate money laundering and terrorist financing are commensurate with identified risks. It allows countries to apply simplified measures under some of the Recommendations, and in certain circumstances, to exempt certain sectors or activities where there is a proven low risk of ML/TF. The AM notes that the starting point for every assessment is an understanding of the country's risks and context and that this understanding is critical to evaluating technical compliance with Recommendation 1 and the risk-based elements of other recommendations, as well as the effectiveness of the AML/CFT system (see below).

18. BCPs are the minimum to be applied in all jurisdictions, but assessments must consider the context in which supervisory practices are applied. Proportionality is to be considered in terms of the risks posed by banks, the banking system, and the stage of development of the financial system. All CPs are assessed and rated in all countries (except for an exceptional use of a not applicable (NA) designation) but the concept of proportionality is to permeate all principles. Higher risks and complexity are reflected both in the supervisor's expectations regarding banks—such as on risk management, prudential requirements, transparency, resolvability—and in what is required of supervisors—higher intensity of supervision, and more advanced supervisory approaches and techniques. The country circumstances are also considered in the assessment when assessing the materiality of the findings. The principle may be non-applicable, or deficiencies even in essential criteria can be considered non-material given the country and financial system characteristics.

19. IAIS adopts a similar approach to BCPs. The IAIS CPs are to apply to insurance supervision in all jurisdictions regardless of the level of development and sophistication of the insurance market. Nevertheless, individual CPs gives supervisors flexibility to tailor certain supervisory requirements to be commensurate with the complexity and risks posed by individual insurers. It also emphasizes the importance of considering the domestic context, industry structure, and stage of development of the financial system.

20. The KA are intended to be minimum requirements that apply to systemic financial institutions in all jurisdictions, though the AM recognizes that the resolution regime should be proportionate to the complexity and systemic importance of the firms. Certain of the KAs are aimed specifically at G-SIFIs and jurisdictions that are home or hosts to G-SIFIs.[2] Grading of the KAs should consider the structure and complexity of the financial system. Jurisdictions may also seek to demonstrate that certain KAs or essential criteria are not applicable but as with BCP assessments, the use is strictly limited.[3]

[2] KAs 8 and 9 on Crisis Management Groups and institutions specific cooperation arrangements, and KA 10 which requires resolvability assessments for at a minimum G-SIFIs.

[3] The rational is that even if a criterion is not applicable at the time of the assessment, it may become so in the future as the system evolves. This rational is somewhat at odds with the general approach in the assessments which is to assess the system as it exists at the time of the assessment.

21. The revisions to the World Bank-led codes (CG, ICR, and A&A) have not changed the basic approach that the principles are minimum criteria intended to apply to all jurisdictions. IASB, however in 2007 took the approach of developing a new set of IFRS for small and medium sized enterprises. Also, methodology documents for CG and ICR point out that the focus is on outcomes, and that outcomes can be achieved in different ways in different jurisdictions, e.g., protection of minority shareholders. The CG code only applies to listed companies, which in many jurisdictions is a limited number. To reflect this, the World Bank has divided countries into three tiers depending on the size of their capital markets. Tier 3, which has poorly developed equity markets and regulatory frameworks will no longer be subject to full detailed assessments. Conditioned by the availability of resources, in Tier 1 countries will always receive full assessments, and tier 2 will do so under certain circumstances.

22. The PFMI, MFPT and DQAF use the minimum required approach, in that all countries should comply with the minimum standards. For PFMI the minimum approach is consistent with the nature of the risks in FMIs that are uniform across jurisdictions. The approach to data quality takes account of country circumstances in the SDDS and GDDS initiatives. The MFPT has not been updated.

23. In contrast to the standards discussed above, the revised FTC explicitly differentiates based on different levels of country capacity and development. Whereas the old 2007 code provided a single best practice standard for each principle, the new code distinguishes between basic, good, and advanced practice in recognition of the need to differentiate to take account of country circumstances. Basic practice is viewed as a minimum standard that should be achievable by all countries, good practice provides an intermediate goal post, and advanced practice reflects best international standards and is the standard that should be achieved in advanced economies. Moreover, in assessing compliance the FTC now benchmarks against peer groups as an indicator of relative performance.

Assessing Effectiveness

24. Another issue highlighted in assessments is how the S&C should consider the effectiveness in the application of the S&C in terms of outcomes. Historically, most of the S&C focused on the institutional, organizational, and legal and regulatory arrangements that form the framework for the application of the S&C. Less attention was paid to examining outcomes, i.e., do the S&C achieve their intended objectives, for example of mitigating risk in the financial system? In part this is because the latter is more difficult to assess than, for example, the legal and regulatory framework, and involves a greater exercise of expert judgment and potentially different assessment skills. Nevertheless, it is the capacity of the S&C to deliver the actual outcomes that matters from the perspective of assessing the adequacy of the policy framework.

25. Experience with the relevance of S&C increasingly points to the importance of assessing not only the institutional, organizational and legal and regulatory framework (or the de jure elements) but also the effectiveness of the arrangements in achieving actual outcomes (the de facto performance). An assessment of the de jure elements may not provide a good indicator of how the regime performs in practice and assessments of compliance based on the de jure elements may provide unwarranted confidence in the risk mitigation framework. The focus of assessments on the de jure elements may explain why compliance ratings against S&C are poor predictors of financial crises as the compliance ratings may over-estimate the extent to which risks are mitigated by the regulatory regime.[4]

26. The importance of properly assessing risk and outputs was a major factor behind the complete reworking of the FTC. Focusing on the information required for effective fiscal management and surveillance, the Code was redrawn into four pillars, with the third pillar focusing on fiscal risk analysis and management. Its 12 principles are grouped under three categories, risk disclosure and analysis, risk management, and fiscal coordination. The code was changed to address quality and adequacy of output, rather than procedures. It now puts greater emphasis on the quality of published information as a more objective basis for evaluating the degree of effective fiscal transparency.

27. The AML/CFT AM has been fundamentally revised so that assessors must assess the effectiveness of the AML/CFT regime as well as technical compliance. Under the revised approach, assessments include two sets of ratings, one for technical compliance and another for effectiveness. The AML/CFT AM sets out detailed criteria for assessing technical compliance under the 40 recommendations, specifies the core issues for conducting assessments of effectiveness under eleven immediate outcomes, and emphasizes the use of both quantitative indicators and qualitative factors in the evaluation. The AM focuses on both the authorities' and the industry's results in achieving the desired outcomes.

28. For A&A, assessors review a sample (20-30) of financial statements to assess the extent to which official standards are being implemented. Also, the new assessment methodology contains a dedicated section that takes an in-depth analysis of the robustness of the institutional framework for corporate reporting. Indeed, actual implementation of accounting standards is frequently found to fall short of official regulations, in part because of the complexity of IFRS and the lack of experienced accountants. Similarly, other internal methodology documents of the World Bank stress the need to assess effectiveness (**CG, ICR**).

29. Assessments of the BCPs are expected to assess effectiveness of regulators/supervisors in supervising banks. Assessments are not intended to audit the banks' portfolios and practices, but examine the quality of the supervisor's assessments of these practices and their capacity to challenge banks, assess risks, prevent unsound practices and enforce corrections. Assessors interview banks, review banks reports, supervisory files, and discuss in detail the supervisory risk assessment of banks, including the risks to the banking sector, the effects of macroeconomic developments, and cross border spillovers. The assessment examines how banks factor these elements into their risk management and how supervisors challenge banks' risk management. In addition, there is a heightened focus on the actual use of the supervisory powers, in a forward-

[4] This role of S&C compliance as predictors of financial crises was discussed in the last review of the initiative.

looking approach through early intervention. The new BCP are divided in two parts: requirements on supervisors, and requirements on banks.

30. IAIS requires the implementation of the standards to achieve the objectives of insurance regulation and supervision. The AM notes that the possession of legal authority is not sufficient to demonstrate compliance with the CPs; the supervisor has also to demonstrate that the powers can be exercised in practice and that it can ensure that supervisory requirements are implemented. Assessments, therefore, review the resources and capacity of the supervisor to exercise its authority.

C. Revisions to Incorporate Emerging Best Practices

31. The updates to the S&C have also incorporated changes to best practices in their sector. In most cases, the updates expand the scope and length of the S&C and the number of criteria to be assessed. The section below describes how the various S&C have been modified in this regard.

32. In the BCP, emerging best practices are reflected in additional criteria, allowing for more flexibility in the proportional approach to assessments. In earlier versions of the BCP, ratings were based only on the essential criteria. Under the revised BCP, countries can elect to be assessed and rated using the additional criteria as well as the essential criteria. In addition, in revising the BCP, 34 additional criteria in the earlier standard were upgraded to essential criteria and 34 new assessment criteria were added reflecting the changes international standards. The 16 additional criteria reflect best practices and be aspirational for most supervisors. The BCBS expects that over time the additional criteria will become standards, and that grading against the additional criteria will provide incentives to countries, especially the most sophisticated financial centers, to "lead the way in the adoption of the highest supervisory standards". In addition, the BCPs reference the Basel capital regime (Basel I, Basel II and Basel III), but assessments against the CP do not require countries to comply with specific capital standards except where they have voluntarily agreed to do so (CP 16). The BCP includes references to standards, best practices, and guidance documents issued by the BCBS. The revised BCP also merged the AM and the CPs into a single document.

33. The other regulatory S&C vary in terms of how they have incorporated best practices. For example, the IAIS CPs have been grouped into three levels, statements, standards and guidance material. The guidance material provides best practice on what is meant by the statements and standards and where possible examples of how to implement them. The **AML/CFT** Recommendations have been updated, notably to include a greater focus on ML/TF risks, strengthen certain parts of the standard (e.g. on transparency of legal persons and arrangements), and to incorporate tax crimes as predicate offenses to ML. In addition, the FATF issues Guidance and Best Practices Papers to provide additional background information on country practices. **IOSCO**'s AM builds on their set of reports and resolutions that that underlie effective securities regulation and the tools and techniques necessary to give effect to IOSCO CPs. Finally, the **IADI CPs** have been updated to reflect emerging best practices including governance, depositor reimbursements, use of insurance funds in resolution, role in crisis preparedness and incorporating considerations related to the operation of Islamic deposit insurance systems. The IADI CPs also now include the role of deposit insurance in promoting financial inclusion in the preamble.

34. The revised FTC incorporates several advances in best practice for fiscal management. Some examples are the publication on fiscal activities of the entire public sector, full balance sheets, monthly fiscal reporting of general government, and publication of audited financial statements. Risks addressed include macroeconomic shocks, guarantees and other contingent liabilities, financial sector vulnerabilities, natural resources and environmental factors, and public corporations, among many others.

35. The World Bank-led S&C have also been revised in this regard. ICR revisions incorporate updates of best practice in insolvency law reflected in the continued work of UNCITRAL published as Columns 3 and 4 of their model law. **A&A** are adapted by ongoing work to refine individual IFRS and to add new ones. International audit standards are also kept under continued review to reflect best practice; a good example was the new ISA on the responsibilities of Auditor's in their reporting to the Executive Boards of companies. Revisions to the **CG** also mainly reflect changed best practice in response to increased complexity in the investment chain, the changing roles of stock markets, investment strategies and business practices which have been addressed in the new Chapter III.

D. Cross Referencing Different S&C

36. Some of the revisions to the S&C and AM are intended to improve cross referencing within the various policy areas. In some cases, the rationale for such revisions is to take account of developments in other S&C and to reduce duplication in the assessments. However, for specific CPs the use of cross referencing to overlapping S&C is mixed. There are several reasons for this, including the frequency with which the different S&C are assessed and the objectives and scope of the different assessments. Examples of cross referencing are noted below.

- The **BCP** AM recognizes that where a recent AML/CFT assessment has been conducted, assessors may rely on that evaluation in assessing CP 29 on abuse of financial services. The new CP 14 on Corporate Governance draws from principles of corporate governance published by the OECD, and CP 13 on home-host relationships references the KA on group wide resolution plans. Another area of potential overlap with the KA is in CP 11 Corrective and Sanctioning Powers.
- **IAIS** AM makes extensive reference to FATF documents as part of the assessment of CP 22, on AML/CFT, but does not specifically state that assessors can rely on recent AML/CFT assessments. Some other areas where there is potential overlap with other S&C are IAIS CP 7, Corporate Governance (with CG), IAIS CP 12, Winding-up and Exit from the Market (with the KA where SIFIs may be involved), and IAIS CP 20, Public Disclosure (with A&A).
- **IOSCO** includes a number of principles dealing with accounting and auditing (CP 19 on auditor oversight, CP 20 on auditor independence, and CP 21 on audit standards) and where there is a potential for cross reference assessments against A&A.

- When assessing a resolution regime for FMI the **KAs** requires assessors to have regard to any assessments against the CPSS-IOSCO FMI and the explanatory note on use of deposit insurance funds in resolution cross references the IADI CPs.
- The **IADI CPs** has been updated to ensure consistency with the KAs. In the KA AM for the banking sector, assessors can rely on the BCP and IOSCO assessments when reviewing supervisory approvals to support cross-border resolutions (explanatory note to KA 7). Another area for cross referencing is in KA 11 (Recover and Resolution Planning), to BCP assessments (or visa-versa).
- **AML/CFT** Recommendation 26 on Regulation and Supervision of Financial Institutions explicitly mentions that, for financial institutions subject to the BCPs, the regulatory and supervisory measures that apply to prudential supervision and are relevant to money laundering and terrorist financing should also apply for AML/CFT purposes. The **CG** code also includes references to accounting standards, which are to be "high quality standards" and notes that most countries mandate "internationally recognized standards" (Chapter V). No specific reference to the codes for accounting and auditing are made, however.
- The **PFMI** does cross-reference the KA, but does not contain explicit cross referencing to other S&C. The revised AM for A&A also draws on best practice from other S&C with respect to financial reporting (BCP, IAIS, IOSCO).

E. Other Revisions—Reorganization

37. Several of the S&C have been reorganized:

- The BCP were given a more logical structure: the first 13 CPs deal with the powers, responsibilities and functions of the supervisors, while the remaining 26 CPs deal with the supervisor's expectations for banks. The CPs and AM were merged into a single document.
- The IAIS was revamped: the CPs have been reorganized into a more logical structure, and the assessment criteria grouped into three levels: statements, standards and guidance.
- The CRDI was expanded by combining the KA with the IADI CPs. IADI was revamped: the CPs and AM were merged into a single document and the CPs reorganized into a more logical structure.
- The FATF 40 Recommendations on AML +9 Special Recommendations on CFT have been merged into 40 Recommendations on AML/CFT.
- PFMI was merging, harmonizing and expanding three earlier codes
- FTC was significantly reorganized to reflect increased emphasis on risks and to focus on outcomes rather than procedures.
- CG was reorganized and strengthened in line with the observed need for stronger corporate governance.

F. Implications of the Changes to the S&C

38. Revisions to content have strengthened the relevance of S&C to member countries, for IMF surveillance and for identifying critical areas for follow up technical assistance. Changes to the S&C that reflected the lessons of the GFC introduced important new elements into the standards assessments that enhance their relevance for risk identification and mitigation. Key changes include the new attention to:

- Identifying the main risks (fiscal, financial, ML/TF) and the adequacy of measures to address the risks;
- Systemic risk (and SIFIs) in the regulatory standards. These changes complement the heightened attention to systemic risk analysis and macro-prudential policy by national authorities and in FSAPs and Article IVs;
- Crisis resolution is an important new area that fills a gap in the regulatory architecture and provides a benchmark for reviews of crisis preparedness and crisis management in FSAPs and for identifying areas for follow up assistance;
- Cross border collaboration and cooperation, which supports the multilateral surveillance of the Fund;
- Public disclosure and transparency in the regulatory standards, and the revisions to the World Bank-led standards, that enhance market discipline;
- Perverse incentives that are sources of underlying vulnerabilities in economies and financial systems, and to identifying risks in shadow banks.

39. Revisions to the approaches to assessments make them more relevant to countries' policy discussions and complement IMF surveillance and WB development objectives. Some of the AM for the S&C have been revised to give greater attention to (i) jurisdictions' circumstances and risks when preparing the assessment; and (ii) the effectiveness of the S&C in achieving their objectives. These revisions complement the IMF surveillance and the WB developmental objectives by making the assessments more targeted by highlighting risks and by identifying the effectiveness of the policies. Recommendations can then be prioritized toward addressing significant shortcomings of direct policy relevance. These advances in the S&C are relatively recent and it will take time to assess their effectiveness.

40. The new approaches to assessments have not been the same across the standards. Some of the S&C have not been updated (monetary and overall statistical framework). Different standards take different approaches to treating country circumstances and assessing effectiveness. BCPs and IAIS, are the minimum that should apply in all countries, while the revisions adopted to the FTC have sought to differentiate the standards applied depending on the stage of country development.

41. The above improvements to the S&C come with a resource cost. The addition of new assessment areas has increased the number of CPs and essential criteria that must be reviewed. Tailoring an assessment to specific country circumstances and risks requires in depth knowledge of the country and sector to be reviewed. Assessing effectiveness requires a review of statistical and other information and assessment of actions by the industry as well as the authorities. All of these increase the resource cost of an assessment, potentially significantly, and aspects require new assessment skills.

EXPERIENCE WITH S&C ASSESSMENTS

42. The structure and content of reports vary greatly across the S&C, reflecting the degree of complexity of the issue being addressed and the nature of the assessment/review. Also, outputs may take several forms, including formal assessments resulting in ROSCs or detailed assessment reports (DAR) or focused reviews resulting in technical notes (TNs) or inputs to the FSSA reports. The Fund and the Bank also use the S&C heavily in their broader financial stability work. For example, in surveillance and in technical assistance reports frequently draw extensively on the S&C without doing a formal assessment.

43. There is no official definition of the term ROSC. For regulatory standards (BCP, IOSCO, IAIS, PFMI) and MFPT, the ROSC is a summary of the detailed assessment (DAR) and includes a summary of key findings and recommendations and a prioritized action plan to enhance compliance. In the case of AML/CFT, a peer review by the FATF and FSRBs is presented as Mutual Evaluation Report (MER) —which, like IMF or WB DARs, can then generate an AML/CFT ROSC. Some regulatory ROSCs include ratings of compliance, but not all. The DARs and ROSCs offer the possibility of a response by the authorities to the assessments. For several other S&C, including those assessed by the World Bank (CG, ICR, A&A), and the Data ROSC, the ROSC includes the DAR. In the case of one code (the Fiscal Code), the title ROSC has explicitly been eliminated, and the published assessment is now called a fiscal transparency evaluation. The A&A assessments are the only ones that do not include ratings for compliance as part of the ROSCs or DARs.

44. In most cases, assessments were published as ROSCs attached to FSSAs, standalone ROSCs, or standalone DARs. Most assessments of regulatory standards and codes were prepared in the context of FSAPs and the resulting ROSCs were included as attachments to the FSSA reports. Overall, significantly more assessments were published as standalone DARs than as standalone ROSCs. Besides formal assessments, a significant number of reviews of standards that were published as technical notes.

45. TNs have increased relative to ROSCs and DARs. A total of 380 DARs, ROSCs, and TNs were produced during 2011–16. Of the total, 295 (or 78 percent) were published. The publication ratio varied significantly among standards, with very few ICR ROSCs published.

46. The number of assessments has declined somewhat over the last six years, and for some S&C quite significantly, particularly for data, monetary, and corporate governance (Table 3). While this is partly explained by the completion of initial assessments for many countries, factors also include increased resource costs. In the case of those standards assessed by the World Bank, the absence of a dedicated budget allocation appears to have played a role in limiting the number of assessments. Changes to the AML/CFT standard and AM caused a temporary slowdown in the assessment cycle. Revisions to the AML/CFT AM have significantly increased the resource costs of assessments, reducing the number of assessments that can be conducted by the IMF/WB within the same budget envelope. As a result, most AML/CFT assessments are conducted by the FATF and the FSRBs.

47. The fact that the monetary standards and the overall data framework have not been updated may have also contributed to the low number of assessments, as these standards may have become less relevant to members and the work of the IMF/World Bank. In the case of the data standard, other data initiatives—notably the SDDS, SDDS Plus, and GDDS/e-GDDS—have taken on an increased importance. The monetary standard does not account for revisions to lender of last resort, monetary, and financial policy practices that followed the GFC and this may have limited the interest in reassessments under the standard. Contrast the number of assessments of data and monetary standards with those of the FTC, where assessments received a new lease on life following revisions to the fiscal code.

48. The bulk of assessments have been conducted in the context of FSAPs.[5] There is no central direction regarding which standards and codes should be assessed for a given country. But an implicit prioritization of financial regulation, supervision, and market infrastructure is evident. As these standards become more complex, more relevant, and require more resources to assess, their prioritization may crowd out the assessment of S&C assigned a lower priority.

[5] Except for AML/CFT where most assessments are now conducted outside the FSAP (owing to the difficulty in synchronizing the FSAP and AML/CFT assessment schedules—there are fewer FSAPs per year than AML/CFT mutual evaluations, and the Fund and FATF/FSRBs have different planning horizons).

Table 3. Number of ROSCS and TNs by Standard and Code[1/]

		2011	2012	2013	2014	2015	2016
I. Macroeconomic Policy and Data Transparency							
MFPT	ROSC		1				
Fiscal Transparency	ROSC		1	2	3	6	4
Data	ROSC	1	1	1	2	2	
II. Financial Sector							
Banking supervision	ROSC	18	18	10	18	4	7
	TN	3	1	2	1	4	3
Securities regulation	ROSC	10	7	9	5	2	1
	TN	1		2			3
Insurance supervision	ROSC	11	9	11	6	3	1
	TN	1	1	1	1	1	4
Crisis resolution and	ROSC				1	1	
and deposit insurance	TN	3	2	3	7	4	6
Financial market	ROSC	11	2	7	1	1	3
infrastructure	TN		5	1	2	3	2
III. Institutional and Market Infrastructure							
Accounting	ROSC	8	5	6	12	6	4
and auditing	TN			1	1	1	
Corporate	ROSC	3	3	2			2
governance	TN						
Insolvency and	ROSC	5	12	1	4	2	1
creditor rights	TN			1	1	4	6
AML/CFT	ROSC	8	2		1	1	2
	TN	2				2	3

[1/] Includes IMF S&C outputs published or shared with the Board.

EVALUATION OF ASSESSMENTS AND REVIEWS

A. Resource Impact of Revisions to S&C Assessments[6]

49. It appears the revisions to the regulatory standard and codes generally increased the resource costs of the assessments. The experts did not have access to the direct budgetary costs of conducting assessments. However, the resource costs can be partly inferred from (i) the staff assigned to conduct detailed assessments; and (ii) the length and complexity of the DARs. These measures are, nevertheless, imperfect as they do not account for preparatory or review time or the resources assigned by the authorities to support the assessment missions (e.g., preparing self-assessments in advance of the missions).

50. The revisions to the BCPs have significantly increased the length of DARs. For example, comparing the 2016 and 2011 assessments of the UK, the 2016 detailed assessment report that used the updated BCPs is more than double the length of the 2011 detailed assessment that used the earlier methodology (293 pages versus 131). The difference in length can be attributed directly to the 2012 changes to the BCP (i.e. adding new CPs and essential criteria, enhancing the focus on implementation and enforcement of powers, and including the option to assess additional criteria). In addition, steps by the assessors (as well as by the Fund and Bank through the review process) to improve quality has added detail to reports. The length of the UK detailed assessment report using the 2012 methodology is not out of line with other assessments. For example, the 2014 detailed BCP assessment report for Georgia, a country with a much less sophisticated banking system is 216 pages, the 2014 BCP detailed assessment report for Canada is 240 pages, and the 2013 BCP assessment of Hong Kong (SAR) 361 pages. For **IAIS,** the revised AM is 397 pages and DARs have increased to up to 150 pages in length. The DARs prepared for **IOSCO** were 187 pages in Malaysia and 175 pages for Switzerland.

51. Other revisions to the regulatory S&C that appear to require significant additional resources are the use of the KA in reviews and the assessment under the revised AML/CFT AM. Reviews of the KA that have piloted the detailed AM involve 5-6 assessors (though this may partly reflect the newness of the code and the number of sectors covered.)

52. As some of the standards and codes have become more comprehensive and complex, resource implications have also dictated the need for a change in the approach to assessments. For example, the 2012 issued **PFMI** significantly increased the scope and complexity of the code. While earlier a decision typically was made to assess either a systemically important payments system or a systemically important securities settlement system, the standard now includes Systemically Important payments systems, central securities depositories, securities settlement systems and central counter parties. In developed markets there may be 6-8 such systems. And unlike the supervisory and regulatory codes, a comprehensive FMI assessment should

[6] Experts evaluated a broad sample of including 15 DARs, 7 ROSCs, 2 FTEs and 21 TNs. Annex I lists the documents reviewed.

include not only the regulatory and supervisory structure, but also the risk management frameworks and governance of individual FMIs.

53. The World Bank assessed S&C are very resource intensive. While the evolutionary nature of changes to the codes may not have added significantly to that burden, changes to budgetary procedures within the bank has highlighted this resource cost and have contributed to the observed slowdown in assessments.

54. The quality of the assessments reflects the background and experience of the assessors. Assessment criteria are only one element in evaluating regulatory and supervisory arrangements. The experience and expertise of the assessors in evaluating the arrangements against the criteria is also critical. Changes to the S&C have made the expertise of the assessors even more important.

- The increased emphasis on assessing not only the adequacy of the legal and regulatory framework but how it is implemented, requires practical operational experience with the regulation and supervision;
- New skills may be needed to assess the underlying effectiveness of the S&C in achieving their objectives, e.g., capacity to assess statistical indicators of performance;
- Where a decision is made to prepare a review in the form of TN rather than a DAR, the assessor's expertise is critical in designing the topics to be covered in the TN.

55. The need to have experienced assessors may introduce an additional resource constraint for assessments. The IMF/WB need to ensure that experts they have the skills to assess the new elements of the S&C. This is not a trivial exercise as the total pool of experts with the requisite skill set to assess the more complex standards is quite limited.

B. Focused Reviews

56. How to decide between formal assessments resulting in ROSCs and DARs and focused reviews resulting in technical notes or inputs to FSAPs varies between standards.

- For the **financial standards**, there has been agreement that standards will be used in one of two ways: (i) formal, graded assessments that assess all the principles under a standard, provide ratings, and result in a detailed assessment report and (ii) focused reviews that benchmark against a standard but do not provide ratings and result in a technical note or input into an FSAP. The IMF has also reached agreement with standard setters on sets of base principles that can serve as starting points for focused reviews.
- For **non-financial standards**, assessors are considering how to streamline assessments. For example, under corporate governance the World Bank has proposed streamlining detailed assessments, including by focusing on a subset of questions (115 versus the full set of 727) and making benchmarking optional. Similarly, under the accounting and auditing standards

the World Bank is considering how to learn from the experience with "quick ROSCs" and both the A&A and FTE allow a modular approach.

57. **Both these two types S&C work are voluntary for the country authorities and should be based on a joint decision with Bank/Fund staff based on several factors**. This would help to avoid issues that arose in adjusting for country circumstances and which hampered assessments in some cases including in A&A. Such factors could include the importance of the sector, the magnitude of vulnerabilities, the country's priorities, and the extent of changes in the standards or country circumstances since the last assessment. For non-financial standards, which allow assessments of a subset of principles, the choice of coverage could reflect similar considerations as well as other factors such as a country's level of development.

C. Accessibility of Findings

58. **On balance, the revisions to the S&C have made the DARs longer and more complex.** Analysis of compliance with a single principle in a DAR can run to several pages and involve highly technical and nuanced discussion of the practices that are applied. In a few recent cases, DARs have been published without an accompanying summary ROSCs. Where financial regulatory DARs are prepared, the accompanying ROSC provides a summary of the findings and prioritized recommendations in a relatively short document. As S&C have become more complex, the preparation of ROSCs becomes even more important. In addition, when a TN is prepared, there is no separate summary of the findings. Financial regulatory TNs are usually prepared in the context of an FSAP and the FSAP can summarize the findings as part of the overall assessment of the financial system. Despite being the result of focused reviews, some TNs can be nearly as complex as DARs, increasing the importance of presenting a clear and effective summary. Moreover, for some standards (e.g. ICR) many TNs are not published.

59. **Going forward, greater attention could be given to accessibility of results for policy makers and market participants**. In particular, non-technical summaries could improve traction. Where DARs are prepared, the accompanying ROSC provides a summary. The preparation of a summary ROSC becomes even more important when the standards become more complex. Attention should also be given to the accessibility of results when TNs are prepared.

CONCLUSIONS

60. **There have been significant revisions to the S&C and standards assessments since last review**. The main changes include (i) greater attention to identifying risks; (ii) incorporation of lessons from the GFC, notably a focus on systemic risk, transparency, corporate governance, crisis management and incentives; and, (iii) increased attention to country circumstances and an emphasis on assessing effectiveness in the application of the S&C. These revisions have significantly enhanced their richness value for country authorities and the Fund and the Bank.

61. However, this analysis has also found that the growing complexity of S&C have resource implications for members and assessors. Post-crisis assessments tend to require more staff to assess the revised standards, often with more in-depth experience, which may be in short supply. Also, the assessments have become much longer and complex. As stand-alone assessments, this outcome may also have costs in terms of clarity and uptake for policy makers and other market participants. In general, the increased complexity of many S&C and increased document length, places a premium on ensuring that DARs and/or TNs contain a high-quality summary of findings and key recommendations.

62. This may have created tensions within the initiative. To address this tension the IMF and World Bank could consider how costs can be accounted for in the design of the standards for which they are standard setters. Resource costs are especially important for low and middle income countries. One approach would be to follow the lead of the Fiscal Transparency Code which allows for basic, good, and advanced practices and benchmarking against peers to reflect a country's stage of development. Another possibility is to consider a modular approach the IMF and World Bank's standards.

63. As the approach is still developing, it is still unclear whether focused reviews will help alleviate some of the tensions more generally. As formal assessments and focused reviews are voluntary for country authorities, the approach will continue to be decided by agreement between staff and the authorities. As experience develops, the IMF and the World Bank could draw lessons regarding their use and resource implications.

Annex I. Sample of DARs, ROSCs, and Technical Notes

Relevant Standard and Code	Countries reviewed	Type of document
MFPT	Indonesia (2012)	DAR
FTC	Costa Rica (2013)	Evaluations
	Kenya (2016)	Evaluations
Data	Oman (2015)	ROSC
	Russia (2012)	ROSC
BCP	UK (2011 and 2016)	DARs
	Republic of Moldova (2016)	DAR
	PRC- Hong Kong (SAR) (2013)	DAR
	Samoa (2015)	TN
	Bosnia and Herzegovina (2015)	TN
	Ireland (2016)	TN
IAIS	Australia (2012)	DAR
	Albania (2013)	DAR
	Bahamas (2013)	DAR
	Canada (2013)	DAR
	Austria (2014)	TN
	Bosnia and Herzegovina (2015)	TN
	UK (2016)	TN
IOSCO	Switzerland (2014)	DAR
	Malaysia (2013)	DAR
	Belgium (2013)	TN
	Ireland (2013 and 2016)	DAR/TN
CRDI	UK (2011 and 2016)	TNs
	USA (2016)	TN
	Samoa (2015)	TN
	South Africa (2014)	TN
	Colombia (2015)	TN
PFMI	Malaysia (2013)	DAR
	United States (2015)	TN
	Norway (2015)	TN
	Russia (2016)	TN
AML/CFT	Italy (2016)	DAR
	Canada (2016)	DAR
	USA (2015)	TN
	Germany (2016)	TN
	Russia (2016)	TN
CG	Thailand (2012)	ROSC
	Russia (2013)	ROSC
	Cote d' Ivoire (2015)	ROSC
ICR	Moldova (2014)	ROSC
A&A	Georgia (2014)	ROSC
	Montenegro (2015)	TN
	Bosnia and Herzegovina	TN
	Albania	TN