

INTERNATIONAL MONETARY FUND

Guidance Note for Staff on Undertaking Targeted (Risk-Based) Reports on the Observance of Standards and Codes (ROSCs) in Financial Regulation and Supervision

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I. INTRODUCTION

1. In September 2009, the International Monetary Fund (IMF) and the World Bank (WB) Boards approved changes to the Financial Sector Assessment Program (FSAP) to (i) make it more flexible and better-aligned with country needs as well as IMF and WB financial sector priorities and core responsibilities; (ii) enhance the quality, candor, and comparability of assessments; and (iii) better-integrate FSAP analysis into the institutions' evolving mandates.¹
2. A key reform is the option now given to mission teams in the context of FSAP updates to conduct either a full reassessment of the standard or a targeted Report on the Observance of Standards and Codes (ROSC) update in connection with the assessment of the Core Principles for banking, securities, and insurance regulation. This option applies in those cases where an initial full assessment has been previously carried out.
3. The targeted, or risk-based, ROSC update constitutes an improvement to the current practice of conducting factual updates of standards assessments, which do not indicate whether or not compliance with a principle has been achieved and which are presented as technical notes. Hence, they are not subject to the peer-review process of the Fund and Bank Boards. The targeted ROSCs are not intended to replace the full assessment, but rather to provide a more robust and comparable way of undertaking assessments in an FSAP update context, which should also enhance the consistency and transparency of the assessment process.
4. The option of targeted ROSC in connection with stand-alone ROSC updates is not precluded. However, it will not be encouraged, since undertaking a targeted assessment in the context of an FSAP allows for a more comprehensive due-diligence process for the selection

¹ [Financial Sector Assessment Program after Ten Years—Experience and Reforms for the Next Decade](#). August 31, 2009, p. 27.

of the principles to be reassessed. Furthermore, the discussions that take place during the FSAP help to enrich the quality of the assessment.

5. Where the option of a targeted ROSC update is exercised “to protect the integrity of the ROSC process, the principles selected for reassessment would be determined in advance of the mission and on the basis of clear criteria and a methodology to be developed in collaboration with the corresponding standard setting bodies.”²

6. This document elaborates on those criteria and provides guidance on their use by mission teams that undertake ROSC updates. It has benefited from consultations with the Basel Committee on Banking Supervision (BCBS), the International Organization of Securities Commissions (IOSCO), and the International Association of Insurance Supervisors (IAIS). They have all expressed their support for the targeted approach and the content of this guidance note.

II. CRITERIA AND GUIDANCE FOR USE

7. Targeted assessments and ROSCs will be an option available to mission teams except (i) if the time elapsed between the initial assessment and the reassessment exceeds seven years; or (ii) a substantive overhaul of the standards was undertaken by the standard-setting body since the earlier assessment. In both cases, a full reassessment will be mandatory.

8. In all other cases, mission teams will decide on the principles to be assessed based on an evaluation of relevant risks and vulnerabilities in each country, informed by country knowledge and ongoing surveillance, and other country work, as well as by the results of previous assessments. No ex ante primacy will be given to any particular principle.

9. This high-level guidance has been disaggregated into the six criteria listed below.

10. Where any of these criteria are met, a reassessment of the relevant principles will not automatically be triggered, but the presumption will be in favor of such a reassessment.

11. These criteria should be used together. Findings from one criterion should be contrasted with, and informed by, findings from other criteria. Thus, the mission team should look at all background information in a holistic manner, including previous findings from FSAPs; country work; and bilateral and multilateral surveillance, as well as at the preliminary findings of an ongoing FSAP.³ As a result of such comprehensive analysis, a

² [*Revised Approach to Financial Regulation and Supervision Standards Assessment FSAP Updates*](#), August 28, 2009, pp. 2–3.

³ The stability assessment under an FSAP includes three components: (i) an evaluation of main risks to macro-financial stability in the near term; (ii) an evaluation of the financial stability framework; and (iii) an assessment of the crisis and resolution framework. The development assessment will be composed of three main elements: (i) an assessment of development needs; (ii) an evaluation of financial sector oversight; and (iii) an assessment of public policy that can affect financial sector activity. Initial and full update FSAP assessments would include both these aspects, but there will be cases where “stability” and/or “development” FSAP modules may be more recent.

mission team might decide that a full reassessment, rather than a targeted assessment, is warranted.

Criterion 1. Principles where significant weaknesses in implementation were found during the previous assessment.

12. The current methodology used by the three standard setters is based on a four-level rating scale.⁴ According to the definition of the ratings used by each standard setter, significant deficiencies in the implementation of a principle exist when a jurisdiction is rated in the last two rating categories (materially noncompliant and noncompliant for Basel, partly implemented or not implemented for IOSCO, and partly observed or not observed for IAIS). The presumption will be that any principle previously assigned such ratings in an assessment conducted by the IMF or the WB should be reassessed. Findings from subsequent Financial Services Board (FSB) peer reviews may also be taken into consideration to form a judgment as to the status of implementation of a specific principle.

13. The standards include also a “not applicable category” for use where principles were not assessed because of specific conditions in the country (for example, principles that relate to a product, an industry, or institution that have not yet developed). Principles where a “not applicable” rating was assigned will not be reassessed, unless the conditions that prompted such a decision clearly no longer apply.

Criterion 2. Principles associated with key areas of risk or development identified by an earlier or ongoing FSAP, bilateral surveillance missions, or country work.

14. The mission should analyze key findings from earlier FSAPs, surveillance missions, and country work, as well as the preliminary findings from ongoing FSAPs to determine whether there are important risks or developmental needs that stem from, or are related to, weaknesses or gaps in the regulatory framework. Such evaluation will, in turn, inform the selection of the principles that will be reassessed.

Criterion 3. Principles connected to key areas of risks or regulatory gaps identified during regional or multilateral surveillance.

15. Regional and multilateral surveillance⁵ carried out by the IMF and country team work carried out by the WB could shed light on trends, recurrent risks, and regulatory gaps on

⁴ The methodologies to assess the implementation of the principles for banking, securities and insurance use the following ratings: (a) Basel Core Principles: compliant, largely compliant, materially noncompliant, and noncompliant; (b) IOSCO Principles: implemented, broadly implemented, partly implemented, and not implemented; and (c) IAIS Core Principles: observed, largely observed, partly observed, and not observed.

⁵ Examples of multilateral surveillance are the Global Financial Stability Report (GFSR), the World Economic Outlook (WEO), and the IMF’s vulnerability exercises.

either a regional or a global basis. In addition, thematic reviews conducted by the standard-setting bodies⁶ could be used to identify particular weaknesses.

Criterion 4. Principles that have been significantly revised (or newly established) by the standard setters since the last assessment.

16. The review of a principle by the standard-setting body creates a presumption in favor of the reassessment of such principle (or of an initial assessment in the case of new Core Principles). For these purposes, a review of a principle includes changes to the criteria or methodology used to assess its implementation, even if the principle itself remains unchanged. However, as indicated above, if a standard-setting body conducts a substantive overhaul of the standards, a complete assessment and ROSC, rather than a targeted update, will be warranted.

17. In order to ensure consistency in the application of this criterion, the IMF and WB will jointly assess the changes approved by a standard-setting body and provide guidance on (i) whether the changes amount to a substantive overhaul; and, if not, (ii) what specific principles should be reassessed. For this purpose, the IMF and the WB should request feedback from the corresponding standard setter.

Criterion 5. Principles affected by material changes in the structure of financial supervision or in laws and regulations.

18. Material changes in the structure of financial supervision could lead to regulatory and supervisory gaps. Such changes include, for example, the creation of new agencies; the merger of existing agencies; changes in the allocation of responsibilities between existing agencies; or changes to the structure of an existing agency.

19. Any such events will trigger a presumption in favor of evaluation of the principles that relate directly to the regulator (Principle 1 for Basel; Principles 1 to 8 for IOSCO; and Principles 2 to 5 for IAIS). However, depending on the scope of the changes, a complete assessment and ROSC, rather than a targeted assessment and ROSC update, may be warranted.

20. The mission team should also assess whether there have been changes to the legal and regulatory framework applicable to a particular sector and their implication vis-à-vis the relevant principles. When such changes are deemed significant, they will trigger a presumption in favor of reassessment of the corresponding principles.

⁶ Another source of information would be the Financial Stability Board Thematic and Country reviews, which will focus on the implementation among the FSB membership of policies or standards agreed within the FSB.

Criterion 6. Principles that deal with institutions/products/markets that have experienced significant growth or activity since the last FSAP.

21. Rapid growth of institutions, markets, or products could lead to risks not adequately managed by market participants, regulated, or supervised by the corresponding authority. Many of these risks will have already been identified by the mission through the use of Criterion 2.⁷ However, the mission will be encouraged to use the quantitative information and the self-assessment provided by the authorities to determine whether new areas of risk have developed. Depending on the significance of market changes, a complete re-assessment and ROSC, rather than a targeted assessment, may be warranted.

III. DECISION ON COVERAGE

22. The mission team should conduct a rigorous pre-assessment review in order to make an informed decision about the principles to be reassessed. To facilitate this process, the decisions on which standards and codes are undertaken and the standards assessors involved should be made at an early stage. The standards assessors should participate in the discussions on the scope of the reassessment.

23. A preliminary decision on the scope of the reassessment will be made by the mission chief based on discussions with the mission team, including the standards assessors.⁸ Sources of information should include bilateral and regional surveillance country work carried out by the respective units of the IMF and the WB, as well as based on previous FSAP assessments. The mission team will be encouraged to request feedback from relevant staff from both institutions, including staff involved in the bilateral surveillance of the country in question. The mission team will also be encouraged to consult with the relevant staff of the IMF and WB in connection with the application of Criterion 4.

24. Such preliminary decisions should be communicated to the authorities early in the process, and their views on the scope of the assessment should be requested.⁹

25. To inform the decision-making process, the authorities will be required to submit a complete self-assessment based on both the methodologies available and the quantitative data, as required, in a full assessment. The authorities will also be required to submit the

⁷ The indicators produced in connection with bilateral surveillance, as well as with the stability assessment and the development assessments, would provide valuable input to assess whether this criterion is met.

⁸ For targeted assessments conducted in connection with an FSAP, updates such as a preliminary decision will be incorporated into the regular FSAP process. Accordingly, the draft “Terms of Reference” for the mission—or similar document—will include a discussion on the standards and codes that will be reassessed; whether a full or partial reassessment will be undertaken; and, if partial, the preliminary decision on the principles that will be reassessed. Such a draft will be subject to the standard IMF and WB review process established for the FSAP.

⁹ In addition, it is customary that mission chiefs have informal communications and discussions with the authorities on the scope of the FSAP. Nothing in this note should preclude those communications.

information necessary to assess the level of compliance with newly-developed principles, if they are not yet covered by the methodologies. The mission should encourage the authorities to provide their views on the scope of the assessment when the self-assessment has been prepared.

26. Based on the pre-assessment review carried out by the mission team, the mission chief should make a final decision on the coverage of the targeted ROSC.¹⁰ The decision should contain the list of the principles to be reassessed, along with a brief explanation of the reasons for such selection (referencing the criteria used). A brief explanation should be provided for the exclusion of a principle when that principle has triggered at least one of the criteria or its reassessment has been requested by the authorities. The decision should also be communicated to the authorities.

27. There should be some flexibility for mission chiefs in the field to amend the choice of principles to be assessed in response to emerging information and changing priorities. However, any changes made will be done only in consultation with relevant staff from the IMF and the WB.

IV. CONTENT AND FORMAT OF THE TARGETED ASSESSMENT AND ROSC

28. As is the case for an initial assessment, two documents will be produced in connection with a targeted assessment of a financial standard: the ROSC and the Detailed Assessment Report (DAR). The structure and content of these documents should follow the existing templates for the initial assessments, with changes and clarifications as set out in the guidance attached to this note. The DAR and the ROSC should carry over all the principles from a previous assessment that were not reassessed during the update to foster transparency. However, both the DAR and the ROSC should include explicit identification of the principles that have been reassessed and those that are carried over from previous assessments.

29. Standards assessors should discuss and document, in both the DAR and the ROSC, any progress made on the implementation of recommendations from previous assessments, even if they correspond to principles that were not reassessed.

V. PROCEDURES AND REVIEW PROCESSES

30. The same formal procedures and review processes that apply to initial ROSCs would apply to targeted ROSC updates to ensure consistent application of the targeted approach.

¹⁰ Such a decision will be incorporated into the final “Terms of Reference” for the mission.

GUIDANCE FOR WRITING TARGETED ASSESSMENTS AND REPORTS ON THE OBSERVANCE OF STANDARDS AND CODES IN FINANCIAL REGULATION AND SUPERVISION

As is the case for an initial assessment, two documents will be produced in connection with a targeted assessment of a financial standard: the Report on the Observance of Standards and Codes (ROSC) and the Detailed Assessment Report (DAR). The structure and content of these documents should follow the existing templates for the full assessments, with the addition of the changes and clarifications set out below.

I. THE REPORT ON THE OBSERVANCE OF STANDARDS AND CODES (ROSC)

Executive Summary

1. A one-paragraph executive summary should highlight the targeted, or risk-based, nature of the assessment and the principles that have been reassessed, along with the key relevant findings.

A. Introduction

2. This section should clearly indicate the targeted, or risk-based, nature of the assessment and the context in which the assessment has been conducted (e.g., as part of an FSAP update, etc.). The name and qualifications of the assessor(s) should be mentioned. The date of the initial (or most recent full) assessment should also be included.

B. Scope

3. This section should clearly indicate the principles that have been reassessed, along with an explanation of the reasons that supported their selection. The section should start with the following introduction:

“The selection of the principles to be reassessed was made by the mission team based on an analysis of the risks and vulnerabilities of country X, informed by the findings from previous assessments, as well as country work, bilateral, multilateral, and regional surveillance. The process followed for the identification of the principles that needed reassessment did not suggest the need to reassess other principles.”

An indication of the specific principles that were reassessed, along with the specific reasons (with reference to the criteria used) for their selection should follow.

4. This section should also indicate that the findings and grades for the principles not reassessed have been carried over from the initial assessment in order to provide a complete view.

C. Information and Methodology Used for Assessment

5. There are no changes in relation to the template for the full ROSC.

D. Institutional and Market Structure—Overview

6. This section should provide a general overview of the main changes that have taken place since the previous ROSC/FSAP in regard to market structure and development; laws and regulations; and the supervisory framework, which are relevant for the purposes of the update. As for a full assessment, the assessor is encouraged to use key sector indicators. This information can be obtained from the data questionnaire that the authorities will be required to submit and from other mission members, as well as from other sources.

E. Preconditions for Basel Core Principles and International Organization of Securities Commissions Assessments)

7. The findings from previous assessments will be carried over, except if preconditions were subject to reassessment. In case the findings are carried over, the section should start with the following heading:

“The initial assessment included the following findings in regard to preconditions.”

F. Main Findings

8. This section should summarize key findings of the detailed assessment. It should cover all principles and not only those being reassessed. Thus, the assessor will rely, in part, on the findings from the initial assessment to complete this section.

9. The assessor will also include a table that should convey a clear sense of the degree of compliance, providing a brief description of the main strengths and especially, and weaknesses with respect to each principle. The table should not include grades. This table should be identical to the one currently used for the full ROSC (Table 1A of the templates), except that it will include the following heading:

“Only principles XX have been reassessed. The summary of key findings for principles XX has been carried over from the initial (or most recent full) assessment conducted in XX, in order to provide a complete view.”

10. A second table will set out the detailed principle-by-principle assessment with main findings, comments, and grades. This table should be identical to the one currently used for the full ROSC (Table 1B of the templates), except that it will include the following heading:

“Only principles XX have been reassessed. The description, comments, and grades for principles XX have been carried over from the initial (or most recent full) assessment conducted in XX, in order to provide a complete view.”

In addition, the date of the assessment should be indicated for each principle.

G. Recommended Action Plan and Authorities' Response

11. The table of recommendations should carry over the recommendations from previous assessments and discuss any progress in their implementation.

II. THE DETAILED ASSESSMENT REPORT (DAR)

12. There are no changes from the template for the initial assessment, except that in this case, the detailed assessment will start with the following heading:

“Only principles XX have been reassessed. The description, comments, and grades for principles XX have been carried over from the initial (or most recent full) assessment conducted in XX, in order to provide a complete view. The selection of the principles that have been reassessed was done by the mission team based on an analysis of the risks and vulnerabilities of country X, informed by the findings from previous assessments, as well as country work, bilateral, multilateral, and regional surveillance. The process followed for the identification of the principles that needed reassessment did not suggest the need to reassess other principles.”