INTERNATIONAL MONETARY FUND
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2011 Review of the Standards and Codes Initiative—Background Paper

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List of Acronyms

AFR	African Department
AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
APD	Asia and Pacific Department
ARC	Advance Release Calendar
BCBS	Basel Committee on Banking Supervision
BCEAO	Central Bank of West African States
BCP	Core Principles for Effective Banking Supervision
CCP	Central Counter Party
CMU	Country Management Unit
CPSS	Committee on Payments and Settlements Systems
DAR	Detailed Assessment Report
DQAF	Data Quality Assessment Framework
FIRST	Financial Sector Reform and Strengthening
EITI	Extractive Industries Transparency Initiative
EU	European Union
EUR	European Department
FAD	Fiscal Affairs Department
FATF	Financial Action Task Force
FSAP	Financial Sector Assessment Program
FSB	Financial Stability Board
FSF	Financial Stability Forum
FSI	Financial Stress Index
GAAP	General Accepted Accounting Principles
GDDS	General Data Dissemination System
HKMA	Hong Kong Monetary Authority
IAASB	International Auditing and Assurances Standards Board
IAIS	International Association of Insurance Supervisors
ICP	Insurance Core Principle
ICR	Insolvency and Creditor Rights
IEO	Independent Evaluation Office
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
IIP	International Investment Position
IOSCO	International Organization of Securities Commissions
ISA	International Standards on Auditing
ISP	Insurance Supervisory Principles
ISQC	International Standard on Quality Control
LEG	Legal Department
LIC	Low-Income Country
MCD	Middle East and Central Asia Department

MCM	Monetary and Capital Markets Department
MFPT	Code of Good Practices on Transparency in Monetary and Financial Policies
NBP	National Bank of Pakistan
NCJ	Non-Cooperative Jurisdictions
NPO	Non-Profit Organization
NSDP	National Summary Data Page
OECD	Organization for Economic Cooperation and Development
OTC	Over-the-Counter Derivative
PCG	OECD's Principles of Corporate Governance
RAP	Resource Allocation Plan
RBI	Reserve Bank of India
ROSC	Report on Observance of Standards and Codes
RSSS	Recommendation for Securities Settlement Systems
SCI	Standards and Codes Initiative
SCSI	Standing Committee on Standards Implementation
SDDS	Special Data Dissemination Standard
SIFI	Systemically Important Financial Institution
SME	Small- and Medium-sized Entities
SBP	State Bank of Pakistan
SIV	Structured Investment Vehicle
SPR	Strategy, Policy, and Review Department
STA	Statistics Department
TA	Technical Assistance
WEO	World Economic Outlook
WHD	Western Hemisphere Department

I. Overview

This paper serves as background reference to the paper, "2011 Review of the Standards and Codes Initiative." The Initiative, which covers standards in 12 policy areas relevant for Bank and Fund work, was created as an integral part of a global response to promote financial stability in the aftermath of the Asian crisis in the 1990s. This paper discusses developments since the Initiative's last review in 2005. In particular, it covers the evolution of standards in the 12 policy areas, progress in implementing measures to improve the effectiveness of the Initiative, the role that the Initiative played in the recent global crisis, and perceptions of major stakeholders reflected in survey responses and bilateral consultations conducted by staff.

Chapter II presents a summary of changes to the standards and codes under the Initiative since the 2005 review. Almost all of the standards and codes have been revised to cover areas that have become important in light of developments in the global economy and the evolution of financial markets. Revisions partly reflect the need to: (i) address gaps in financial sector reporting and monitoring of systemic and institution-level risks; (ii) take into better account cross-border and cross-sectoral linkages;(iii) increase the emphasis on group-wide supervision and regulation; and (iv) cover previously unregulated entities, among others.

Chapter III provides a detailed discussion of progress in implementing the recommendations in the 2005 Review. The recommendations focused on improving three broad areas: coverage and prioritization of Reports on Observance of Standards and Codes (ROSCs), integration with surveillance and technical assistance, and clarity of reporting. While significant efforts were made, progress has been generally limited in implementing the specific measures that were recommended, partly on account of resource constraints. In particular, while some progress was achieved in improving ROSC coverage, limited progress was achieved in integrating ROSC findings with surveillance and measures to better disseminate the findings from ROSCs. More progress has been achieved in better linking ROSCs with technical assistance (TA).

Chapter IV reports on an empirical study which tests the presence of a link between adherence to standards and codes and the impact of the financial crisis on a selected sample of countries. Based on results of the study, for advanced countries, there is some evidence that adherence to banking standards reduced financial stress and increased growth, and adherence to securities standards reduced stress in securities markets. However, these results do not extend to emerging markets or to insurance or corporate governance standards. In addition, the results are not robust in the presence of control variables and, in some cases, yield counterintuitive outcomes.

Chapter V presents four country case studies on the role of ROSCs in identifying vulnerabilities of countries which were significantly affected by the crisis. The studies suggest that ROSCs correctly identified vulnerabilities in Greece, Hungary, Pakistan, and the United Kingdom prior to the crisis. Surveillance immediately after the ROSC missions also incorporated ROSC findings. However, there was no systematic follow up of ROSC recommendations in subsequent Article IV consultations, and the degree to which recommendations were followed largely depended on authorities' efforts. As a result, many of the weaknesses identified in the ROSCs were still present during the crisis.

Chapter VI presents the results of the survey questionnaires submitted to major stakeholders of the Initiative. Surveys were conducted for country authorities, mission chiefs, standard assessors, and market participants. Results were broadly similar to the results during the 2005 Review. Most stakeholders continue to view the Initiative as useful, particularly in identifying vulnerabilities and establishing priorities for strengthening institutions. ROSCs on payment systems and fiscal transparency were viewed as the most useful. The quality of assessments was also seen as adequate. There was no strong support for adding new standards to the Initiative, but there were calls for strengthening existing standards.

Chapter VII provides a summary of bilateral consultations with major stakeholders. Bilateral meetings were held with all standard setters and selected country authorities and market participants. Outcomes of meetings broadly reflect the findings in the surveys. In addition, standard setters found the Initiative to be useful and called for stronger cooperation with standard assessing bodies. Country authorities expressed the need for more follow up on ROSC recommendations. Market participants called for more frequent updates and better dissemination of ROSC findings.

II. Developments in the Standards and Codes Since the 2005 Review[1]

1. In view of the 2011 Review of the Standards and Codes Initiative (SCI), this note presents updates and changes in the standards since the last review of the Initiative conducted in 2005. The Initiative, which covers 12 areas and associated standards considered relevant for Bank and Fund work, broadly relates to policy transparency, financial sector regulation and supervision, and market integrity. The following changes have been made to the standards since 2005.

A. Policy Transparency

2. **Data**: The Data ROSC applies the Data Quality Assessment Framework (DQAF), which is organized around five dimensions of data quality and has a cascading codified structure of elements and indicators (see http://dsbb.imf.org/Pages/DQRS/DQAF.aspx).

[1] Prepared by Kingsley Obiora.

- In addition to the generic (July 2003) DQAF, specific DQAFs have been developed covering national accounts statistics, consumer price index, producer price index, government finance statistics, monetary statistics, balance of payments statistics, and external debt statistics.

- Not all macroeconomic statistics are covered in every data ROSC. Sometimes, a targeted approach is followed for data ROSCs when only a subset of macroeconomic statistics is evaluated.

- A data ROSC report comprises three volumes: a summary report; the response by the authorities; and detailed assessments by statistical topic.

- The data ROSC summary report contains overall assessments categorized by observed (O), largely observed (LO), largely not observed (LNO), not observed (NO), or not applicable (NA), as well as a prioritized set of recommendations, including recommendations that cut across macroeconomic statistical topics.

3. The Fund is planning to update its DQAF which was last revised in 2003 to make it more relevant for use in Data ROSCs. Specifically, it will improve the coverage of non-bank financial institutions, cross-border positions, and IIP, among others, and will take into account more recent versions of statistics manuals (e.g., 2008 SNA, 2001 GFSM, and BPM6). The updated DQAF is expected by end-2012. Due to resource constraints, full standard assessments on Data Transparency will be temporarily suspended until then.[2]

4. **Fiscal Transparency**: The Fund's *Code of Good Practices on Fiscal Transparency* was updated and approved by the IMF Board in 2007, based on assessments of country observance relative to the good practices identified in the previous version of the *Code*.[3] The revised Code retained the original four pillars of fiscal transparency, but it introduced nine new specific good practices and broadened the coverage of others. Issues covered by the new and extended practices include contractual arrangements with private companies; publication of a citizen's guide' to the budget; consultation periods for the budget and for proposed changes to laws and regulations; periodic reports on long-term public finances; and openness in the sale and purchase of government assets. The revised Code distinguished key issues and priorities more clearly, and included some emerging issues in more detail:

- Allow sufficient time for consultation about proposed laws and regulatory changes and, where feasible, broader policy changes.

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[2] A very limited number of partial/sector-specific assessments may be conducted for some countries.

[3] The revised *Code* took into consideration suggestions from the general public, country authorities, development agencies, academics, and nongovernmental agencies working in the area of budget transparency.

- Improve accessibility to the public and clarity of contractual arrangements between the government and public or private entities, including resource companies and operators of government concessions.

- Explicit legal basis for government liability and asset management, including the granting of rights to use or exploit public assets.

- Specify and adhere to a budget calendar and allow adequate time to the legislature for consideration and approval of the draft budget.

- Present supplementary revenue and expenditure proposals during the fiscal year to the legislature in a manner consistent with the original budget presentation.

- Separately identify in the annual budget receipts all major revenue sources, including resource-related activities and foreign assistance.

- Publish a periodic report on long-term public finances.

- Develop a clear and simple summary guide to the budget for wider distribution.

- Undertake purchases and sales of public assets in an open manner, including separate identification of major transactions.

- Explain major revisions to historical fiscal data and any changes to data classification.

- Publish information on the level and composition of central government debt and financial assets, significant non-debt liabilities and natural resource assets.

- Provide a description of major expenditure and revenue measures, and their contribution to policy objectives, including estimates of their current and future budgetary impact and their broader economic implications.

- The *Guide to Resource Revenue Transparency,* which applies the principles of the *Code* to the unique set of problems and issues faced by countries that derive a significant share of revenues from oil and mineral resources, was also revised in 2007.[4]

5. As a measure to improve communication with the users, a Fiscal Transparency portal (in the IMF external webpage) was created in 2008.[5] This portal provides information on the

[4] The revised *Guide to Resource Revenue Transparency* naturally complements recent initiatives, such as the Extractive Industries Transparency Initiative (EITI), which focuses more narrowly on the reporting of transactions between resource companies and governments.
[5] http://www.imf.org/external/np/fad/trans/index.htm

fiscal transparency code, fiscal transparency manual, guide on resource revenue transparency, country reports, questionnaires, and procedural notes.

6. **Monetary and Financial Policy Transparency**: The Fund's Code of Good Practices on Transparency in Monetary and Financial Policies (MFPT). Although no revisions have been made since 1999, the Fund plans to revise the MFPT code to remove the overlap on financial policies currently covered by other standards and update the monetary policy transparency standards in light of the crisis.

B. Financial Sector Standards

7. **Banking Supervision:** Basel Committee's Core Principles for Effective Banking Supervision (BCP). In conducting the 2006 Review of the BCP, the Committee specifically aimed to ensure continuity and comparability with the 1997 version.

- Addition of new "umbrella" principle to cover all aspects of risks.
- Enhanced criteria for assessing interest rate, liquidity and operational risks.
- Strengthened the criteria on fight against money laundering and terrorist financing as well as fraud prevention.
- More comprehensive reflection of cross-border and cross-sectoral trends and developments, as well as the need for closer cooperation and information exchange between supervisors of different sectors and countries.

8. The Basel Committee, together with its oversight body, the Group of Governors and Heads of Supervision, has also developed new micro- and macro-prudential standards which reflect the lessons learned from the crisis, and are collectively referred to as "Basel III."[6] These standards include:

- Redefinition of capital with greater focus on common equity which is the highest quality component of banks' capital to ensure banks are better able to absorb losses on both a going concern and a gone concern basis;
- Increase in the risk coverage of the capital framework, in particular for trading activities, securitizations, exposures to off-balance sheet vehicles and counterparty credit exposures arising from derivatives;

[6] These new standards were agreed and issued by the Committee and Governors and Heads of Supervision between July 2009 and September 2010.

- Increase in the level of the minimum capital requirements, including an increase in the minimum common equity requirement from 2 percent to 4½ percent and a capital conservation buffer of 2½ percent bringing the total common equity requirement to 7 percent;

- Introduction of an internationally harmonized leverage ratio to serve as a backstop to the risk-based capital measure and to contain the build-up of excessive leverage in the system;

- Raising standards for the supervisory review process (Pillar 2) and public disclosures (Pillar 3), together with additional guidance in the areas of sound valuation practices, stress testing, liquidity risk management, corporate governance and compensation;

- Introduction of minimum global liquidity standards consisting of both a short-term liquidity coverage ratio and a longer-term, structural net stable funding ratio; and

- Requirement that banks build-up capital buffers in good times that can be drawn down in periods of stress, including both a capital conservation buffer and a countercyclical buffer to protect the banking sector from periods of excess credit growth.

9. **Securities:** International Organization of Securities Commissions' (IOSCO) Objectives and Principles for Securities Regulation. In its 2010 Annual Meeting IOSCO approved a revised set of principles, which addresses the main lessons from the crisis. The 38 principles adopted in June 2010 include five revised principles and 8 new principles. The five revised principles include:

- Collective Investment Schemes (CIS): In addition to determining eligibility, regulators are now required to set standards for governance, organization and operational conduct;

- Market Intermediaries: requirement that market intermediaries should have an internal function designed to assure it complies with applicable standards for internal organization and conduct;

- Issuers: In order to fully reflect IOSCO’s disclosure requirements, an issuer is now required to disclose risks, financial results, and other information;

- Accounting: clarification that the accounting standards referred to in the IOSCO Principles are those used by issuers to prepare financial statements;

- Secondary markets: clarification that Central Counterparties (CCPs) systems for clearing and settlement are also governed by this principle.

10. The eight new principles integrated by IOSCO include:

- Systemic risk: security regulators are now required to participate in the process of monitoring, mitigating and managing systemic risk, appropriate to their mandate;

- Perimeter of regulation: regulators are also required to play a more active role in determining and reviewing the perimeter of regulation on a regular basis;

- Conflict of interests: regulators should seek to ensure that conflicts of interest and misalignment of incentives are avoided, eliminated, disclosed, or managed;

- Auditors' oversight: adequate levels of oversight should be provided to auditors;

- Auditors' independence: auditors are now required to be independent of the issuing entities that they audit;

- Credit Rating Agencies: these should be subject to adequate levels of oversight. Securities regulators are required to ensure that credit rating agencies, especially those whose ratings are used for regulatory purposes, are subject to registration and ongoing supervision;

- Information service providers: entities that offer investors analytical or evaluative services should be subject to oversight and regulation depending on their impact on the market or the degree to which the regulatory system relies on them; and

- Hedge funds: regulators should ensure that hedge funds, hedge funds managers and advisers are subject to appropriate oversight.

11. IOSCO is currently in the process of reviewing the commentary to the principles, as well as the methodology to assess their implementation. The draft methodology has been approved by the Implementation Task Force (ITF) for consultation. The goal is to finish this review by the next Annual Meeting (April 2011).

12. **Insurance:** International Association of Insurance Supervisors' (IAIS) Insurance Supervisory Principles (ISP). A number of standards, principles and frameworks have been introduced since 2005, including:

- Standard on Asset-Liability Management (October 2006).

- Standard on the structure of regulatory capital requirements (October 2008).

- Principles on group-wide supervision of financial groups (October 2008).

- Standard on the use of internal models for regulatory capital purposes (October 2008).

- Standard on enterprise risk management for capital adequacy and solvency purposes (October 2008).

- Standard on the structure of capital resources for solvency purposes (October 2009).

- Development of a common framework for the supervision of internationally active insurance groups and their group-wide risks.

13. **Payments and Securities Settlement Systems:** Committee on Payments and Settlements Systems (CPSS) Core Principles for Systemically Important Payments Systems and CPSS-IOSCO Joint Task Force's Recommendations for Securities Settlement Systems.

- No reviews since the January 2001 publication of the *Core Principles for Systemically Important Payments Systems* and November 2001 publication of *Recommendations for Securities Settlement Systems.*

- The CPSS/IOSCO issued 15 Recommendations for Central Counterparties in November 2004, and assessments on this standard (including in the 2009 U.S. FSAP) have been conducted.

- There is ongoing work to merge the three standards on payment systems into one consolidated standard. These three include: Core Principles for Systemically Important Payments Systems, Recommendations for Securities Settlement Systems, and Recommendations for Central Counterparties.

14. **Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT):** Financial Action Task Force's (FATF) 40+9 Recommendations. The original 40 recommendations developed in 1990 (and revised in 1996 and 2003), as well as the 9 special recommendations developed in 2000 and 2004 (to cover the financing of terrorism) are still in place. To remain effective, however, their accompanying interpretative notes and methodology are continually reviewed, and when necessary, revised. Based upon issues that arise from evaluations or dialogue with members, the following revisions have been made since 2005:

- Adoption of new interpretative note which clarifies the requirements on non-profit organizations (NPOs) and ensures that NPOs are protected from financing by terrorists (February 2006).

- Revision of the text of the Methodology criteria on Cash Couriers to address issues relating to the internal borders of a supranational jurisdiction, such as the European Union (EU).

- Amendment of *Interpretative Note to Special Recommendation VII* and the *AML/CFT Methodology* to reflect that intra-European Union wire transfers should be treated as domestic wire transfers (February 2008).

15. **Crisis Resolution and Deposit Insurance**. The Financial Stability Board (FSB) plenary scheduled on February 28, 2011 will consider a proposal by the Standing Committee on Standards Implementation (SCSI) working group to include this policy area as part of the list of key standards relevant for financial stability. Depending upon the outcome of the FSB plenary meeting, standards under this area could include the IADI's Core Principles for Effective Deposit Insurance Systems, the Recommendations of the Basel Committee on Cross-Border Bank Resolution, and the FSB's Key Attributes of Effective Resolution Regimes.

C. Market Integrity Standards

16. **Corporate Governance**: The Organization for Economic Cooperation and Development's (OECD's) Principles of Corporate Governance (PCG). The preamble to these Principles states that they "*are evolutionary in nature and should be reviewed in light of significant changes in circumstances.*" Given this,

- The OECD published the Methodology for Assessing Implementation of the OECD Principles on Corporate Governance which underpins the dialogue on implementation of the Principles in a jurisdiction and provides a framework for policy discussions (2007).

- The OECD recently (2009) launched an action plan to address weaknesses in corporate governance with the aim of developing a set of recommendations for improvements in the Principles' priority areas, such as board practices, implementation of risk-management, governance of the remuneration process, and the exercise of shareholder rights.

17. **Accounting**: International Accounting Standards Board's International Accounting Standards (IAS). Two main developments, both occurring in 2009, are worth noting under accounting standards, namely:

- Issuance of a separate standard—the *International Financial Reporting Standards (IFRS) for Small- and Medium-sized Entities (SMEs)*—tailored to the needs and capabilities of smaller businesses around the world. The standard aims to facilitate SMEs' access to capital by ensuring the provision of comparable, transparent and high quality financial reports.

- Expediting the process of improving "fair value" based accounting standards. In this regard, the IASB has concluded the first phase of replacing the IAS 39 *Financial*

Instruments: Recognition and Measurement by issuing IFRS nine *Financial Instruments*.

18. **Auditing:** International Federation of Accountants' International Standards on Auditing (ISA). In 2004, the IAASB began a comprehensive program to enhance the clarity of its ISAs. This program, called the Clarity Project, involved the application of new drafting conventions to all ISAs, either as part of a substantive revision or through a limited redrafting, to reflect the new conventions and matters of clarity generally. The Clarity Project reached its completion in February 2009, when the Public Interest Oversight Board approved the due process for the last several clarified ISAs.

19. The final set of clarified standards, which became effective on December 15, 2009, comprises 36 ISAs and International Standard on Quality Control (ISQC) 1, including:

- One new standard, addressing communication of deficiencies in internal control;
- 16 standards containing new and revised requirements (referred to as "revised and redrafted ISAs");
- 20 standards that have been redrafted to apply the new conventions and reflect matters of general clarity only (referred to as "redrafted ISAs and redrafted ISQC 1"); and
- Revision and redrafting of ISA 540 on Auditing Accounting Estimates, including Fair Value Accounting Estimates, and Related Disclosures (February 2008).

20. **Insolvency and Creditor Rights**: In 2005, a revised version of the World Bank Principles for Effective Insolvency and Credit Rights Systems was submitted to the Bank Board and published. A unified standard based on the 2005 World Bank Principles and the Recommendations included in the UNCITRAL Legislative Guide on Insolvency Law has been developed, in consultation with the Fund; the unified standard has been published and presented to the Bank's Executive Directors for information in March 2009, and the next step would be submission to the Bank Board for endorsement. A new methodology based on the Insolvency and Creditor Rights (ICR) Standard was agreed among the World Bank, IMF, and UNCITRAL, and is currently being used for ROSC assessments.

21. In response to the experience from the recent financial crisis, and to incorporate updates to UNCITRAL's Legislative Guide on Insolvency Law, the Bank has reviewed and revised the standard, in close consultation with the UNCITRAL Secretariat. In January 2011 the Bank, together with UNCITRAL and the Fund staff, reconvened the Global ICR Task Force (consisting of representatives of international organizations and over 85 internationally recognized experts, policy makers and judges from all regions), to finalize the 2011 Standard for Insolvency and Creditor/Debtor Regimes. The 2011 ICR Standard will be presented to the

Executive Directors of the Bank and Fund for formal endorsement for use in the ROSC program.

D. Other Standards Outside the Initiative

22. **There are other relevant standards beyond the core set that are assessed in the context of the Initiative.** Some of the standards for which the Bank and the Fund do not produce ROSCs but are important include the IMF-issued "Guidelines for Foreign Exchange Reserve Management," the IMF-facilitated "Santiago Principles" (Generally Accepted Principles and Practices for Sovereign Wealth Funds) and the IMF-facilitated "Stockholm Principles" (Guiding Principles for Managing Sovereign Risk and High Levels of Public Debt). Some of these important standards are included in the FSB Compendium of standards, and the Compendium is currently being revised.

III. Progress in the Implementation of the 2005 Recommendations

A. Introduction

23. Since its launch in 1999, there have been three periodic reviews by the Bank and Fund Boards assessing the effectiveness of the Standards and Codes Initiative ("Initiative"). In each review, staff presented to the Board a progress report on the implementation of the Initiative and proposed ways to improve its effectiveness. This section of the paper focuses on progress made on the proposals in the 2005 Review.

24. The 2011 Review takes place amidst major shifts in the global economy since the last review. These include more highly-integrated financial markets, unprecedented capital flows, asset price bubbles, and the global crisis. During this period, the Bank and Fund also underwent significant changes. In the case of the Fund, large budget cuts were made in the face of a projected sharp deterioration in the Fund's income position. The 2006 Medium-Term Strategy generated a significant downsizing of the scale of the Fund's activities, including the number of Reports on Observance of Standards and Codes (ROSCs). In 2006, the ROSC recommendations were crystallized into a summary of actions that took into account both the 2005 Review[7] and these new budget constraints.[8] [9]

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[7] See *IMF Executive Board Reviews the Standards and Codes Initiative*, August 8, 2005.

[8] See *Standards and Codes—Implementing the Fund's Medium-Term Strategy and the Recommendations of the 2005 Review of the Initiative*, June 29, 2006.

[9] Operational changes to the Fund's work on Standards and Codes (July 7, 2006) included a *Template for Report on Post-ROSC Meetings* which could serve as an agenda for a meeting and as a template for recording it. It also included new procedures such as using the flexibility to conduct factual updates with participation of functional department experts in Article IV missions, and increasing country ownership of ROSCs through proposing, when appropriate, combining diagnostics with TA for countries reluctant to engage in ROSCs.

25. The 2005–06 recommendations were geared towards improving the three operational areas below:

(i) Country coverage and prioritization of ROSCs to promote more efficient use of resources;

(ii) Integration of ROSCs with Fund surveillance and TA for better use of ROSC findings and greater support of reform efforts; and

(iii) Clarity and timeliness of ROSCs.

26. The assessment draws on multiple sources: a document review of the Fund's Article IV reports; surveys of the Fund's area and functional department mission chiefs and the authorities; discussions with standard setters and assessors who have been engaged in their respective fields over extended periods; and the business plans of the Fund and respective departments.

27. The chapter concludes that while significant effort has been made to implement the recommendations of 2005 Review, more can be done to enhance its usefulness. Since the last Review, the Bank and Fund have increased focus and selectivity of ROSC updates and the knowledge transfer between ROSCs and TA coordinators and area departments has improved. However, country coverage and prioritization has been constrained by the voluntary nature of the Initiative and the tighter budget envelope. In terms of the clarity of ROSCs, the authorities viewed the ROSC findings and recommendations as well-prioritized with an appropriate level of detail. Nevertheless, there is no systematic attempt to ensure that macro-relevant ROSC recommendations are being reflected in Fund surveillance.

B. Assessing Implementation of 2005–06 Recommendations

Country coverage and prioritization

Recommendation 1: The guiding principle for prioritizing new ROSC:

- *Give priority to systemic and regionally-important countries, other emerging-market countries; and program countries with weaknesses in areas covered by ROSCs.*
- *For fiscal transparency ROSCs, give also priority to resource-rich countries.*

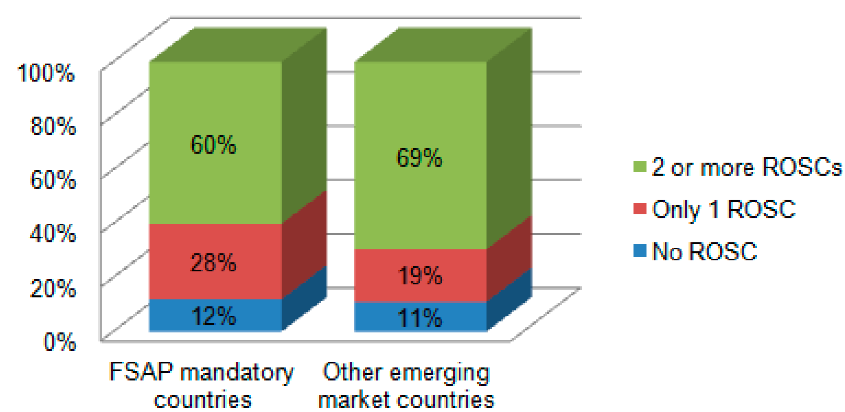
28. The guiding principle on the country coverage and priority provided broad direction for conducting ROSCs, but there were unavoidable constraints to its implementation. These include: (i) the voluntary nature of ROSC participation; and (ii) the resource constraints and downsizing in the Fund which led the Fund to target countries where ROSCs would yield the most benefits, from either a national or systemic perspective. Also, a significant number of countries have completed only one ROSC.

29. The coverage of systemically-important countries was incomplete. In the case of systemically-important countries, 22 out of 25 jurisdictions considered to have systemically important financial sectors in the context of mandatory FSAPs[10] had participated in the FSAP during the period of January 2006–December 2010. However, among them, seven had completed only one ROSC. Among the systemically-important countries, two countries stand out. The need for ROSCs in the US and China was identified at an early stage, but their participation took place much later, only as the recent crisis unfolded and as it became a prerequisite for G-20 countries under the Financial Stability Board (FSB).

30. The rate of new participation by "other emerging market countries"[11] was quite high. Thirty-two out of 36 other emerging market countries participated during 2006–10. However, as in the case of systemic countries, about seven of these (Chile, Estonia, Hungary, Malta, Panama, South Africa and Venezuela) had only one ROSC.

31. Progress in achieving an increase in fiscal transparency ROSCs on resource-rich countries was limited. Only six ROSCs on fiscal transparency were carried out among the 33 hydrocarbon- and mineral-rich countries during 2006–10 (Angola, Cameroon, Ecuador, Gabon, Indonesia and Norway). [12]

Figure 1. ROSC Country Coverage and Prioritization (January 2006-July 2010)



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[10] See *Integrating Stability Assessment under FSAP into Article IV Surveillance*, August 27, 2010. They include Australia, Austria, Belgium, Brazil, Canada, China, France, Germany, Hong Kong SAR China, India, Ireland, Italy, Japan, Luxembourg, Mexico, Netherlands, Russian Federation, Singapore, South Korea, Spain, Sweden, Switzerland, Turkey, United Kingdom, and United States.

[11] Interpreted here as emerging market countries not included in the list of countries with systematically important financial sectors for the purpose of the mandatory FSAP.

[12] Hydrocarbon- and mineral-rich countries include: Algeria, Angola, Azerbaijan, Bahrain, Brunei Darussalam, Cameroon, Colombia, Republic of Congo, Ecuador, Equatorial Guinea, Gabon, Indonesia, Iran, Iraq, Kazakhstan, Kuwait, Libya, Mexico, Nigeria, Norway, Oman, Qatar, Russian Federation, Saudi Arabia, Sudan, Syria, Trinidad and Tobago, Turkmenistan, UAE, Uzbekistan, Venezuela, Vietnam, and Yemen.

Table 1. Completion of New ROSCs (January 1, 2006 – July 30, 2010)
(By region)

	Data	Fiscal	MFPT	BCP	IOSCO	IAIS	CPSS	AML/CFT	A&A	CG	ICR	Total	Share in total
AFR	5	6	2	12	1	1	0	6	15	6	4	58	18%
APD	3	3	2	7	2	2	3	9	9	6	3	49	16%
EUR	8	10	3	21	8	9	7	19	9	5	2	101	32%
MCD	5	3	1	11	3	1	1	8	10	3	0	46	15%
WHD	9	3	2	11	4	2	6	9	10	2	4	62	20%
Total	30	25	10	62	18	15	17	51	53	22	13	316	100%
Share in total	9%	8%	**3%**	**20%**	6%	5%	5%	16%	17%	7%	4%	100%	

(By income group)

	Data	Fiscal	MFPT	BCP	IOSCO	IAIS	CPSS	AML	A&A	CG	ICR	Total	Share in total
ADV	4	7	1	15	10	11	7	25	0	0	0	80	25%
EMG	10	7	2	10	4	2	4	9	13	8	4	73	23%
DEV	16	11	7	37	4	2	6	17	40	14	9	163	52%
Total	30	25	10	62	18	15	17	51	53	22	13	316	100%
Share in total	9%	8%	3%	20%	6%	5%	5%	16%	17%	7%	4%	100%	

Source: IMF and World Bank ROSC Database and Staff Calculations.

Recommendation 2 : Clearer unconstrained priorities

- *Reflect in staff appraisals of Article IV staff reports, staff's views on priority areas for standards assessments, independently of the authorities' perceived or actual (un)willingness to request a ROSC.*

32. To assess its implementation of this recommendation, staff conducted a document review of recent Article IV staff reports. Forty-eight Article IV countries were randomly selected from advanced, emerging market and developing economies (16 countries from each group) to represent the whole membership.[13] Staff assessed whether the latest available staff

[13] The sample countries for advanced economies include: Australia, Belgium, Canada, Cyprus, France, Germany, Greece, Japan, Korea, Luxemburg, Netherlands, Norway, Portugal and UK. For emerging markets,

(continued)

report from each country contained: (i) views on priority areas for standard assessments and (ii) reference to previous ROSCs.

33. The results suggest that recommendation 2 has not been fully implemented:

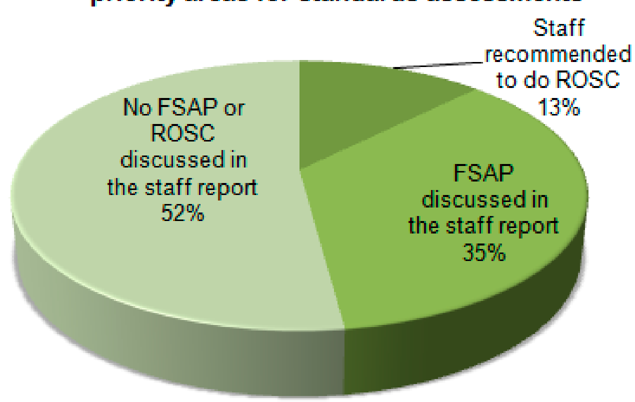
- Six out of 48 staff reports (or 13 percent) contained staffs' views on the need for a future ROSC, of which four were from developing countries;

- Seventeen (or 35 percent) of the reports discussed FSAP recommendations and follow ups; and

- Six out of the 41 staff reports (or 15 percent) of the countries that had completed (or are currently engaged in) at least one ROSC contained a reference to or a discussion of the past ROSC recommendations. Half of these staff reports were from developing countries.

34. The relatively low percentage of staff reports that followed up on the recommendation has to be interpreted in light of the fact that most ROSCs are completed in the context of FSAPs and references to ROSCs and FSAPs are often difficult to distinguish.

Figure 2. Share of staff reports containing staffs views on the priority areas for standards assessments



the sample includes: China, Croatia, Dominican Republic, Ecuador, Estonia, Hungary, India, Lebanon, Malaysia, Panama, Philippines, Slovak Republic, Slovenia, South Africa and Turkey. For developing countries, the sample includes: Angola, Azerbaijan, Bangladesh, Haiti, Kazakhstan, Kenya, Kuwait, Libya, Macedonia, Mauritius, Paraguay, Senegal, Timor Leste and Turkmenistan.

Recommendation 3: Focus and selectivity of ROSC updates

- *Increase flexibility in the frequency of ROSC updates.*
- *Use flexibility to conduct factual updates with participation of functional department experts in Article IV missions.*
- *Discontinue the requirement of annual factual updates by area departments.*

35. The progress on increasing the flexibility in the ROSC updates has been largely achieved. In the case of fiscal transparency ROSCs, frequent reassessments and updates were carried out for countries that were engaged in Fund programs (Kyrgyz Republic, Mozambique, and Greece). The Monetary and Capital Markets Department (MCM) also had a group of countries mostly in Europe which had three or more reassessments and updates (Russia, Sweden) for different standards (BCP, IOSCO, IAIS and CPSS standards). Since 2005, 67 percent of countries that participated in FSAPs had at least two reassessments and updates on BCP.

36. Factual updates with participation of functional department experts in the Article IV missions appear to have been limited because of resource constraints. Functional department assessors indicated that while the area departments did not object to their participation, the cost of experts' participation were to be borne by the originating functional departments who were already under pressure to cut spending. Moreover, as a result of downsizing, there were insufficient experts to be deployed to conduct factual updates. Nevertheless, according to the survey of area department mission chiefs, about 75 percent agreed that member countries' needs could be better served by the participation of functional department experts (see Chapter VI).

Recommendation 4: Increased country ownership of ROSCs

For countries reluctant to engage in ROSCs, propose, when appropriate, combining diagnostics with TA.

37. Except for ROSCs on AML/CFT and data, there are currently no targeted TA programs to follow up on ROSC recommendations. For Data ROSCs, the ROSC priority countries (e.g. G-20 and SDDS subscribers) often do not need TA. For Fiscal Transparency ROSCs, while there are no TA programs exclusively targeted to follow up on ROSC recommendations, TA missions were carried out in the context of Public Financial Management, Expenditure Control, and other projects such as Strengthening Public Sector Investment, and these missions followed up ROSC recommendations whenever they were viewed relevant. For FSAP-related ROSCs, a Fund TA mission is sent to discuss country priorities with the authorities in the context of the FSAP's recommendations. After a consensus is reached, the TA mission finalizes an action plan for future Fund-related support where issues related to ROSCs can be included.

38. Outreach discussions with emerging market and developing countries, case studies,[14] and the answers to the survey questionnaire indicate that there is scope for more systematic TA follow-up. Case studies highlighted the importance of an active TA program, for example, in the case of Poland and Mozambique. In their survey responses, 55 percent of the authorities who responded indicated that ROSCs contributed to prioritizing their TA needs (see Chapter VI).

Integration with Bank and Fund work

Recommendation 1: Post-ROSC wrap-up meeting

- *Hold post-ROSC wrap-up meetings upon the mission's return for fiscal, data, and stand-alone financial ROSCs, to agree on follow-up actions to be taken in the context of surveillance, use of Fund resources, and/or TA.*

39. Post wrap-up meetings, aimed at strengthening coordination between surveillance and TA, have taken place to a large extent. In the case of fiscal transparency ROSCs, wrap-up meetings were arranged, and/or ROSC teams maintained close contact with the area department mission chiefs to transfer knowledge for most of the countries. In the case of the Data ROSC, it has been standard procedure that the STA mission chief meets with the area department mission chiefs to exchange information and agree on follow-up actions. For FSAP-related ROSCs, a mechanism for knowledge transfer already exists, so wrap-up meetings were not expected to be carried out.

40. In the case of the ROSCs conducted by the Bank, post mission review meetings are held with participation of the Country Management Units (CMU) to follow up on ROSC recommendations both for FSAP-related and stand-alone ROSCs. In many cases, these meetings are chaired by the Country Director. The FSAP and ROSCs programs are also coordinated with the Financial Sector Reform and Strengthening (FIRST) Initiative to better facilitate follow up.

41. There is, however, no mechanism to follow up on ROSC recommendations to ensure that subsequent Article IV consultations address macro-relevant ROSC findings. Functional departments have indicated that this was largely due to resource constraints. Follow up on ROSC recommendations appeared to be more evident in the context of Fund financial arrangements than for surveillance cases. As indicated in the case studies, ROSC findings are often included in the conditionality for use of Fund/Bank resources. ROSCs findings have also been used to design prior actions and TA operations.

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[14] Twenty-two country case studies were prepared by an external consultant which covers the 12 policy areas under the Initiative (See *"2011 Review of the Standards and Codes Initiative: ROSC Case Studies*," Claudio Pardo, February 2011).

Recommendation 2: Better coordination with capacity building

- *Synchronize and coordinate ROSC programs with the Resource Allocation Plans (RAP).*
- *Establish the Committee on Capacity Building to replace TAMS, TAC and the task force to implement the Independent Evaluation Office's (IEO) recommendation on TA.*
- *Improve communication between departments' ROSC and TA coordinators; when feasible, assign these two functions to the same person.*
- *Include a discussion on ROSC needs and findings in TA country strategy notes.*

42. These recommendations were largely met, although implementation has been uneven. ROSC programs are coordinated with the Resource Allocation Plan (RAP), and a Capacity Building Committee has been established at the Fund. However, this Committee has not been actively involved in ROSC-related issues. In the case of both the ROSCs on fiscal transparency and data, there have been efforts to preserve the link between ROSCs and TA by assigning at least one staff to continue covering both. In FSAPs, there are regular internal meetings where the policy division, the ROSC implementation division, and the regional division discuss ROSC findings and TA country strategies.

43. ROSC findings have been used by the Fund's area departments in the preparation of their annual Regional Strategy Notes, which outline short- to medium-term TA priorities and discuss country strategies for intensive TA users. Moreover, ROSCs were viewed as part of the Fund's TA effort rather than as a surveillance tool by the program managers, as they provide a systematic and comprehensive approach on a specific topic. In some cases, donors expressed their areas of interest in TA, and ROSC recommendations were helpful for the preparation of a list of priorities.

Recommendation 3: Tools for cross-country and inter-temporal comparisons

- *Create a system of linked departmental databases of ROSC findings to facilitate the prioritization of updates, measurement of progress towards observance of standards, and cross-country analysis*.

44. Progress on this recommendation has been generally weak. At the time of the last review, it was envisaged that the new system would allow one-stop access to information across different standards. It would include firewalls for confidential financial sector data.

45. While published ROSCs are available by country and by standard, the database sharing appears ineffective. Access to ROSC detailed assessments managed by MCM is limited, and Fund-wide access is only given to aggregate reports and statistics. Access to country-specific information can be obtained only by contacting the responsible divisions irrespective of degree of confidentiality. In the case of the Fiscal Affairs Department (FAD),

a complete database is available, but is not easily accessible to non-FAD staff; and the Statistics Department (STA) has not completed any comprehensive database due to budget constraints.

Clarity and Timeliness of ROSC findings

Recommendations 1–3: Summary findings and recommendations, indicative timeline, and accessible information on ROSCs completed and underway

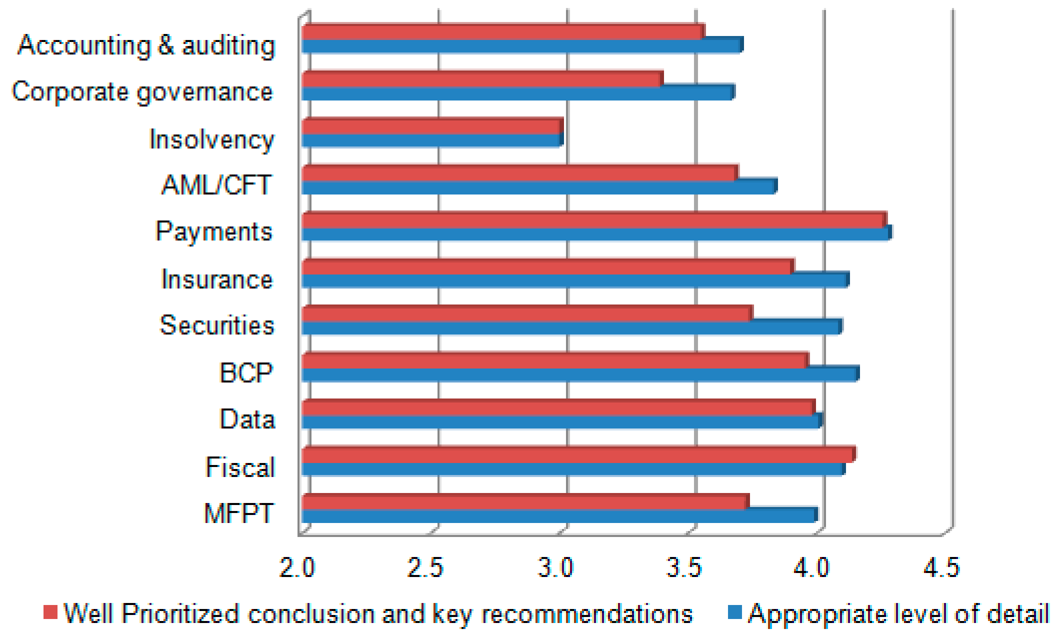
- *Include an executive summary providing a clear assessment of the overall degree of observance of the standard.*
- *Include a prioritized list of key recommendations.*
- *Include a principle-by-principle summary matrix of the observance of standards.*
- *Target to issue the ROSC to the Board no later than six months after the end of the (last) ROSC mission.*
- *Establish a webpage to disseminate information on ROSC participation on the Fund intranet.*

46. The decentralized nature of the ROSC Initiative has led to significant variations in the way the 12 standards are assessed and presented. Different ROSC templates are used for different standards. Summary of findings and principles ratings are presented in most ROSCs. However, for some standards (e.g., banking, insurance, and securities), recommendations in the detailed assessments are not explicitly prioritized.[15] For fiscal transparency, Accounting and Auditing, Payment and Settlement, and AML/CFT ROSCs, the detailed list of recommendations is prioritized with respect to urgency.

47. Results of the survey show that authorities largely viewed the ROSC findings and recommendations to be clear and well-prioritized. On a scale of 1 being the lowest and 5 the highest, authorizes rated the level of detail to be 3.9 and the degree of prioritization 3.8 on average. Among the 11 standards, the assessments on payment systems were rated the highest both in terms of detail and prioritization.

[15] See *"2011 Review of the Standards and Codes Initiative: ROSC Case Studies,"* Claudio Pardo, February 2011.

Figure 3. Authorities' assessments on level of detail and prioritization of key messages (1=lowest to 5=highest)



48. Results on the timeliness of ROSCs are mixed. Fiscal transparency ROSCs were issued in eight months on average. Data ROSCs also averaged 8–9 months, even for some advanced economies. However, for FSAP-related ROSCs, the average delay was close to three months, as timeliness played an important role in determining the value of the report. According to standard assessors, the delays were often due to disagreements within the government, particularly among the central bank, ministry of finance, and other related agencies, on the results of the assessment and recommendations. Language translation was also a factor behind delayed issuance of ROSC documents as it took an extra 2–3 weeks for the official translation to and from English to other official Fund languages.

49. Both the Fund and Bank maintain websites to disseminate information on the ROSC participation of the member countries. They are available on http://www.imf.org/external/np/rosc/rosc.asp and http://www.worldbank.org/ifa/rosc.html

IV. The Role of Standards and Codes in the 2007–08 Crisis: Looking at the Empirical Evidence

A. Introduction

50. The Standards and Codes Initiative was introduced in 1999 in the wake of the Asian financial crisis. Since the Initiative was intended to promote stability in financial crises, a natural question is whether we can find a quantitative link between a country's observance of

standards and codes and the impact of the 2008–09 economic and financial crisis. This chapter carries out an econometric analysis on a group of important advanced and emerging markets to examine this question. The analysis does not examine whether adherence to standards prevented the crisis but rather whether it mitigated the impact.

51. The main result is there is some evidence in advanced countries that adherence to banking standards reduced financial stress and increased economic growth in 2009 and that adherence to securities standards reduced stress in securities markets. However, the results do not carry over to emerging markets or to the insurance or corporate governance standards. In addition, the results are sensitive to the presence of control variables and, in some cases, give paradoxical results (i.e. suggest that adherence to standards increased financial stress).

52. The lack of strong results should not be surprising given that there is a very complex link between standard compliance and crisis resilience. Moreover, compliance ratings focus on minimum standards on a broad range of principles which are not all equally related to crisis resilience. Thus, they may not capture all the qualities of a country's institutions that are important during a crisis. In addition, promotion of standards may help countries in ways that are not captured by econometric analysis, for example by identifying gaps and supporting a reform agenda. These aspects are discussed in other parts of this study.

B. Literature Review

53. There are two different strands of economic literature of relevance to this analysis. First, there is a literature on the effectiveness of the standards and codes. Some of this was evaluated during the 2005 review of standards and codes. Additional research on the impact of standards and codes has been done since then, although with mixed results. Second, the crisis literature has examined what country-specific factors affected the course of the crisis across countries. However, this literature has so far not examined the relevance of overall adherence to standards and codes for how well countries fared during the crisis.

Research on Standards and Codes

54. The 2005 review cited six econometric studies on the impact of standards and codes. Four of the studies found that adherence to the standards and codes on transparency and banking supervision standards lowered market spreads, improved credit ratings, and improved indicators of market performance.

55. Studies since 2005 have produced more mixed results. Cady and Pellechio (2006) found that the subscription to the Fund's data standards initiatives reduced borrowing costs on sovereign bonds in private capital markets by an average of 20 basis points for 26 emerging market and developing countries. Das et al. (2005) developed an indicator of financial system stress and found that countries with higher quality financial policies were better able to contain the effects of macroeconomic pressures on the overall level of stress in the financial system. Hameed (2005) found that countries with more transparency policies

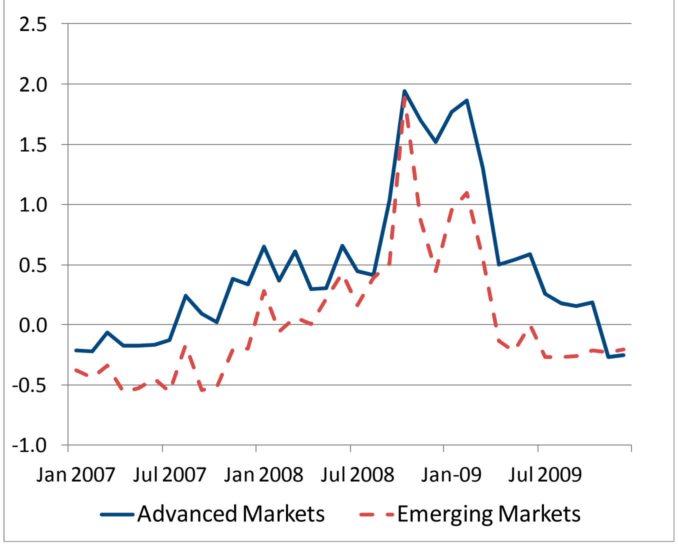
had better credit ratings, better fiscal discipline, and less corruption, after controlling for other variables. However, Demirguc-Kunt and Detragiache (2009) found that compliance with the Basel Core Principles did not improve bank performance as measured by their Z-scores.

Literature on the 2008–09 Economic and Financial Crisis

56. The emerging literature on the current economic crisis has begun to look at the country specific factors on the cross country impact of the financial crisis. Chapter 4 of the Fund's April 2009 World Economic Outlook examined how financial stress was transmitted from advanced economies to emerging markets. It found that crises in advanced economies have a large common effect on the banking sectors, stock markets, and foreign exchange markets of emerging economies. In addition, there is a sizable country-specific effect, which appears to be magnified by the intensity of financial linkages. In particular, financial openness and greater current account deficits increased the vulnerability of countries to the crisis.

57. Berkmen, Gelos, Rennhack, and Walsh (2009) used cross-country regressions to explain the factors driving growth forecast revisions after the eruption of the global crisis. They found that countries with more leveraged domestic financial systems and more rapid credit growth tended to suffer larger downward revisions to their growth outlooks. Exchange-rate flexibility helped buffer the impact of the shock while countries with a stronger fiscal position prior to the crisis were hit less severely. They found little evidence for the importance of policy variables.

Figure 4. Financial Stress During the Crisis
(Standard deviations above average)



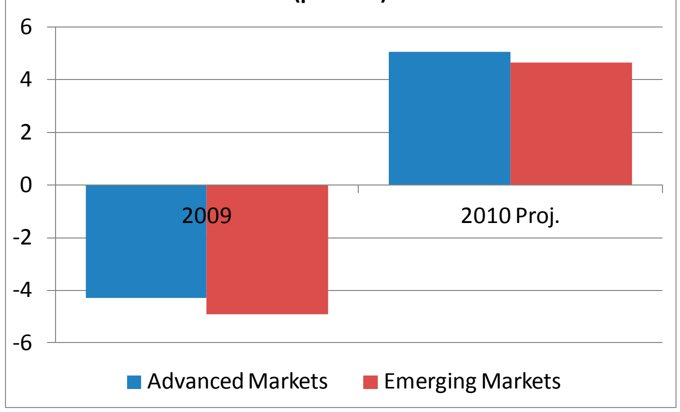
58. International Monetary Fund (2010) considers how emerging markets were affected by the initial impact of the crisis. It finds that countries with improved policy fundamentals and reduced vulnerabilities in the pre-crisis period performed better. In particular, (i) higher reserve holdings helped protect emerging markets from global risk aversion, (ii) countries with more policy space and less binding financing constraints could react more aggressively with fiscal and monetary policy, (iii) recovery was faster in countries that implemented bigger fiscal stimulus, had better fundamentals, and faster growing trading partners, and (iv) countries face different policy challenges as they exit from the crisis due to different circumstances.

C. Data and Econometrics

59. This analysis extends the work done on the severity of the crisis across countries by examining the impact of adherence to standards and codes. It considers two types of impact from the crisis: financial stress and economic growth. The results of the analysis are mixed. There is some evidence that adherence to standards and codes in securities markets is associated with less financial stress. However, there is little evidence that adherence to standards and codes in banking, insurance, or corporate governance ameliorated the impact of the crisis at a more general level.

60. As a measure of the impact of the global crisis on a country's financial system, this research uses the Fund's financial stress index (FSI). This index was developed in the context of the fall 2008 and spring 2009 World Economic Outlooks and measures financial stress as a composite index of stress measures in banking, securities markets, firms, and the exchange market for 17 advanced and 26 emerging market economies.[16 17]

Figure 5. Real GDP Growth during the Crisis
(percent)



61. This study examines the impact of individual standards and codes on the aggregate level of stress experienced by countries as measured by peaks in the FSI and the length of time it takes for financial stress to return to normal. It also looks at the impact of banking, securities, insurance, and corporate governance standards on subcomponents of the FSI.

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[16] For the purposes of the index, advanced countries include Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Italy, Japan, Netherlands, Norway, Spain, Sweden, Switzerland, the United Kingdom, and the United States while emerging market countries include Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Korea, Malaysia, Mexico, Morocco, Pakistan, Peru, Philippines, Poland, Russia, the Slovak Republic, Slovenia, South Africa, Sri Lanka, Thailand, and Turkey. The Czech Republic, the Slovak Republic, and Slovenia (which are now classified as advanced economies) are grouped with emerging economies as the empirical exercise covers in part the period prior to re-classification.

[17] The advanced market FSI is composed of the banking sector beta, TED spread, inverted spread, corporate debt spread, stock returns, stock volatility, and foreign exchange market volatility. Details of its construction are given in chapter 4 of the IMF's October 2008 World Economic Outlook. The emerging market FSI is composed of the banking sector beta, stock returns, stock volatility, sovereign debt spread, and a composite indicator of changes in the exchange rate and international reserves. Details of its construction can be found in chapter 4 of the IMF's April 2009 World Economic Outlook.

62. Economic stress is measured by changes in annual GDP growth in 2009 and in 2010 (based on WEO projections for 2010). The first corresponded with the global downturn caused by the financial crisis. The second corresponds to a period of partial recovery.

63. To determine the impact of the standards and codes, compliance ratings from the most recent ROSCs conducted before the outbreak of the crisis were used as a measure of adherence to standards. The compliance ratings were obtained from internal Fund and Bank databases. Regressions were conducted on individual standards to gauge their impact on robustness in the face of the crisis. However, it was not possible to obtain compliance ratings for some standards as they are not given (e.g. accounting and auditing and fiscal transparency before 2008) or samples are too small (e.g. fiscal transparency, monetary and financial transparency, and payments systems). Fortunately, compliance ratings are available for the standards that would be expected to most directly affect financial stability (banking, securities, insurance, and corporate governance).

ROSC	Data Available	Comments
Data	Yes	
Fiscal Transparency	No	Compliance ratings only given starting in 2008, sample size too small
Monetary and Financial Transparency	No	Sample size too small
Banking	Yes	
Securities	Yes	
Insurance	Yes	
Payment Systems	No	Sample size too small
AML/CFT	No	
Corporate Governance	Yes	
Accounting & Auditing	No	Compliance ratings not given
Insolvency and Creditor Rights	No	Compliance ratings not given

64. To separate the impact of adherence to standards and codes from other variables that could affect the impact of the crisis, other economic indicators were used as controls. These include measures of integration with world financial markets and economy such as the correlation with advanced countries financial markets, financial openness, and trade openness. In addition, the analysis includes measures of the country's vulnerability as measured by the current account balance, fiscal balance, oil export balance, and international reserve levels. The crisis most affected advanced countries and these countries are more likely to have high ROSC compliance ratings. To separate these effects, each country's per capita GDP in US dollars was used as an explanatory variable. All explanatory variables are taken from before the crisis (i.e. 2007) to account for possible endogeneity.

65. As the construction of the FSI is different for advanced and emerging markets, separate regressions were run on each group. For economic growth, regressions could also be run on the full sample. As is visible in Figure 4, the FSI had two distinct peaks (in late 2008 and early 2009) and countries experienced peaks at different times during the crisis. To reflect this, the regressions choose as the dependent variable the FSI maximum in the second half of 2008 and first half of 2009.[18] To measure the length of the crisis, the analysis uses the number of months for each country's FSI to return to its historical average.

66. To increase power with small sample sizes, variables without statistical significance at the 10-percent level were iteratively deleted.

67. The following econometric specifications were used:[19]

$$FSI_i = \alpha + \beta X_i + \gamma SC_i + \epsilon_i$$

and

$$\Delta GDP_i = \alpha + \beta X_i + \gamma SC_i + \epsilon_i$$

Where: X = country specific factors that could explain the impact of the crisis, e.g. openness and vulnerability indicators;
SC = average compliance ratings on given standards and codes assessments,

The various explanatory variables are expected to have the following effects:

68. **Financial integration**: This is measured by the correlation of the country's FSI with the advanced country FSI in the 36 months before the crisis (i.e. 2005 to 2007). The higher the correlation with advanced country FSI, the greater and longer is the expected impact of the crisis on financial stress during the crisis and the greater the expected growth downturn in 2009.

69. **Trade and financial openness**: These are measured by the country's total exports and imports of goods and services and total assets and liabilities, respectively, to GDP. To the extent that the global crisis was transmitted through the trade and capital accounts, greater openness is expected to be associated with a higher FSI during the crisis and a longer period of financial stress and a greater fall in GDP in 2009. However, a greater fall in growth

[18] Regressions on the FSI maximum for each country during the full period gave similar results.
[19] Ordinary least squares was used to estimate the coefficients of these equations.

in 2009 would be expected to be associated with higher growth in 2010 as trade and financial asset prices recover.

70. **Current account and fiscal balances and international reserves**: Greater current account and fiscal surpluses and higher international reserves are expected to be associated with less concern about a country's ability to finance imports and expenditures. Thus, greater current account and fiscal surpluses and higher international reserves should be associated with less and shorter financial stress and higher growth in 2009 and 2010.

71. **Oil balance**: Oil prices fell in 2008 and rebounded in 2009. To the extent that a country relies on oil exports to finance expenditures, a more positive balance should be associated with greater and longer country financial stress, slower growth in 2009, but less financial stress and higher growth in 2010.

72. **Per Capita GDP**. Per capita GDP in US dollars (in logs) is used as a proxy for level of development. As the crisis affected advanced countries more than other countries, higher per capital GDP is expected to be associated with higher and longer financial stress and lower growth in 2009.

73. **Growth in 2009**. As the financial crisis eased and trade recovered, it might be expected that those countries that experienced the largest output loss in 2009 would experience the biggest bound back in 2010. Thus, growth in 2009 is used as a variable to explain growth in 2010.

D. Caveats

There are many potential problems that could impact the analysis.

74. **ROSC Data**. Several issues arise with the use of compliance ratings. First, ROSCs are conducted infrequently. For most of the countries used in this analysis, for any particular standard, only one ROSC was available prior to the financial crisis. Many of these ROSCs were several years old. Thus, there may be measurement error due to compliance ratings being out of date. Second, standards were revised over time. As a result, the compliance ratings for countries on an old standard may be different from countries on a new standard.[20] Third, compliance ratings on ROSCs may be imperfect measures of actual adherence to standards. The ROSCs are meant to measure adherence to a minimum standard, and contain no information on the level of adherence beyond this minimum. Fourth, the crisis revealed important weaknesses and gaps across the financial standards themselves. These weaknesses and gaps may limit the information value of ROSC ratings.

[20] For example, several countries were rated under both the old and new versions of the Basel Core Principles.

75. **Advanced Country Crisis**. The economic and financial crisis originated in the United States and spread through trade and financial linkages to other advance market economies and the rest of the world. Thus, the crisis had the greatest impact on the economies that were most likely to receive high ROSC compliance ratings. The regression analysis tries to account for this by using independent variables to proxy for development (e.g. correlation with the advanced country FSI and US dollar per capita income).

76. **Sample Sizes**. For economic growth, regressions could be run for the advanced markets, emerging markets, and full sample. However, the FSI is limited to 17 advanced market and 26 emerging market countries. Because the FSI is constructed differently for these two groups it was not possible to combine the samples. In addition, particular ROSCs may not have been done for some of these countries. For example, corporate governance ROSCs are only available for 19 of the 26 emerging markets and none of the advanced markets.

E. Empirical Results

77. **Banking Standards**: Banking standards are measured by adherence to the BCPs. Of the 43 countries included in the FSI, all advanced markets and all but two emerging markets had BCP compliance ratings. Table 2 shows the results of the regressions. For advanced markets, the coefficients on the BCP compliance ratings have the expected sign (i.e. higher compliance ratings result in a lower FSI or shorter recovery time). The coefficient for the peak of the FSI in the first half of 2009 is significant at the 5-percent level. But the coefficients for the peak of the FSI in the second half of 2008 for recovery time are not significant at the 10-percent level. For emerging markets, the coefficients on the BCP compliance ratings do not have the expected sign and are generally not statistically significant. However, the coefficient in the regression for recovery time is significant at the 5-percent level. One possible reason for stronger results on the impact of adherence to the BCPs on the FSI is that the FSI is too broad, i.e. it covers more than the banking sector. To test this hypothesis, additional regressions were carried out for the advanced markets using the banking subcomponent of the FSI. The coefficients on the BCPs had the expected sign but were not significant at the 10-percent level.

78. The continuation of Table 2 shows the results for economic growth. Higher compliance ratings on the BCPs are associated with stronger growth in 2009 and weaker expected growth in 2010 at the 1-percent level for advanced markets. However, there is not a statistically significant relationship for emerging markets or the full sample.

79. Control variables, when significant at the 10-percent level or better, have the expected effects. Measures of trade and financial openness are associated with greater financial stress and longer recovery times. Higher current account and fiscal balances and international reserves are associated with less financial stress and shorter recovery times. Higher oil balances are associated with more stress during the crisis.

80. **Securities Standards**: Securities standards are measured by adherence to the Objectives and Principles for Securities Regulation. Of the 43 countries included in the FSI, 38 had compliance ratings for this standard. The results are shown in Table 3.

81. Compliance ratings on securities principles were not statistically significant for any of the regressions with the exception of the recovery time for advanced markets. However, in all cases the coefficient does not have the expected sign. As with the BCPs, analysis was also performed on the impact of compliance ratings on securities principles on the FSI securities sub-index. For emerging markets, the results were similar. However, for advanced markets higher compliance ratings on securities standards are associated with reductions in stress in the securities markets in both late 2008 and early 2009 and with a reduction in the recovery time.

82. With regard to growth, there is no statistically significant relationship between compliance ratings on the securities principles and growth in 2009 or 2010.

83. **Insurance Standards**: Insurance standards are measured by adherence to the Insurance Core Principles (ICPs). Of the 43 countries in the sample, 33 had compliance ratings on the ICPs. The results of the analysis are shown in Table 4. The coefficients for the rating on the ICPs are not statistically significant except for emerging markets' financial stress. In these cases, the estimated coefficients do not have the expected sign, i.e. higher compliance ratings on the ICPs are associated with higher financial stress and longer recovery times.

84. **Corporate Governance**: Corporate governance was measured by adherence to the Principles for Corporate Governance (PCG). Of the 43 countries in the sample, only 19 emerging market countries had compliance ratings. The results of the analysis are shown in Table 5. Again, the coefficients on the PCG are not statistically significant for financial stress or economic growth.

85. **Overall Conclusions**: In most cases, this analysis does not find a statistically significant reduction in financial stress or increase in growth due adherence to the banking, securities, insurance, or corporate governance standards. The exceptions are the effects of: (i) the BCPs on financial stress in advanced markets in the first half of 2009, (ii) the BCPs on economic growth in advanced markets in 2009, and (iii) securities principles on the securities sub-index of the FSI for advanced markets. In these cases, adherence to principles is associated with a better outcome.

86. The control variables when statistically significant generally have the expected signs. Measures of financial integration (i.e. higher correlation with advance markets FSI, trade openness and financial openness) are associated with greater financial stress and lower economic growth. Measures of vulnerability (i.e. lower current account and fiscal balances and international reserves) are associated with greater stress and lower growth during the crisis.

Table 2. Effect of Adherence to Basel Core Principles on the FSI

	(Advanced Markets)			(Emerging Markets)		
	FSI 2nd Half 08	FSI 1st Half 09	FSI Recovery Time	FSI 2nd Half 08	FSI 1st Half 09	FSI Recovery Time
Constant	29.65 **	68.96 ***	14.13	6.29 *	-0.12	6.11 *
	(12.30)	(18.84)	(10.31)	(3.39)	(3.20)	(3.33)
Correlation w/Adv FSI						
Financial Openess		0.01 **				0.03 ***
		(0.00)				(0.01)
Trade Openess	0.07 **		0.98 *		0.04 ***	
	(0.02)		(0.40)		(0.01)	
Current Account Balance		-0.47 *		-0.25 *	-0.52 ***	-0.21 ***
		(0.25)		(0.13)	(0.11)	(0.06)
Fiscal Balance	-1.05 ***	-0.79 *				
	(0.30)	(0.39)				
Foreign Reserves						
Oil Balance	1.46 ***	2.20 ***			0.36 **	
	(0.34)	(0.51)			(0.13)	
Per Capita GDP in US Dollars						-0.80 *
						(0.39)
Rating on Basel Core Principles	-0.22	-0.67 **	-0.03	0.04	0.06	0.05 **
	(0.14)	(0.22)	(0.11)	(0.05)	(0.04)	(0.02)
Observations	17	16	16	24	24	24
Adjusted R-Squared	0.51	0.55	0.22	0.09	0.46	0.62
F-Statistic	5.09	4.62	3.13	2.07	6.00	10.36

Notes: Standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.10.
Specifications obtained by iterated deletion of variables with p>0.10.

Table 2. Effect of Adherence to Basel Core Principles on Growth

	(Advanced Markets)				(Emerging Markets)				(Full Sample)			
	Change in Real GDP in 2009		Change in Real GDP in 2010		Change in Real GDP in 2009		Change in Real GDP in 2010		Change in Real GDP in 2009		Change in Real GDP in 2010	
Constant	-31.16	***	15.65	***	-1.28		1.09		2.16		2.02	
	(4.53)		(3.44)		(2.99)		(2.09)		(3.92)		-1.57	
Correlation w/Adv FSI	14.00	***	5.98	**					3.64	*	2.35	**
	(3.88)		(2.16)						(1.82)		(1.02)	
Financial Openess	0.00	***										
	(0.00)											
Trade Openess					-0.05	***						
					(0.01)							
Current Account Balance					0.26	**						
					(0.11)							
Fiscal Balance	0.33	**			-0.34	**						
	(0.14)				(0.14)							
Foreign Reserves	0.19	***										
	(0.05)											
Oil Balance	-0.39	**			-0.47	***			-0.16	*		
	(0.14)				(0.12)				(0.09)			
Per Capita GDP in US Dollars									-1.29	***		
									(0.43)			
Change in Real GDP in 2009			-0.58	***			-0.86	***			-0.84	***
(only in Change in Real GDP in 2010 regression)			(0.14)				(0.12)				(0.09)	
Rating on Basel Core Principles	0.18	***	-0.20	***	-0.02		-0.01		0.04		-0.03	
	(0.05)		(0.04)		(0.04)		(0.03)		(0.03)		(0.02)	
Observations	17		17		24		24		41		41	
Adjusted R-Squared	0.77		0.81		0.52		0.69		0.20		0.68	
F-Statistic	10.05		23.14		5.89		26.50		3.57		29.44	

Notes: Standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.10.
Specifications obtained by iterated deletion of variables with p>0.10.

Table 3. Effect of Adherence to Objectives and Principles for Securities Regulation on the FSI

	(Advanced Markets)			(Emerging Markets)		
	FSI 2nd Half 08	FSI 1st Half 09	FSI Recovery Time	FSI 2nd Half 08	FSI 1st Half 09	FSI Recovery Time
Constant	11.11	0.74	-252.30 **	3.70	1.45	3.39
	(9.85)	(9.95)	(91.35)	(3.27)	(3.02)	(1.75)
Correlation w/Adv FSI			10.57 **			
			(4.68)			
Financial Openess			0.00 *			
			(0.00)			
Trade Openess					0.03 **	
					(0.01)	
Current Account Balance					-0.47 ***	
					(0.14)	
Fiscal Balance						
Foreign Reserves						
Oil Balance	1.53 **	1.49 **			0.34 **	
	(0.62)	(0.63)			(0.14)	
Per Capita GDP in US Dollars			21.38 **			
			(8.14)			
Rating on Securities Principles	0.04	0.14	0.31 ***	0.08	0.03	0.02
	(0.11)	(0.11)	(0.01)	(0.11)	(0.04)	(0.02)
Observations	15	15	15	23	23	23
Adjusted R-Squared	0.24	0.28	0.54	0.07	0.42	-0.01
F-Statistic	3.20	3.79	5.15	2.74	5.00	0.85

Notes: Standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.10.
Specifications obtained by iterated deletion of variables with p>0.10.

Table 3. Effect of Adherence to Objectives and Principles for Securities Regulation on the FSI Securities Subindex

	(Advanced Markets)			(Emerging Markets)		
	Securities FSI 2nd Half 08	Securities FSI 1st Half 09	Securities FSI Recovery Time	Securities FSI 2nd Half 08	Securities FSI 1st Half 09	Securities FSI Recovery Time
Constant	27.01 ***	22.43 ***	27.98 ***	-1.43	9.10 ***	3.39 *
	(4.36)	(6.04)	(9.19)	(2.43)	(2.93)	(1.75)
Correlation w/Adv FSI						
Financial Openess						
Trade Openess	0.05 **				0.02 **	
	(0.02)				(0.01)	
Current Account Balance	-0.33 **			-0.27 **	-0.26 ***	
	(0.11)			(0.10)	(0.07)	
Fiscal Balance						
Foreign Reserves		-0.30 **		0.11 **		
		(0.13)		(0.05)		
Oil Balance				0.19 **	0.19 **	
				(0.08)	(0.08)	
Per Capita GDP in US Dollars					-1.06 **	
					(0.39)	
Rating on Securities Principles	-0.25 ***	-0.16 **	-0.21 *	0.06 **	0.03	0.02
	(0.00)	(0.07)	(0.10)	(0.03)	(0.02)	(0.02)
Observations	15	15	15	23	23	23
Adjusted R-Squared	0.64	0.35	0.18	0.33	0.43	-0.01
F-Statistic	9.15	4.83	4.02	3.70	4.35	0.85

Notes: Standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.10.
Specifications obtained by iterated deletion of variables with p>0.10.

Table 3. Effect of Adherence to Objectives and Principles for Securities Regulation on Growth

	(Advanced Markets)		(Emerging Markets)		(Full Sample)	
	Change in Real GDP in 2009	Change in Real GDP in 2010	Change in Real GDP in 2009	Change in Real GDP in 2010	Change in Real GDP in 2009	Change in Real GDP in 2010
Constant	-6.96 *	-3.22	1.07	0.34	4.96	0.30
	(3.74)	(3.59)	(5.28)	(2.02)	(3.53)	(1.41)
Correlation w/Adv FSI	9.05 ***	6.92 *			4.07 **	2.65 **
	(2.51)	(3.14)			(1.62)	(1.06)
Financial Openess						
Trade Openess			-0.04 ***		-0.02 *	
			(0.01)		(0.01)	
Current Account Balance	-0.18 **					
	(0.06)					
Fiscal Balance						
Foreign Reserves	0.13 *	0.12 **	0.13 *			
	(0.06)	(0.05)	(0.06)			
Oil Balance			-0.41 ***		-0.32 ***	
			(0.11)		(0.10)	
Per Capita GDP in US Dollars			-1.18 *		-1.14 **	
			(0.59)		(0.48)	
Change in Real GDP in 2009		-1.14 ***		-0.89 ***		-0.90 ***
(only in Change in Real GDP in 2010 regression)		(0.22)		(0.13)		(0.10)
Rating on Securities Principles	-0.06	-0.01	0.06	0.00	0.00	0.00
	(0.03)	(0.03)	(0.04)	(0.03)	(0.03)	(0.02)
Observations	15	15	23	23	38	38
Adjusted R-Squared	0.60	0.71	0.59	0.68	0.38	0.68
F-Statistic	6.34	7.79	7.46	23.89	5.51	21.03

Notes: Standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.10.
Specifications obtained by iterated deletion of variables with p>0.10.

Table 4. Effect of Adherence to Insurance Core Principles on the FSI

	(Advanced Markets)						(Emerging Markets)					
	FSI 2nd Half 08		FSI 1st Half 09		FSI Recovery Time		FSI 2nd Half 08		FSI 1st Half 09		FSI Recovery Time	
Constant	4.78		-184.13	*	16.61	**	-0.43		-2.26		2.25	
	(11.54)		(94.38)		(7.52)		(1.96)		(2.50)		(1.44)	
Correlation w/Adv FSI												
Financial Openess							0.02	*	0.02	**	0.03	**
							(0.01)		(0.01)		(0.01)	
Trade Openess	0.06	**	-45.81	**								
	(0.03)		(18.88)									
Current Account Balance												
Fiscal Balance	-0.87	**	-3.19	***								
	(0.30)		(0.86)									
Foreign Reserves												
Oil Balance	1.21	***	1.85	**	1.03	**						
	(0.34)		(0.65)		(0.37)							
Per Capita GDP in US Dollars			23.27	**								
			(9.65)									
Rating on Insurance Principles	0.06		-0.16		-0.06		0.11	***	0.08	**	0.01	**
	(0.12)		(0.14)		(0.09)		(0.03)		(0.03)		(0.02)	
Observations	17		17		17		16		16		16	
Adjusted R-Squared	0.41		0.47		0.28		0.61		0.43		0.60	
F-Statistic	3.76		3.86		3.88		12.67		6.73		12.35	

Notes: Standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.10.
Specifications obtained by iterated deletion of variables with p>0.10.

Table 4. Effect of Adherence to Insurance Core Principles on Growth

	(Advanced Markets)				(Emerging Markets)				(Full Sample)			
	Change in Real GDP in 2009		Change in Real GDP in 2010		Change in Real GDP in 2009		Change in Real GDP in 2010		Change in Real GDP in 2009		Change in Real GDP in 2010	
Constant	-12.91	***	-57.92	**	-6.21	**	-1.46		-3.17		-0.73	
	(4.06)		(21.89)		(2.16)		(1.44)		(2.19)		(1.05)	
Correlation w/Adv FSI	11.57	***									3.72	***
	(2.58)										(1.01)	
Financial Openess			0.00	***							0.00	**
			(0.00)								(0.00)	
Trade Openess					-0.06	***			-0.02	**		
					(0.01)				(0.01)			
Current Account Balance	-0.18	**										
	(0.06)											
Fiscal Balance	0.18	**	-0.37	***	-0.44	**						
	(0.08)		(0.09)		(0.15)							
Foreign Reserves	0.15	**	0.09	**	0.21	***						
	(0.06)		(0.04)		(0.06)							
Oil Balance					-0.66	***			-0.19	*		
					(0.10)				(0.11)			
Per Capita GDP in US Dollars			6.12	**								
			(2.12)									
Change in Real GDP in 2009			-0.99	***			-0.94	***			-0.93	***
(only in Change in Real GDP in 2010 regression)			(0.13)				(0.13)				(0.08)	
Rating on Insurance Principles	-0.01		-0.06	*	0.00		0.02		0.00		0.00	
	(0.04)		(0.03)		(0.03)		(0.02)		(0.02)		(0.02)	
Observations	17		17		16		16		33		33	
Adjusted R-Squared	0.59		0.80		0.77		0.79		0.11		0.79	
F-Statistic	5.69		11.66		10.79		29.60		2.30		31.36	

Notes: Standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.10.
Specifications obtained by iterated deletion of variables with p>0.10.

Table 5. Effect of Adherence to Corporate Governance Standards on Growth

	(Emerging Markets)			
	Change in Real GDP in 2009		Change in Real GDP in 2010	
Constant	-4.87		-3.29	
	(4.80)		(2.96)	
Correlation w/Adv FSI				
Financial Openess				
Trade Openess	-0.03	**		
	(0.01)			
Current Account Balance				
Fiscal Balance				
Foreign Reserves				
Oil Balance				
Per Capita GDP in US Dollars				
Change in Real GDP in 2009			-0.78	***
(only in Change in Real GDP in 2010 regression)			(0.12)	
Rating on Corporate Governance Principles	0.05		0.07	
	(0.08)		(0.05)	
Observations	19		19	
Adjusted R-Squared	0.23		0.68	
F-Statistic	3.71		20.51	

Notes: Standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.10.
Specifications obtained by iterated deletion of variables with p>0.10.

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V. STANDARDS ASSESSMENTS AND THE GLOBAL CRISIS: SUMMARY OF CASE STUDIES[21]

Selected country case studies show that ROSCs correctly identified many weaknesses that increased countries' vulnerabilities to the global crisis. There was some evidence that ROSC findings were incorporated in discussions in the context of Article IV consultations. However, due to insufficient follow up either from the authorities and or the Bank/Fund, these weaknesses remained in the run up to the crisis.

A. Introduction

87. This chapter takes a look at the experiences of four countries significantly affected by the global economic and financial crisis. It attempts to determine what caused the crisis in each country and whether ROSC recommendations picked up issues that later were concluded to have been important weaknesses revealed by the crisis. To that end, this chapter examines: (i) each country's vulnerabilities on the eve of the crisis; (ii) whether ROSCs correctly identified weaknesses; (iii) whether ROSC recommendations were incorporated into Fund surveillance and TA; and (iv) what lessons can be learned for the future.

88. In selecting the four countries surveyed in this chapter—Greece, Hungary, Pakistan, and the United Kingdom—several criteria were taken into consideration. First, countries were screened according to the impact of the crisis (as measured by the Fund's Financial Stress Index). Second, countries were evaluated based on whether a significant number of recent ROSC reports had been completed ahead of the crisis (a criterion that excluded the United States). Given the nature of the crisis, the resulting list of countries contained primarily European countries. Pakistan was included because its crisis was driven by a mix of domestic and external factors, and also to broaden the regional focus of the case studies. Similarly, to broaden the type of crises considered Greece was added to allow examination of a sovereign debt crisis.

89. The case study approach complements other approaches. While constrained by the small number of country cases covered, it has the advantages of being able to examine details of country circumstances and ROSC implementation.

Greece

The Fiscal Transparency ROSCs identified many of the factors that later contributed to Greece's fiscal crisis. From 1999 to 2005 Fund Article IV staff reports consistently integrated the findings of ROSCs. After 2005, however, Article IV reports were silent about

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[21] While this chapter focuses on crisis cases, a separate background paper, "*2011 Review of the Standards and Codes Initiative: ROSC Case Studies*," Claudio Pardo, February 2011, discusses more broadly the experience with implementation of ROSC recommendations across the different standard areas.

the ROSC findings and no further follow up was requested. The failure to address weaknesses seems primarily to reflect weak government implementation of the ROSC recommendations.

90. Before the crisis, the main economic concerns in Greece were: (i) high fiscal deficits and public debt; (ii) lack of progress on structural reforms; and (iii) eroding competitiveness. When the crisis hit in late 2008, spreads on Greek 10-year bonds increased to 300 basis points, the highest in the Euro area. However, Greece suffered less direct impact than many other Euro area countries. However, in 2009 Greek output dropped by 2 percent, the fiscal deficit widened to 13.6 percent of GDP, and public debt rose to 115 percent of GDP. Moreover, the government significantly revised fiscal data in October 2009, with the estimated 2009 deficit increasing by almost 10 percent of GDP. The inaccurate data was a consequence of serious institutional problems, shortcomings with data sources, and political interference.[22] Markets were surprised by the revisions and by early 2010 the ability of the Greek government to rollover its debt was called into question. In May 2010, Greece reached agreement with the Fund and EU on a €30 billion Stand-By Arrangement.

91. Greece received a full Data ROSC in 2003 and an update in 2005. These found that Greece met the SDDS standards and largely followed international guidelines. Moreover, statistics agencies generally had the legal and institutional environment to support statistical quality and demonstrated professionalism and transparency in their policies and practices. Two areas of government finance statistics received low ratings. These involved a shortage of resources to compile general government data and no dissemination of metadata on source data and methods. The 2005 ROSC provided an update and stated that "…high priority should be given to addressing remaining weaknesses in general government data and accounting practices." In sum, aside from the two areas noted above, the reports found that Greece generally met international data standards.

92. Between 1999 and 2006, Fund staff prepared six Fiscal Transparency ROSCs, including two full reports and four updates. The 1999 full report recommended (i) clarifying the treatment of SOEs, investment, quasi-fiscal activities, and state assets; (ii) clearly stating the accounting basis underlying the budget; and (iii) parliamentary hearings on audited financial statements. It also recommended "a comprehensive analysis of the sustainability of the government's fiscal position in the budget report." The 2005 full ROSC covered many areas that would become a concern in 2009: (i) budget preparation, (ii) budget procedures and the medium term fiscal framework; (iii) data integrity; and (iv) the monitoring and reporting of government operations. Overall, the fiscal transparency ROSCs correctly

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[22] See the European Commission. *Report on Greek Government Deficit and Debt Statistics*. Jan. 8, 2010. The large revisions to the deficit and debt data that occurred in October 2009 were revealed as part of Greece's fall data submission to Eurostat. The report attributed Greek data revisions to: 1) methodological weaknesses and unsatisfactory technical procedures and 2) inappropriate governance that made statistics subject to political pressures and electoral cycles.

identified many of the problems that contributed to the fiscal crisis in Greece, including the adequacy of fiscal data and problems implementing fiscal reforms.

93. From 1999 to 2005, the Fund's Article IV staff reports consistently reported key ROSC recommendations. The 1999 Article IV staff report summarized the recommendations of the ROSC of that year. The 2004 staff report emphasized the need for timely and accurate fiscal data and urged the government to reinforce the integrity of fiscal accounts. Two boxes summarized the findings and recommendations of the previous fiscal transparency reports and the 2004 update. Finally, the 2005 staff report contained a box on the key recommendations of the 2005 reassessment, which was published as a standalone document. However, after 2005 fiscal transparency issues received less attention as no more ROSCs were conducted.

Hungary

Both the fiscal and financial sector ROSCs identified the factors that were later considered to have contributed to Hungary's financial crisis. The associated Article IV staff reports consistently integrated ROSC findings into their discussions.

94. Hungary was among the first emerging market countries to suffer significantly from the global crisis. Contributing to Hungary's difficulties were underlying balance sheet vulnerabilities and significant financial system risks. In particular, fiscal deficits above 8 percent of GDP from 2002–06 increased general government debt to 66 percent of GDP by end-2007. Similarly, banks—including foreign-owned banks—offered foreign currency-denominated loans, which many households and firms found attractive given lower interest rates. As a result, on the eve of the crisis over half of bank lending to the nonfinancial sector was denominated in foreign currency. In addition, substantial financial inflows boosted productivity but added to external liabilities. External debt reached 97 percent of GDP by end-2007. Hungary's high debt levels and balance sheet mismatches negatively affected investor sentiment, which led to a sharp deterioration in financing conditions in late 2008.

95. The 2001 Fiscal ROSC commended Hungary for its well-working budget process and government accountability. It recommended broadening fiscal coverage to key public institutions and companies and nonprofit organizations that perform government functions. The 2004 update concluded that progress had been made on these items as well as limiting the use of privatization receipts to parliament-approved infrastructure projects and eliminating implicit subsidies on electricity and gas prices. The 2007 ROSC clearly identified, and cautioned against, reliance on transactions which reduced the deficit and debt without changing the underlying fiscal position.

96. The 2002 ROSC on financial sector standards (including banking supervision, securities regulation, insurance, and MFPT) alluded to the progress made by Hungary in assimilating international standards and best practices but pointed to urgent need to address

some weaknesses in the system, including more autonomy for the Hungarian Financial Supervisory Authority (HFSA), strengthening of risk management capacity in the banking sector, and providing legal backing to force banks to bring large credit exposures within the prudential limits. The 2005 financial ROSC update also highlighted the need to build more comprehensive requirements for risk management, more rigorous rules on connected lending and on large exposures.

97. There was significant integration of ROSC findings into Article IV reports in the case of Hungary. The 2002 and 2003 staff reports referred to the 2001 data ROSC in discussing data adequacy issues and in updating some tables in the staff report. On budget executions, the 2006 staff report referred to, and aligned with, the 2006 fiscal transparency ROSC which concluded that the authorities' involvement a particular motorway through a PPP between the government and the state-owned motorway company AAK should be recorded on budget because the motorway ownership will remain with the government.

Pakistan

Staff reports often incorporated ROSC recommendations and followed up with the authorities on implementation. However, given the underlying causes of the economic crisis, progress on ROSC recommendations alone was unlikely to have prevented Pakistan's economic crisis.

98. Except for persistent current account deficits, Pakistan's economic performance was generally strong in the years leading up to the crisis. However, in the last quarter of 2008 the macroeconomic situation deteriorated sharply reflecting: (i) the adverse security situation; (ii) exogenous price shocks from oil and food; (iii) the global financial crisis, and (iv) policy inaction during the political transition to the new government. As a result, real GDP growth fell, inflation rose, the current account deficit widened, the stock index fell by one third, and the fiscal deficit rose by 3 percent of GDP in 2008. Although the banking system was well capitalized and liquid at end-June 2008, the crisis led to rising dollarization and an outflow of deposits.

99. The 2000 Fiscal ROSC recommended improving the timeliness and reliability of reports on federal government fiscal activity, as well as improving accounting standards, accounting systems, internal controls, and procurement procedures. The 2004 update welcomed the implementation of some recommendations but noted that important aspects remained to be implemented especially in areas of budget forecasting, fiscal analysis, and reporting of quasi-fiscal activities. In particular, it suggested that efforts should be made to publish budget execution reports according to economic classification to improve fiscal analysis and enhance fiscal management and transparency.

100. The 2004 ROSC on financial sector standards (including banking supervision, securities regulation, and MFPT) indicated that major reforms in the financial sector had led

to a more resilient and efficient financial system. However, the report called for a number of reforms including: (i) providing the State Bank of Pakistan (SBP) with legal authority to conduct consolidated supervision; (ii) modifying the SBP Act to either eliminate the prerogative of the Federal Government to supersede the SBP's Central Board of Directors or clarify the instances where the SBP would fail to reach its objectives; and (iii) formalizing the relationship between the Securities and Exchange Commission of Pakistan (SECP) and the exchanges by entering into an MOU on cooperation and the exchange of information. The 2007 Data ROSC recommended strengthening Pakistan's adherence to internationally-accepted practices, as well as making monetary statistics more useful by, among others, revaluing the SBP's Fund positions and gold assets on a monthly basis at end-month exchange rates. The 2008 fiscal update focused primarily on transparency aspects of fiscal management reforms reviewed by the 2004 mission as well as implementation of key ROSC recommendations. The report noted that while the government was at an advanced stage of introducing a comprehensive financial management information system and strengthening the audit function at all levels, there were major institutional changes and practical implementation issues that needed to be resolved.

101. The Fund's Article IV staff reports frequently referred to recommendations from ROSCs. The 2006 staff report included an appendix that discussed the authorities' implementation of December 2004 data ROSC. The report also used the assessments provided in that ROSC to complete the Table of Common Indicators Required for Surveillance (TCIRS). The authorities' redesign of the framework and procedures for compiling and disseminating monetary statistics, as well as the introduction of improved source data for other depository corporations, both key recommendations from the 2003 Data ROSC, were cited in the 2007 Article IV Report. Moreover, the 2009 Article IV report also included a box on financial sector stability that was entirely based on the latest financial sector ROSCs conducted for Pakistan. Most of the recommendations on the financial sector were in line with the findings of the ROSC.

United Kingdom

FSAPs were more effective at identifying risks than stand alone ROSCs. Article IV reports generally discussed weaknesses identified in FSAPs and ROSCs. However, there was a disconnect between the identified vulnerabilities and the call for action. Moreover, the assessment of the prudential and supervisory regime was too sanguine. A more systematic follow up of FSAP and ROSC recommendations was needed.

102. A number of factors contributed to the crisis in the United Kingdom.[23] In the 10 years prior to the crisis, there was rapid credit growth to the household sector and mortgage debt

[23] See *"The Turner Review: A regulatory response to the global banking crisis,"* March 2009, FSA; *"Banking Crisis: dealing with the failure of the UK banks, Seventh Report of Session 2008-2009," House of Commons Treasury Committee, May 2009*; and *United Kingdom—Staff Report for the 2009 Article IV Consultation,*

increased from 50 percent to 80 percent of GDP. Mortgages were extended at very high initial loan-to-value ratios with the expectation that debt burdens would fall given the rapid appreciation of property prices. Credit to the corporate sector also grew rapidly, with particularly risky exposures building in the commercial real estate segment.

103. Developments in the financial system also contributed to the crisis. First, as a global financial center, the UK was affected by developments in the US and US mutual funds and structured investment vehicles (SIVs) were significant buyers of UK securitized credit. UK banks suffered from large losses on trading book positions and good will. In addition, several of UK's largest banks were deeply involved in amassing intra-financial system assets and liabilities and relied heavily on short-term wholesale funding. Second, prudential rules were inadequate and supervisory practices were weak. The regulatory approach put too much trust in market discipline as a tool to contain risks, systemic vulnerabilities received too little attention, and supervision was not sufficiently intrusive. Third, there were significant increases in the on-balance sheet leverage of many commercial and investment banks and financial products had very high and imperfectly understood embedded leverage as a result of financial innovation and the search for yield.

104. The 2002 FSAP identified vulnerabilities due to rapid credit growth, particularly due to household mortgages and UK financial institutions' large international exposure. The report also noted that a slowdown in the global economy would have a detrimental impact on the UK's financial system given the high interconnectedness of the system to the rest of the world. The FSAP included key recommendations that were relevant to the crisis, in particular the need to: (i) strengthen the monitoring of inter-bank linkages; and (ii) promote market discipline via better disclosure and governance in financial institutions. The FSAP included technical notes on systemic liquidity arrangements and London's role as global trading center. These advocated improving liquidity risk management and addressing risks in wholesale, over-the-counter (OTC) derivatives, and credit default markets.

105. The ROSC on the Basel Core Principles touched upon issues that were later identified as contributors to the crisis. However, the overall assessment concluded that the UK's system of supervision and regulation was fully or largely compliant with international financial sector standards. The main recommendations relevant to the crisis included: (i) the need for periodic reports on asset quality; and (ii) the need to develop a new approach to liquidity monitoring.

106. The 2004 Article IV report followed up AML-CFT recommendations and mentioned that banks' search for yield posed challenges for risk management. In 2005, the Article IV report warned that increasing leverage and search for yield had downside risks. It also mentioned signs of a loosening in corporate lending standards and rapid financial innovation. At the same time, the 2005 Selected Issues Papers followed up some of the 2003 FSAP recommendations and highlighted the risks in credit risk transfer instruments. It noted the under pricing of risks, increasing leverage, rapid financial innovation, and a rapid increase in

subprime mortgage lending. Yet, the 2005 Article IV report took an overall sanguine view of the financial sector. In hindsight, the risks identified in the Selected Issues Papers would have warranted stronger measures and a follow up FSAP and banking sector ROSC. The 2006 Article IV report identified the main vulnerabilities that surfaced during the crisis (i.e., increase in high-risk mortgage lending, rapidly increasing leverage, rising exposure to structured credit products and reliance on wholesale funding). Nonetheless, the report praised bank regulation and supervision for responding well to these financial sector developments.

List of ROSCs[24]

Greece

Anti-Money Laundering and Combating the Financing of Terrorism, January 30, 2009
Anti-Money Laundering and Combating the Financing of Terrorism, January 6, 2006
(Published as part of a Financial System Stability Assessment)

Banking Supervision, January 6, 2006
(Published as part of a Financial System Stability Assessment)

Data (update), February 10, 2005
Data, October 7, 2003

Fiscal Transparency, February 10, 2006
Fiscal Transparency (update), February 10, 2005
Fiscal Transparency (update), June 11, 2003
Fiscal Transparency (update), March 15, 2002
Fiscal Transparency, February 1, 2001

Insurance Supervision, January 6, 2006
(Published as part of a Financial System Stability Assessment)

Securities Regulation, January 6, 2006
(Published as part of a Financial System Stability Assessment)

Hungary

Anti-Money Laundering and Combating the Financing of Terrorism, September 21, 2005

Banking Supervision, June 5, 2002
(Published as part of a Financial System Stability Assessment)
Banking Supervision, April 1, 2001

Data (update), July 9, 2004
Data (update), May 24, 2004
Data (update), May 9, 2003
Data (update), June 5, 2002
Data, May 2, 2001

[24] ROSCs are available at the ROSC website: http://www.imf.org/external/np/rosc/rosc.asp.

Fiscal Transparency, January 12, 2007
Fiscal Transparency (update), May 24, 2004
Fiscal Transparency (update), May 9, 2003
Fiscal Transparency (update), June 5, 2002
Fiscal Transparency, April 18, 2001

Insurance Supervision, June 29, 2005
(Published as part of a Financial System Stability Assessment)
Insurance Supervision (PDF file 3079KB), June 5, 2002
(Published as part of a Financial System Stability Assessment)
Insurance Supervision, April 1, 2001

Monetary and Financial Policy Transparency, June 5, 2002
(Published as part of a Financial System Stability Assessment)
Monetary and Financial Policy Transparency, April 1, 2001

Payments Systems, June 5, 2002
(Published as part of a Financial System Stability Assessment)
Payments Systems, April 1, 2001

Securities Regulation, June 5, 2002
(Published as part of a Financial System Stability Assessment)
Securities Regulation, April 1, 2001

Banking Supervision, June 5, 2002
(Published as part of a Financial System Stability Assessment)
Banking Supervision, April 1, 2001

Data (update), July 9, 2004
Data (update), May 24, 2004
Data (update), May 9, 2003
Data (update), June 5, 2002
Data, May 2, 2001

Fiscal Transparency, January 12, 2007
Fiscal Transparency (update), May 24, 2004
Fiscal Transparency (update), May 9, 2003
Fiscal Transparency (update), June 5, 2002
Fiscal Transparency, April 18, 2001

Insurance Supervision, June 29, 2005

(Published as part of a Financial System Stability Assessment)
Insurance Supervision (PDF file 3079KB), June 5, 2002
(Published as part of a Financial System Stability Assessment)
Insurance Supervision, April 1, 2001

Monetary and Financial Policy Transparency, June 5, 2002
(Published as part of a Financial System Stability Assessment)
Monetary and Financial Policy Transparency, April 1, 2001

Payments Systems, June 5, 2002
(Published as part of a Financial System Stability Assessment)
Payments Systems, April 1, 2001

Securities Regulation, June 5, 2002
(Published as part of a Financial System Stability Assessment)
Securities Regulation, April 1, 2001

Pakistan

Anti-Money Laundering and Combating the Financing of Terrorism, December 8, 2004

Banking Supervision, July 22, 2004
(Published as part of a Financial System Stability Assessment)

Data, February 20, 2007
Data, December 7, 2004

Fiscal Transparency (update), April 15, 2008
Fiscal Transparency (update), December 20, 2004
Fiscal Transparency, November 28, 2000

Monetary and Financial Policy Transparency, February 20, 2007
Monetary and Financial Policy Transparency, July 22, 2004
(Published as part of a Financial System Stability Assessment)

Securities Regulation, July 22, 2004
(Published as part of a Financial System Stability Assessment)

United Kingdom

Anti-Money Laundering and Combating the Financing of Terrorism, March 3, 2003
(Published as part of a Financial System Stability Assessment)

Banking Supervision, March 3, 2003
(Published as part of a Financial System Stability Assessment)
Banking Supervision, March 15, 1999

Data, March 15, 1999

Fiscal Transparency, March 15, 1999

Insurance Supervision, March 3, 2003
(Published as part of a Financial System Stability Assessment)

Monetary and Financial Policy Transparency, March 3, 2003
(Published as part of a Financial System Stability Assessment)
Monetary and Financial Policy Transparency, March 15, 1999

Payments Systems, March 3, 2003
(Published as part of a Financial System Stability Assessment)
March 3, 2003

Securities Regulation, March 3, 2003
(Published as part of a Financial System Stability Assessment)

VI. Views of the Stakeholders on the Initiative: Results from the Surveys

A. Summary

107. The 2011 review provides an update of the views of the Initiative's various stakeholders compared to the 2005 review. In 2005, the views of country authorities, Fund mission chiefs (area and functional department), Bank mission chiefs, and market participants were collected through online surveys. Results from these surveys were compared to responses received from the same groups in the 2010 surveys. The survey questions were kept broadly the same in 2005 and 2010, with additional questions in 2010 focusing on crisis-related issues.

108. The responses in 2010 were broadly similar to those in 2005. In particular:

- The country authorities' assessment of the usefulness of the Initiative was slightly less favorable in 2010. However, most of the themes and trends remained relatively similar. Emerging markets and developing countries provided broadly similar responses and viewed the Initiative as useful, while advanced economies found the Initiative significantly less useful compared to results in 2005.
- For Fund area department mission chiefs, the overall usefulness of the Initiative for their work was viewed to be the same. Fund mission chiefs handling developing countries found the Initiative the most useful.
- The assessments of Fund functional department mission chiefs were relatively similar to that of 2005. No major changes in point of view were found.
- The standard setters found the assessment process under the Initiative to be a useful one and were generally satisfied with the process.
- Due to the limited number of responses from market participants, the results of the 2005 were not updated.[25]

B. Country Authorities

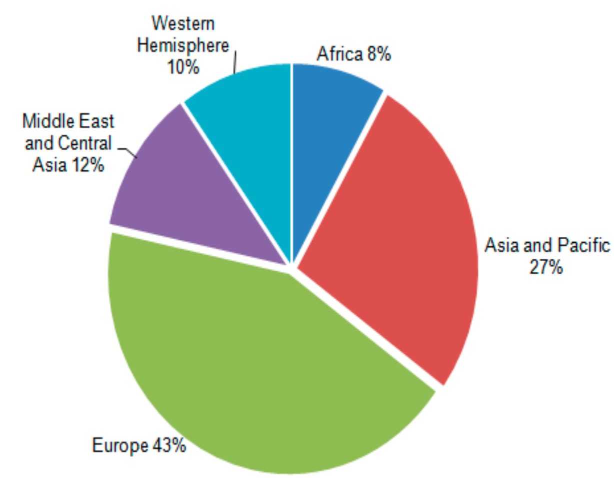
109. The assessment of country authorities across the different components of the ROSC was slightly less favorable in 2010. Emerging markets and developing countries continued to give the Initiative the highest rankings in different components of the survey and responses from these two groups were broadly similar. On the other hand, advanced economies showed the greatest decrease in rankings between 2005 and 2010, and provided responses that were different from the emerging markets and developing countries.

[25] Among the 140 market participants surveyed, only six responded.

Taking Stock

110. Ninety-four participants from 60 countries and jurisdictions answered the questionnaire. This translates to a response rate of 25 percent (or 33 percent on a country basis). Among the countries represented, almost half were from Europe (Figure 6). All of the countries in the sample participated in the Initiative or have conducted at least one standard assessment.[26]

Figure 6. Region of Origin of Country Authorities Survey Respondents



111. For the countries that participated in the Initiative, the primary motivations for participating were, by order of decreasing importance: (i) to signal the country's commitment to adherence of internationally-recognized standards and codes; (ii) to help foster greater transparency; (iii) to help identify key institutional vulnerabilities; (iv) to help strengthen the economic and policy framework and institutions; and (v) encouragement from the Fund or the Bank. With the exception of motivations (i) and (v), these remain unchanged in their order of importance from the 2005 survey.

112. For the countries that did not publish a ROSC, no predominant reason for such a decision was evident from the questionnaire responses. "Other reasons" was cited by 13 percent of the respondents,[27] followed by concern about market reactions (7 percent), and other countries in the region have not published (3 percent).

Usefulness of the Initiative

113. Overall, the country authorities surveyed in 2010 found their participation in the Initiative useful *to some extent*, although slightly less useful compared to 2005.[28] Developing and emerging market countries expressed the highest satisfaction with the Initiative, whereas

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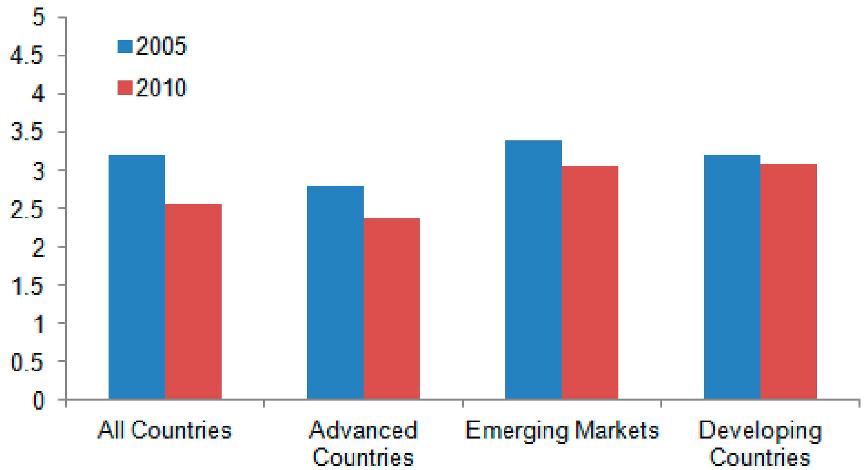
[26] In 2005, 106 participants answered the questionnaire, entailing a response rate of 56 percent. The breakdown of the origin of the respondents was: Africa 19 percent; Asia and Pacific 18 percent; Europe 32 percent, Middle East and Central Asia 16 percent; and Western Hemisphere 15 percent.

[27] "Summary assessments were sufficient" and "awaiting consent" are examples of "other reasons" cited.

[28] For many cases, several respondents filled out a survey for one country. In these cases, in order to avoid biasing the sample towards countries with many respondents, the average of the responses for each country was taken before calculating the overall usefulness and quality of the Initiative.

advanced economies expressed the least satisfaction and also showed a large drop in satisfaction (Figure 7).

Figure 7. Overall Usefulness of the Initiative
(1 = not at all to 5 = to a great extent)



114. The benefits derived by country authorities from the Initiative were broadly similar across countries. The authorities surveyed found the Initiative most useful in: identifying vulnerabilities, establishing priorities for strengthening domestic institutions, contributing to greater policy transparency, strengthening of financial infrastructure (for those who undertook an FSAP), and deepening policy dialogue with the Fund and the Bank (Table 6). For the 2011 Review, capturing the build-up of risks in the economy and identifying weakness in institutional capacity were added as new objectives to the survey question.

115. For all groups, the role of the Initiative in implementing institutional reforms, strengthening market integrity, and capturing the build-up of risks in the economy were ranked lower than other benefits in both 2005 and 2010. While informing market participants was ranked lower in 2005, advanced and emerging markets ranked this category higher than the average in 2010. The objective of identifying weakness in institutional capacity was found useful overall, except for advanced economies.

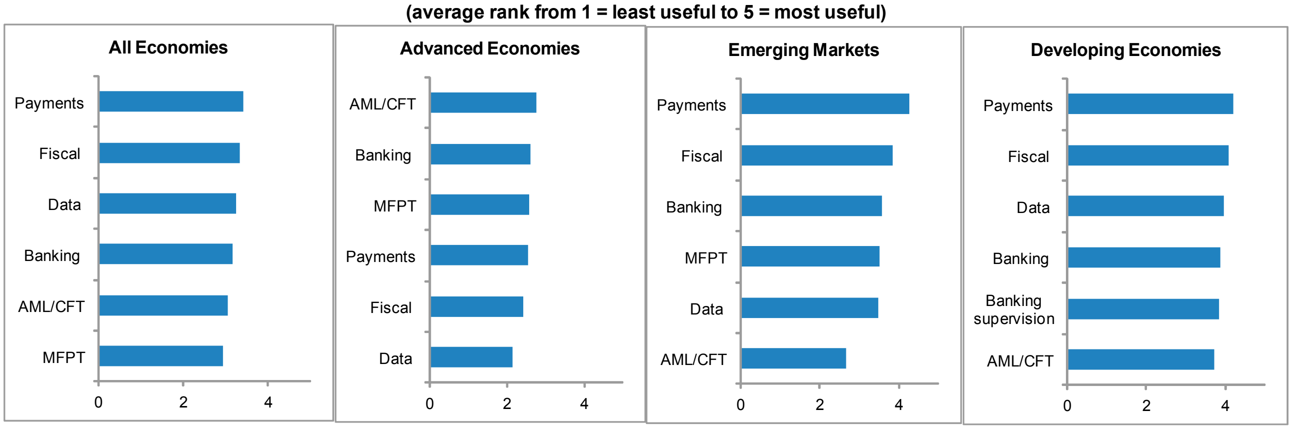
Table 6. Usefulness of the Initiative: Country Authorities Answers to the Survey
(average rating on a scale of 1 = not at all to 5 = to a great extent)

	All Countries	All Countries	Advanced	Advanced	Emerging	Emerging	Developing	Developing
Average Across Objectives	3.2	2.6	2.8	2.4	3.4	3.1	3.2	3.1
To what extent did the initiative…								
...help identify vulnerabilities?	3.4	2.9	3.4	2.7	3.4	3.3	3.6	3.4
...help establish priorities for strengthening domestic institutions?	3.5	2.9	3.4	2.7	3.6	3.4	3.5	3.5
...help prioritize technical assistance needs?	2.8	2.4	2.2	1.7	2.9	3.0	3.4	3.3
...lead to implementation of institutional reforms?	2.9	2.3	2.7	2.1	3.2	2.9	3.0	2.8
...help inform market participants?	2.9	2.5	2.8	2.5	3.0	3.2	3.0	2.8
...contribute to greater policy transparency?	3.4	2.9	3.0	2.9	3.8	3.5	3.4	3.3
...contribute to strengthened financial infrastructure?	3.2	2.3	3.0	2.4	3.5	2.7	3.2	3.0
...contribute to strengthened market integrity laws and practice?	3.1	2.4	2.8	2.2	3.3	2.7	2.5	3.0
...help deepen the policy dialogue with the IMF?	3.4	2.7	3.0	2.9	3.8	3.1	3.4	3.0
...help deepen the policy dialogue with the World Bank?	2.9	2.2	2.0	1.7	3.5	3.2	3.1	2.8
...help capture the build-up of risks in the economy?	-	2.3	-	2.2	-	2.6	-	2.9
...help identify weakness in institutional capacity?	-	2.7	-	2.5	-	3.2	-	3.2

Note: shaded cells indicate a rating higher than the average across objectives.

116. Of the 12 standards under the Initiative, six standards were most frequently used.[29] Payment and settlement systems and fiscal transparency were seen as the most useful overall by emerging markets and developing economies. For advanced economies, AML/CFT and banking supervision were seen as most useful (See Figure 8).

Figure 8. Relative Usefulness of ROSCs 1/
(average rank from 1 = least useful to 5 = most useful)



1/ Standards compared are standards with at least 20 country responses.

[29] To avoid bias due to a small number of responses received for some standards, only standards with 20 or more countries responding were compared in usefulness in Figure 8. The number of responses were: banking 27; data 26; MFPT 24; payments 23; AML/CFT 20; securities 20; fiscal 20; accounting 16; insurance 16; auditing 15; corporate governance 7; and insolvency 6.

117. As a diagnostic tool, payments and settlements, fiscal transparency and data quality/dissemination were seen as the most useful. However, all standards were seen as specifically useful by at least one group of countries for at least one objective in terms of assessment tools (Table 7). Standards were ranked the highest in identifying vulnerabilities and strengthening institutions, particularly for emerging markets and developing countries. However, standards were not ranked to be a particularly useful diagnostic tool by advanced economies. Since the 2005 ROSC, the usefulness of standards in identifying vulnerabilities has increased, driven by responses from emerging markets and developing countries (Figure 9).

Figure 9. Usefulness of the Initiative in Identifying Vulnerabilities (1 = not at all to 5 = to a great extent)

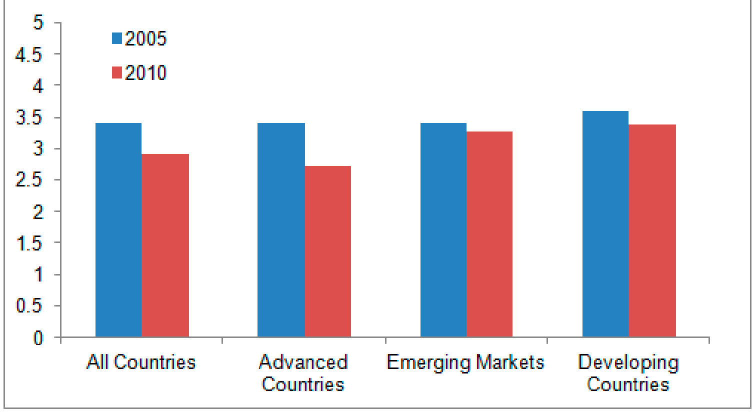


Table 7. Usefulness of Standards as a Diagnostic Tool
(average rating on a scale of 1 = not at all to 5 = to a great extent)

	Idenfitify Vulnerabilities				Strenthen Institutions				Identify and Prioritize TA			
	Total	ADV	EMC	LDC	Total	ADV	EMC	LDC	Total	ADV	EMC	LDC
Average Grade	3.5	2.8	3.6	4.0	3.2	2.7	3.6	3.5	2.8	2.0	3.5	3.5
Monetary and fiscal policy transparency	2.9	2.3	3.0	3.6	3.2	2.4	3.8	3.9	2.7	3.0	3.8	4.1
Fiscal policy transparency	3.6	3.0	3.8	4.1	3.4	2.5	3.8	4.1	3.0	1.8	4.0	4.0
Data dissemination/quality	3.3	2.3	3.3	4.0	3.4	2.5	3.9	3.9	3.1	1.7	3.2	4.0
Banking supervision	3.5	3.1	4.0	4.0	3.2	2.8	4.0	3.6	2.7	2.0	2.7	3.9
Securities regulation	3.3	3.2	n.a.	3.5	3.1	3.0	n.a.	3.3	2.2	1.6	n.a.	3.5
Insurance supervision	3.5	3.3	n.a.	4.0	2.9	2.8	n.a.	3.0	2.2	1.9	n.a.	2.8
Payment and settlement systems	4.0	3.5	4.3	4.7	3.6	3.0	4.5	3.9	2.7	1.2	4.0	4.0
AML/CFT	3.7	3.6	2.0	4.1	3.3	2.9	3.0	4.0	2.2	1.8	3.0	3.1
Insolvency and creditor rights 1/	3.2	1.0	n.a.	3.5	3.2	n.a.	n.a.	3.0	3.4	n.a.	n.a.	3.3
Corporate governance 1/	3.7	3.0	4.0	4.0	3.3	3.0	3.0	3.4	3.1	2.0	4.0	3.4
Accounting	3.8	2.5	4.0	3.9	3.2	2.0	3.5	3.2	3.2	2.5	3.5	3.1
Auditing	3.8	3.0	4.0	4.1	3.3	3.0	3.3	3.3	3.0	2.3	3.7	2.9

Note: shaded cells indicate a rating higher than the average across objectives.
ADV = Adanced Economiest, EMC = emering markets, and LDC = developing countries
1/ Statistics based on a total of less than 15 observations.

Quality of assessments

118. Country authorities considered the standard assessments of good quality. With the exception of insolvency (which has a small sample size), there were no major perceived differences between the standards in terms of quality (Table 8).[30] Authorities found the assessments to have the appropriate level of detail, offering well-prioritized, as well as realistic conclusions and recommendations. Authorities were also satisfied with the extent to which the reports reflected their comments and suggestions. These results are consistent with those reported in 2005.

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[30] Accounting and auditing were also ranked quite low by advanced economies, but this also suffers from a small sample size (only very few ROSCs on advanced countries have been done).

Table 8. Quality of Assessments
(average rank from 1 = least useful to 5 = most useful)

	Overall Quality			
	Total	ADV	EMC	LDC
Average Grade	3.9	3.5	4.1	4.0
Monetary and financial policy transparency	4.0	4.0	3.6	4.1
Fiscal policy transparency	4.1	3.8	4.5	4.1
Data dissemination/quality	4.0	3.8	4.3	4.0
Banking supervision	4.0	3.9	4.1	4.0
Securities regulation	3.9	3.8	3.6	4.3
Insurance supervision	3.9	3.7	n.a.	4.4
Payment and settlement systems	4.2	4.0	4.1	4.8
AML/CFT	3.6	3.5	4.0	3.6
Insolvency and creditor rights	3.5	n.a.	n.a.	3.3
Corporate governance	3.6	3.0	3.5	3.8
Accounting	4.0	2.3	4.4	4.1
Auditing	4.0	2.9	4.4	4.0

119. By income group, emerging markets and developing countries were the most satisfied with the quality of standard assessments (Table 9). Payments and settlement systems and data were ranked above average for overall quality by all income groups; insolvency and creditor rights and corporate governance were ranked as the lowest in quality compared to other standards.

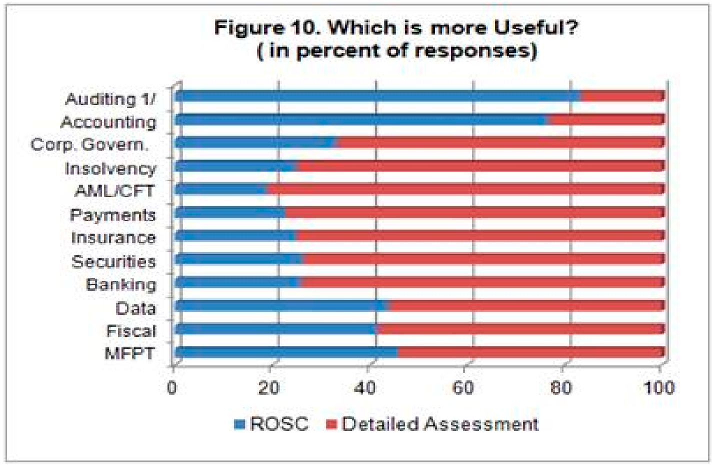
Table 9. Quality of Assessments
(average rating on a scale of 1 = lowest quality to 5 = highest quality)

	Appropriate level of detail				Well Prioritized conclusion and key recommendations				Realistic/applicable recommendation				Reflect authorities' comments			
	Total	ADV	EMC	LDC	Total	ADV	EMC	LDC	Total	ADV	EMC	LDC	Total	ADV	EMC	LDC
Average Grade	3.9	3.5	4.2	4.1	3.8	3.4	4.0	4.0	3.9	3.6	4.1	4.0	3.9	3.5	3.9	4.1
Monetary and fiscal policy transparency	4.0	4.0	3.8	4.2	3.8	3.8	3.3	4.1	4.0	4.1	3.8	4.0	4.1	4.3	3.8	4.1
Fiscal policy transparency	4.0	3.6	4.5	4.2	4.1	3.8	4.5	4.2	4.2	4.0	4.5	4.2	4.2	3.7	4.3	4.0
Data dissemination/quality	4.0	3.7	4.3	4.0	4.0	3.7	4.2	4.1	4.0	3.6	4.5	4.0	4.0	4.0	4.2	3.9
Banking supervision	4.0	3.9	4.5	4.1	3.9	3.7	4.3	3.9	3.9	3.9	4.0	3.9	4.0	4.0	3.8	4.0
Securities regulation	4.0	3.9	4.0	4.4	3.8	3.7	3.5	4.0	3.9	3.8	3.5	4.2	4.0	3.8	3.5	4.6
Insurance supervision	3.9	3.7	n.a.	4.5	3.8	3.5	n.a.	4.3	3.8	3.6	n.a.	4.5	4.0	3.8	n.a.	4.5
Payment and settlement systems	4.2	4.0	4.0	4.8	4.2	3.9	4.0	4.9	4.3	4.1	4.3	4.8	4.2	3.9	4.3	4.8
AML/CFT	3.8	3.7	4.0	3.8	3.5	3.4	4.0	3.7	3.7	3.7	4.0	3.5	3.4	3.4	4.0	3.3
Insolvency and creditor rights 1/	3.3	n.a.	n.a.	3.0	3.3	n.a.	n.a.	3.0	3.7	n.a.	n.a.	3.5	3.7	n.a.	n.a.	3.5
Corporate governance 1/	3.8	3.0	4.0	4.0	3.5	3.0	3.5	3.7	3.5	3.0	3.5	3.7	3.5	3.0	3.0	4.0
Accounting	3.9	2.0	4.4	4.1	3.8	2.0	4.3	4.0	4.1	2.5	4.5	4.1	4.0	2.5	4.3	4.1
Auditing 1/	4.0	3.0	4.5	4.1	3.9	3.0	4.3	3.9	3.9	3.0	4.6	3.8	4.0	2.5	4.3	4.3

Note: shaded cells indicate a rating higher than the average across objectives.
ADV = Adanced Economiest, EMC = emering markets, and LDC = developing countries
1/ Statistics based on a total of less than 15 observations.

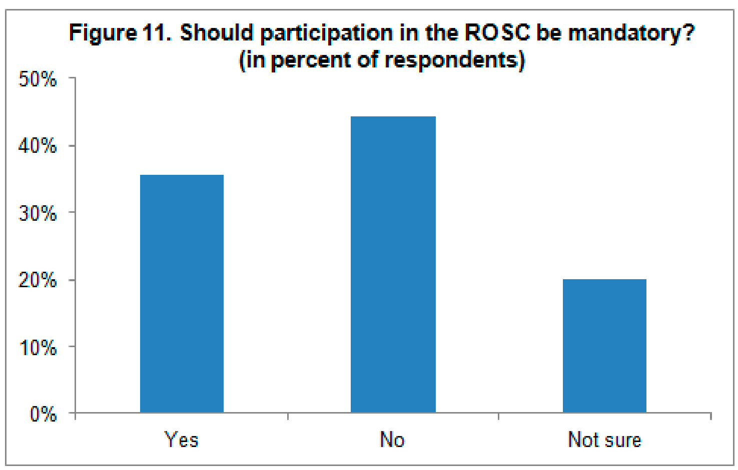
In both 2005 and 2010, detailed assessments were considered more useful than ROSCs. However, the relative usefulness of the ROSC compared to the detailed assessment has increased slightly in 2010, and is seen as more useful for the MFPT and Data standards (Figure 10).

Evolution of the Initiative



120. Country authorities did not call for a major overhaul of the Initiative. While in 2005, three quarters of the respondents favored maintaining the "one-standard-for-all" approach, in 2010, respondents were equally divided between "one-standard-for-all" and the use of different standards for countries with different levels of development.

121. Most respondents did not favor mandatory participation in ROSCs. When asked whether the ROSC should be mandatory, 46 percent of the respondents answered "no." However, 34 percent favored mandatory participation and some 20 percent remained unsure (Figure 11).



122. The majority of respondents agreed that newly created standards should be endorsed under the Initiative. Only 39 percent of the respondents were aware that new standards and codes have been created in response to the 2007–08 financial crisis. 35 percent were completely unaware of the new standards and 26 percent were unsure whether they had been informed about the new standards and codes. However, when asked whether the Fund or the Bank should endorse these new standards, 63 percent agreed and only 6 percent responded with 'not at all'. Some country authorities suggested specific standards that could be included under the Initiative (Table 10).

123. In terms of implementation, 42 percent of the respondents faced difficulties in implementing standards and codes in their countries to *some extent.* 45 percent experience little or no difficulty. Out of those that experienced difficulties, reasons such as difficulty in changing the legal system and the nature of inherent financial systems were cited.

Table 10. In view of the recent crisis, what type of new standards would you propose to be added?

Standard	Number of Suggetions
Strengthen current standards instead of adding new standards	11
New Standards Proposed	
Crisis resultion	4
of which cross-border resolution	2
Macroprudential supervsions	3
Liquidity measures	3
Deposit insurance	0
Cross-border supervisory cooperation	1
Executive renumeration	2
Central counterparties (CCP)	1

C. Fund Area Department Chiefs

124. The survey of Fund area department mission chiefs included similar questions to those included in the country authorities' survey. The online survey was sent to mission chiefs of 187 economies and had an overall response rate of 21 percent.[31] By department, the response rate was as follows: African Department (AFR) at 30 percent, European Department (EUR) at 27 percent, Asia and Pacific Department (APD) at 12 percent, and Middle East and Central Asia (MCD) and Western Hemisphere (WHD) Departments at 10 percent. By type of economy, the response rate was highest for developing countries (60 percent) followed by advanced economies (24 percent) and emerging markets (15 percent).[32]

Usefulness of the Initiative

125. Mission chiefs of countries that have not participated in the Initiative provided some insights on the reasons for non-participation and main ROSCs of interest.

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[31] The 2005 survey had a response rate of 65 percent. The breakdown for economies was the highest for advanced economies, followed by developing and emerging markets.

[32] In order to encourage survey participation, two survey reminders were sent out to the area mission chiefs. The low response rate seems to indicate a drop in enthusiasm for standards and codes when faced with pressing financial and country program issues, and a more demanding workload for mission chiefs.

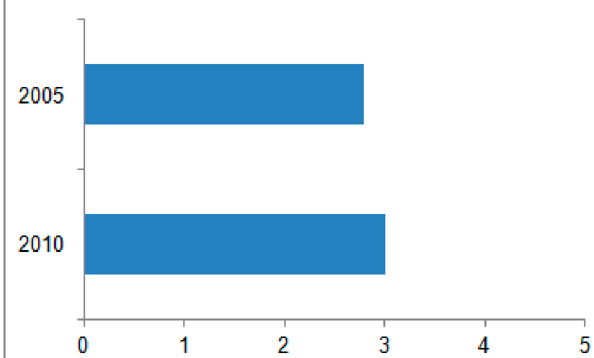
- 91 percent of the countries that did not participate in the Initiative were developing countries.

- From their point of view, the most likely reason for non-participation was "little interest from the authorities and the Fund" and a minority of the respondents noted "interest from the Fund but none from the authorities (unwillingness to participate)" and "interest from the authorities but low priority for the Fund."

- Overall, mission chiefs in area departments found the Initiative to be only slightly more useful than in the past (Figure 12). Mission chiefs of advanced economies found the standards the most useful and mission chiefs from emerging countries the least useful (Table 11). Usefulness was based on questions gauging to what extent participation in the Initiative had helped in identifying vulnerabilities, in strengthening domestic institutions or in prioritizing TA needs.

126. Mission chiefs' view of the usefulness of the Initiative in informing surveillance has improved since 2005. Mission chiefs were asked to what extent ROSCs or detailed assessments were useful in identifying vulnerabilities and information gaps, and in contributing to Article IV surveillance. The overall response was an average score of 3.7, suggesting that the mission chiefs' view of ROSC usefulness to surveillance has increased.

Figure 12. Overall Usefulness
(1 = not at all to 5 = very)



Evolution of the Initiative

127. Area department mission chiefs did not see a need for major changes to the Initiative. Over 96 percent of the mission chiefs thought the number of standards was appropriate. However, in light of the recent crisis, several mission chiefs acknowledged the importance of compliance with the standards. Over 96 percent found the standards to be up to date. When questioned about the shelf-life of the ROSC, 80 percent of the mission chiefs responded that the findings in the ROSC remained relevant between one and four years. 20 percent responded that the information is still relevant after a four-year period. The area mission chiefs did not think that participation in the ROSC should be mandatory.

Table 11. Usefulness of Standards
(1= not at all to 5 = very useful)

Overall	3.0
Advanced economies	3.0
Emerging markets	2.4
Developing countries	3.3

128. The existing approach of having one standard applicable for all countries received support from mission chiefs. However, a few mission chiefs suggested that there may be a need to adapt standards for low-income and fragile countries.

129. Area department mission chiefs saw merit in experts' participation in Article IV missions. They believe that their country's needs in the areas covered by the Initiative would be better served if experts joined Article IV (and other surveillance) missions to *some extent.* They responded that such needs can also be better served *to some extent* by TA rather than by participation in the Initiative. To increase the effectiveness of the Initiative, mission chiefs suggested that staff recommendations be better prioritized, recognizing countries' limited implementation capacity.

D. Functional Department Mission Chiefs

130. The views of the mission chiefs who led ROSC/FSAP missions were also gathered through an on-line survey. The survey garnered a 36 percent response rate across the four ROSC-producing departments. Half of the responses originated from FAD (43 percent), and the rest distributed between MCM (24 percent), Legal Department (LEG) (19 percent), and STA (14 percent).[33] The responses captured the views of mission chiefs with experience ranging from those having led one ROSC or FSAP to those having led up to six ROSCs or FSAP missions. Overall, the assessment of the mission chiefs was comparable to the survey results produced in 2005, without major changes to the mission chiefs' point of views.

Usefulness of the Initiative

131. Similar to 2005, the mission chiefs generally found the Standards and Codes Initiative to be useful. In particular, most respondents believed that the Initiative has been useful in identifying vulnerabilities, in establishing priorities for strengthening domestic institutions and in prioritizing assistance (Table 12). No large discrepancy exists between FAD mission chiefs and those from other departments, even though roughly half of the responses were from FAD. The two areas in which the ratings differed between FAD and other departments were contributions to greater policy transparency, which was ranked significantly higher by FAD mission chiefs, and identification of weakness in institutional capacity, which was ranked significantly lower by FAD.

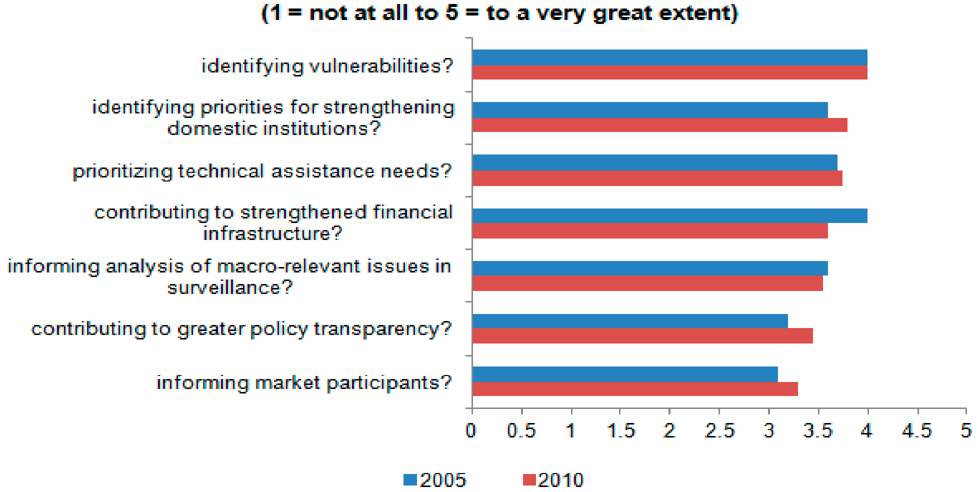
[33] In 2005, the survey received a 57 percent response rate, with a broadly even distribution across the three ROSC-producing departments (FAD, former MFD and STA).

Table 12. Usefulness of the Initiative: Breakdown by Department
(1 = not at all to 5 = to a very great extent)

	All	FAD	Other Departments
Average Score	3.5	3.6	3.4
In your experience, has/was the initiative useful in			
…identifying vulnerabilities?	4.0	4.1	3.9
...identifying priorities for strengthening domestic institutions?	3.9	3.9	3.8
...prioritizing technical assistance needs?	3.9	3.9	3.8
...implementationing of institutional reforms?	3.5	3.8	3.3
...informing market participants?	3.2	3.5	3.0
...contributing to greater policy transparency?	3.4	3.8	3.1
...contributing to strengthened financial infrastructure?	3.6	3.6	3.6
...contributing to strengthened market integrity laws and practice?	3.3	3.4	3.2
...deepening the policy dialogue with the IMF?	3.1	3.0	3.1
...deepening the policy dialogue with the World Bank?	2.6	2.9	2.4
...help capture the build-up of risks in the economy?	3.3	3.4	3.2
...help identify weakness in institutional capacity?	4.0	3.6	4.3
...help in the analysis of key macro-economically relevant issues in the surveillance process, including identification of gaps in the information needed for such analysis?	3.5	3.6	3.3

132. In general, ratings for the usefulness of the Initiative have either remained the same or improved. This is with the exception of strengthening financial infrastructure and analysis of macro-relevant issues in surveillance standards (Figure 13). Mission chiefs also thought that surveillance was greatly strengthened by members' participation in the Initiative.

Figure 13. The Usefulness of the Initiative
(1 = not at all to 5 = to a very great extent)

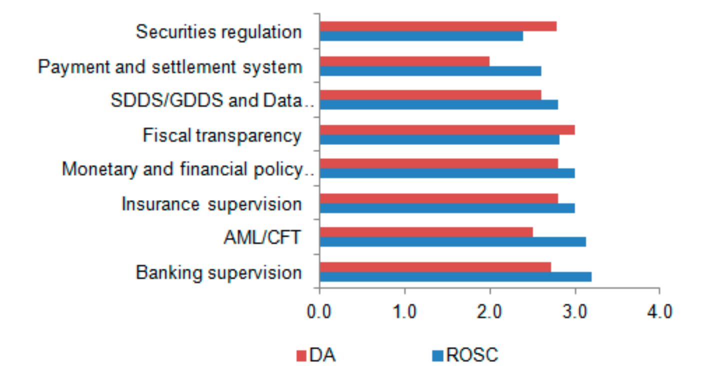


Evolution of the Initiative

133. Functional department mission chiefs did not see the need for major changes to the Initiative. Similar to 2005, the number of standards was judged to be appropriate. In 2005, some respondents thought that the AML/CFT standard should be dropped. In 2010, corporate governance and monetary and financial policy transparency were suggested for elimination.[34] In view of the recent crisis, mission chiefs thought that while new standards should not be added, they felt that there is room for updating and strengthening existing standards. In particular, it was suggested that the fiscal transparency standard can benefit from a focus on financial risk and debt management, and that transparency can be strengthened overall. Mission chiefs did not think that the standards were outdated. However, they suggested that this issue should be examined on an individual country basis. When questioned about the shelf life of the ROSC, two thirds responded that the shelf-life of an assessment is between three to four years and one third said one to two years. These results are similar to those in 2005.

134. Similar to 2005, mission chiefs supported the existing approach of having one standard applicable for all countries. However, a few mission chiefs suggested that there may be a need to adapt standards for low-income and fragile countries. The respondents felt that the voluntary nature of the Initiative was an obstacle to its effectiveness to some extent and suggested that participation should be mandatory.

Figure 14. Asessment's Level of Detail (1 = too detailed to 5 = too general)



135. Over 90 percent of the mission chiefs suggested the need for better integration of ROSC findings and TA. A few others suggested a change in the Fund's resource allocation and the use of the same experts for ROSCs and TA missions.

136. In general, mission chiefs did not favor making standard assessments more quantitative. When asked about the need for a more quantitative presentation of assessment results, mission chiefs gave an average score of 2.5 (on a scale of 1 to 5).

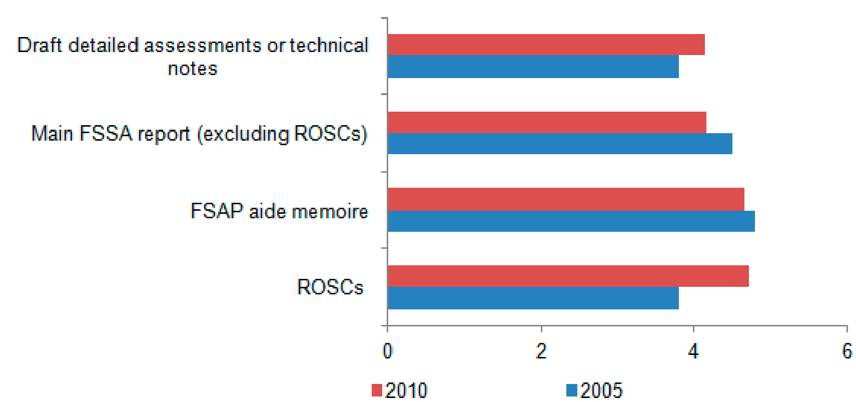
137. The level of detail of the ROSC and detailed assessments seemed to be broadly appropriate, with a few exceptions. In 2005, for most standards, the majority of respondents

[34] For corporate governance, some of the respondents claimed that staff does not have the time nor expertise to perform a full analysis of this area. For MFPT, some respondents suggested that the standard is poorly conceived and not useful for surveillance.

thought that ROSCs and detailed assessments were about the right length. A striking exception resulted for AML/CFT, for which 46 percent of the respondents thought this ROSC was too detailed (with an average score of 1.9), but this was no longer the case in 2010 (Figure 14).

138. All FSAP-related documents were seen as equally useful to the country authorities. In 2005, FSAP mission chiefs noted that the FSAP aide-memoire and the main FSAP report held the strongest interest for country authorities. In 2010, all the documents produced during the FSAP process had a relatively similar level of interest to the authorities (Figure 15).

Figure 15. Usefulness of FSAP Related Documents



E. Standards Assessors

139. In 2010, the views of standard assessors were also collected through an online survey which generated a response rate of 3.2 percent. The survey gathered views of standard assessors with experiences from those who had led one assessment to those who led up to seven assessments. In 2005, views of standard assessors on issues related to the Initiative were expressed at a Financial Stability Forum (FSF)/Bank/Fund roundtable.

Usefulness of the Initiative

140. During the 2005 roundtable discussions, standard assessors were generally satisfied with how the Initiative had been working. They noted that the Initiative had been useful in strengthening financial systems, at both the international and domestic levels, and that there was a broad and growing acceptance of standards by country authorities. The survey results revealed that the standard assessors found the standards to be useful "to a great extent". The assessors ranked almost all categories of usefulness highly, with the exception of informing market participants and capturing build-up of risks in the economy (Table 13).

Table 13. Usefulness
(1 = not at all to 5 = to a great extent)

Average Rank	**3.7**
...help in identifying vulnerabilities?	3.8
...help in identifying priorities for strengthening domestic institutions?	3.9
...help in prioritizing technical assistance needs?	3.9
...help in implementation of institutional reforms?	3.4
...help in informing market participants?	2.9
...contribute to greater policy transparency?	3.3
...contribute to strengthened financial infrastructure?	3.3
...contribute to strengthened market integrity laws and practice?	3.2
...help capture the build-up of risks in the economy?	2.9
...help identify weakness in institutional capacity?	3.9
...help in the analysis of key macro-economically relevant issues in the surveillance process, including identification of gaps in the information needed for such analysis?	3.5
...accurately depicted the situation in the country?	4.1
...provided clear conclusions on the degree of compliance with the standard?	4.3
...provided fair assessments?	4.4
...provided information at the appropriate level of detail?	3.9
...offered key conclusions and recommendations that were well prioritized?	4.1
...provide realistic and implementable recommendations?	4.2
...reflected the authorities? comments and suggestions in the final report?	4.0

Evolution of the Initiative

141. During the 2005 roundtable discussions, standard assessors identified some challenges to the evolution of the Initiative, which were followed up in the 2010 survey. These were as follows:

- The emergence of new issues to be covered can lead to questions about their fit within the existing structure of the standards. In the 2010 survey, standard assessors expressed that the standards in their area of expertise were up to date with the latest developments. Most standard assessors also felt that the shelf-life of an assessment is between three to four years.

- In 2005, there appeared to be a consensus that participation in the Initiative should remain voluntary to increase ownership of the process and foster greater acceptance of possible reforms identified from participation. In 2010, assessors' views on voluntary participation were split. When asked whether participation should become mandatory, 44 percent of the respondents thought *maybe for some countries*, 37 percent *definitely for some countries*, and 19 percent *definitely for all countries*. When questioned about maintaining the one-standard-for-all approach, 83 percent of the respondents agreed to such an approach for all economies, with some room for flexibility, and 17 percent were in favor of different standards for different economies.
- In 2005, the assessors commented that follow up to help implement ROSC recommendations could be improved. When asked whether the Bank or Fund should do a more systematic follow up of countries and implementation of recommendations, 85 percent of the respondents said *yes*. Standard assessors also felt that the findings of assessments were better integrated into Bank work on the country rather than Fund work on the country (Table 14).

Table 14. Integration of assessments into country work
(1 = not at all to 5 = to a very great extent)

Integration into…	
Fund work on the country	2.7
Bank work on the country	3.2
Should the IMF/World Bank do more systemic follow up of countries and implementation of the recommendations arising from the standards and codes assessment?	
Yes	85%
No need, already done	15%

142. Standard assessors were generally satisfied with inputs from the authorities and the private sector. The 2010 survey asked standard assessors about the quality of the assessment work and usefulness of interaction with the authorities. The assessors were generally pleased with the level of interaction they had with the authorities, market participants, and the private sector. They also thought that authorities' inputs were generally well reflected, although authorities' views could be better reflected in the assessments (Table 15).

Table 15. Quality of Interactions during the assessment process
(1 = not at all to 5 = to a very great extent)

In your view, how helpful were the comments from the country authorities and reviewers in ensuring the accuracy of the assessment report?	3.2
To what extent are the standards and codes assessment reports adjusted to reflected the authorities' …	
views?	2.9
factual corrections?	3.8
To what extent were you able to discuss the relevant issues during the mission(s) with	
country authorities	4.3
market participants and the private sector	3.6

143. With respect to the standard assessors' abilities to perform a thorough assessment, most of the respondents indicated that they generally had the right level of information but were less satisfied with the amount of time allotted to perform the assessment (Table 16).

Table 16. Satisfaction with assessment process
(as percent of total responses)

	Level of information provided to perform an assessment	Amount of time alloted to perform an assessment
Sufficient	28.6	8.6
Generally Sufficient	62.9	57.1
Partially Sufficient	8.6	25.7
Insufficient	0.0	8.6

F. Market Participants

144. The views of market participants were also gathered through an on-line survey. Due to the limited number of responses from both the standard setters and market participants, no substantial update to the results of the 2005 survey was made.[35]

[35] Out of the 140 market participants surveyed, only six responded, equivalent to a 4 percent response rate.

VII. Summary of Bilateral Meetings with Major Stakeholders

145. Staff conducted several bilateral meetings with standard setters, country authorities and market participants to: (i) seek an overview of ongoing changes in the different standard-setting bodies and in the Financial Stability Board; and (ii) solicit views from a sample of country authorities in different regions and across different income groups.[36] This section provides the main messages drawn from these discussions.

A. Standard Setters and the FSB

146. Standard setters found the Initiative very useful. In particular, ROSCs are seen as an important tool which serves as a basis for discussions with decision makers in countries. Some standard setters stressed the importance of a proper follow up mechanism for developing countries. Too much emphasis had been put on assessment and not enough on helping countries to develop markets and implement standards in practice. On the latter for example, IOSCO is currently cooperating with the Bank in Africa, but more effort is needed.

147. All standard setters are working on revising the standards to fill gaps identified in the crisis. In the financial sector standards, this effort is coordinated by the FSB. One important gap relates to cross-border supervision and resolution. Another key gap is in the area of OTCs, which will be filled by the mandated inclusion of standardized derivatives in CCPs.

148. The enlarged membership of the standard-setting bodies is seen as beneficial, although coordination problems have increased somewhat. Broader membership ensures a higher degree of legitimacy and should help implementation by increasing ownership.

149. There is scope for increasing collaboration between standards setters and the Bank and Fund. Most standard setters are interested in receiving feedback from the Fund on how their standards are being implemented in practice. This, in turn, could help guide the standard setting exercise and provide information on which particular areas need more attention.

[36] Appendix I presents a list of the bilateral meetings held by staff with major stakeholders.

B. Country Authorities

Usefulness of the Initiative

150. In general, authorities found the Initiative very useful despite the considerable amount of resources involved in conducting ROSCs. ROSCs were considered to provide: (i) a signaling device to reassure the public that the country is on the right track; (ii) a tool for identifying weaknesses and areas for further reform; (iii) a basis for seeking donor support for the authorities' reform agenda and prioritizing TA needs; (iv) a tool for identifying vulnerabilities; and (v) a tool for developing strategic plans of action for undertaking the necessary reforms.

151. Some frictions existed, however, in the generalized application of the more prescriptive rule-based principles, such as the BCP's capital requirements, to different economies. Some principles were also seen to be less applicable in low-income countries, with less developed capital markets. Some authorities believe it would be useful to exercise flexibility in conducting assessments for different types of countries, given that the purpose of ROSCs may differ depending on the complexity of the country. However, other countries were in favor of maintaining uniform standards for all countries, even though they acknowledged that some standards would not be entirely relevant for all countries. Based on the views of some small, open emerging markets, adherence to a single set of global standards would significantly lower transactions costs and tend to encounter less political resistance compared to other reforms.

On the revision of the key standards

152. Some authorities felt that the political pressure to revise standards rapidly has some important drawbacks. A number of standards and codes are in the process of being revised. Authorities are also under political pressure to introduce rapid reforms in the financial sector to address gaps revealed by the crisis. This pressure limits the room for coordination, consultation and empirical analysis. In the transition period, as standards are being revised, clear communication is critical, particularly about which set of standards countries are being assessed against.

153. The views on the need to add more standards to the Initiative were mixed. Some country authorities did not see a compelling reason for expanding the Initiative at this point and noted that the FSSA is flexible enough to cover other potential sources of risks. Others felt that new standards should be added to the Initiative, including on cross-border resolution and deposit insurance. Some country authorities recognized the need to update the coverage of the Initiative in light of lessons from the crisis.

154. Some authorities suggested the need for standards in unregulated sectors. Authorities felt that the FSAP exercise, while useful, has focused only on regulated sectors, while there was insufficient coverage of shadow or unregulated sectors such as OTC derivatives, SIFI

(systemically important financial institutions), and standardized real-estate/property markets. They believe more efforts should be given to developing appropriate and comparable standards in these areas.

On follow-up mechanisms to ROSC recommendations

155. Follow-up on ROSC recommendations through Article IVs, program discussions and TA has been uneven. Some authorities observed that ROSCs are hardly discussed during Article IV missions. Others do not see the need for ROSC follow-up in Article IVs unless there are significant weaknesses that were identified. In addition, some authorities felt that ROSC recommendations should be closely tied to program missions in order to give them an enforcement mechanism. While some countries were generally satisfied with follow up TA in areas where ROSCs were conducted, others felt that this was lacking.

156. Some authorities felt that the Fund should design a way of ensuring that follow-up TA missions occur. Where TA is provided, some authorities felt that it would be more useful if missions could last more than 1–2 weeks and have some continuity in the experts assigned to a particular country. This is particularly the case for developing countries where capacity to introduce reforms is weak. This could entail the use of more peripatetic experts compared to short-term experts.

157. Several authorities agreed that creating a standardized template that countries could update would be a good system to track a country's progress. Countries could put up these updates in their respective websites and the Fund could also publish them to provide the authorities credit for reforms that have been undertaken in response to ROSC recommendations. This would address the issue about the need to acknowledge reforms that have been undertaken by authorities.

158. Authorities' self-assessments could be helpful in providing more frequent updates. Given limited resources for conducting ROSCs, some country authorities felt that self-assessments should be encouraged as an interim step, which could be submitted to the assessor bodies for feedback.

159. Some countries thought that the follow-up mechanism for AML/CFT ROSCs were very effective. In particular, FATF and the regional assessor groups have very effective follow up mechanisms for the AML/CFT based on mutual evaluation of countries' compliance with standards by peer groups.

On coordination across the Fund, standard setters, and country authorities

160. Some authorities saw a need for greater coordination among standard setters. In addition, they suggested more collaboration between standards setters and country authorities. For the latter, they pointed out that such collaboration would enable standard setters to understand the limits and difficulties countries may face before setting new

standards. They also believe that this will make new standards better account for local laws, culture, and practices.

161. There is a need for more clarity and delineation of the responsibilities of various institutions that are involved in the Initiative. This would help avoid potential overlaps and encourage better coordination. In particular, closer coordination between the FSB and the Bank/Fund is important in sequencing assessments and peer reviews to avoid duplication of efforts.

162. Better coordination among different supervisory committees, regulators, and standard-setters is also warranted (i.e., European Systemic Risk Board, supervisory collages, and standard-setting bodies). The Fund should be able to better plug into the activities in these various entities. For example, for countries which have undergone thematic reviews under the FSB, such as on remuneration, the Fund could follow up on the results of these in the context of Article IV consultations.

On the quality of standard assessments

163. The assessments made by the ROSC teams were generally found to be fair and balanced. There were some complaints that assessors were too rigid in the application of the standards and did not take into account local circumstances and administrative cultures. Other assessors, on the other hand, were found to be cognizant of country-specific factors in their assessments. Some authorities were satisfied that their views were included in DARs and ROSCs. However, some authorities felt the need for ROSCs to better reflect the constraints that they face in implementing ROSC recommendations. Some authorities felt that there is a need for recommendations to be better prioritized given their limited resources to undertake reforms.

164. Some of the helpful factors which were cited as relevant to the quality of ROSCs were as follows: (i) the conduct of a self-assessment prior to the mission; (ii) assessors' sensitivity to country-specific factors in conducting assessments; (iii) incorporating authorities' views in ROSCs; (iv) giving country authorities the sense of ownership of the country's reform process; and (v) providing relevant references to the ROSC process to authorities prior to the missions (e.g., evaluation sheets and questionnaires). Factors that have a negative impact on the quality of ROSCs include the lack of sufficient expertise and practical experience of assessors.

On making ROSCs more accessible to the public

165. Authorities have mixed views about the voluntary publication of ROSCs. Some countries fully support the publication of country assessments and to exert peer pressure on non-publishers. In some of the authorities' views, the G-20 initiative could be useful in this context. On the other hand, other countries prefer to maintain the voluntary publication of ROSCs. They believe that publication could restrict the information that authorities are

willing to share due to potential reputational risks and market sensitivity of certain information. To address this issue, countries felt they should be given sufficient time to address weaknesses prior to the publication of ROSCs.

166. Authorities believe ROSCs need to be updated on a regular basis. ROSCs need to be institutionalized similar to the Article IV consultations. In addition, a review of the quality of country data should be done regularly and made mandatory, particularly those used for Article IV missions and FSAPs. This review could be done every five years.

On the quantification of ROSC findings

167. Authorities' views on introducing a quantitative element to ROSCs were mixed. Some authorities have concerns about moving to a more quantitative reporting of ROSC results, such as the need for clear criteria for quantifying the ROSC results and ensuring evenhandedness across countries. In addition, countries should be given enough time to catch up with comparator countries prior to the issuance of rankings based on ROSC results. Others saw advantages to more quantification such as enhancing market participants' use of ROSCs in discriminating among investment opportunities and facilitating peer pressure for countries to observe internationally accepted standards.

168. The views on the use of more quantitative indicators of countries' compliance with standards (e.g., ranking, indices) and generalized publication of DARs were mixed. In general, however, such a scoring system would need to be associated with a system of rapid updating of the scores and/or disclosure of policy actions taken to address the gaps identified. Some authorities agreed to the inclusion of numerical ratings in the ROSCs, provided that the voluntary nature of publication is maintained. Others felt that scores would be useful for benchmarking against other countries. Some countries were worried that any system of quantitative scoring would discourage weak performers from undertaking ROSCs.

C. Market Participants

169. Most market participants thought that the 12 standards under the current initiative remain adequate. None of them found a compelling reason to add any new standards to the Initiative. They noted, for example, that the standards on remuneration are too narrow to be added to the Initiative, while deposit insurance could be covered under the banking sector standards. Rather than adding new standards, the Initiative should focus more on implementation and capacity building in countries.

170. The main messages in ROSC reports are unclear and ambiguous. Detailed assessments (DARs) provide greater clarity compared to ROSCs but are very technical and lengthy. It would be useful to include a short summary of main findings in published ROSCs and DARs, highlight the most important weaknesses and whether or not these pose significant macrofinancial risks to the country. Quantifying assessments would help improve market use of ROSCs and DARs.

171. The division of responsibilities across standard setting organizations is quite clear, but coordination among them should be strengthened. Better coordination among different supervisory committees, regulators, and standard-setters was suggested (i.e., European Systemic Risk Board, supervisory colleges, and standard-setting bodies). The Fund, FSB, and Basel Committee should also coordinate better on the sequencing of countries to be assessed and peer-reviewed.

172. Market participants saw merit in closer collaboration between assessors and experts in the field. For example, it would be useful to encourage independent assessments of countries' implementation of standards and codes by other organizations on the ground such as think tanks and external consultants.

173. There is a need to improve the dissemination of ROSC findings. ROSCs are hardly used by market participants (either directly or through rating agencies) and the program is not well-known. Some of the suggestions for increasing market participants' use of ROSCs include: (i) update ROSCs more regularly; (ii) improve accessibility and visibility of information on ROSCs in the IMF's website; and (iii) availability of granular cross-country compliance data from published ROSCs.

APPENDIX I. STANDARDS AND CODES MISSION PARTICIPANTS

Country Authorities			
Country	**Mission/Meeting Dates**	**Mission Members**	**Meeting Attendees**
United Kingdom	March 19–22, 2010, London	Gilda Fernandez (SPR)	Rebecca Teall, Terry Allen, Paolo S. Dasgupta, Jakob Lund (Manager), and Vicky White (Manager), Financial Services Authority (FSA) Timo del Carpio (Policy Analyst), and Kate Atkinson (Joint Head), HM Treasury Sergei Lanau, Bank of England
Hungary	April 25, 2010, Washington (Spring Meetings)	Gilda Fernandez, Jung Kim, and Lawrence Dwight (all SPR)	Adam Farkas (President), Hungarian Financial Supervision Agency
Cambodia	April 22, 2010, Washington (Spring Meetings)	Lawrence Dwight Jung Kim Gilda Fernandez (all SPR)	
Philippines	April 24, 2010, Washington (Spring Meetings)	David Marston Gilda Fernandez Kingsley Obiora (all SPR)	Diwa Guinigundo (Deputy Governor) and Thomas Marcelo (Director), *Bangko Sentral ng Pilipinas* *Iluminada Sicat* (Advisor, ED's office)
United States	April 19, 2010, Washington May 4, 2010, Washington	Ketil Hviding, Lawrence Dwight, Jung Kim, Kingsley Obiora, Gilda Fernandez (all SPR) Ketil Hviding, Lawrence Dwight, Jung Kim, Gilda Fernandez, Kingsley Obiora (all SPR)	William Murden (Treasury) Jack Jennings, Bill Spaniel, Tim Clarke, Christine Bryant (Federal Reserve Bank)
Russian Federation	April 26, 2010, Washington (Spring Meetings)	Ketil Hviding, Jung Kim, and Kingsley Obiora (all SPR)	Nadezhda Ivanova (Director), Central Bank of the Russian Federation

Country Authorities			
Country	**Mission/Meeting Dates**	**Mission Members**	**Meeting Attendees**
Gambia	May 18, 2010	Kingsley Obiora (SPR)	Momodou Bamba Saho (Governor of the Central Bank) Lamin Jarju (Acting Director, Economic Research Department) Mr. Drame (Director, Banking Supervision Department)
Senegal	May 21, 2010	Ketil Hviding and Kingsley Obiora (all SPR)	Mr. Abdoulaye Dieng (Executive Secretary, Ministry of Economy and Finance) Ms. Fatimatou Zahara Diop National Director National Branch BCEAO Mr. Mamour Fall (President, *Ordre National des Experts Comptables et des Comptable Agrées du Sénégal*) Mr. Babakar Fall (Director General, *Agence National de la Statistique et de la Démographie*)
Bangladesh	May 24–25, 2010, Dhaka	Lawrence Dwight	Dr. Mohammed Tareque, Finance Secretary Amalendu Mukherjee, Joint Secretary (Ministry of Finance) Joint Secretary (BFID) Md. Shahad Chowdhury, Controller General of Accounts (Office of the Controller General of Accounts) Md. Ziaul Haque Khondker, Chairman (Securities and Exchange Commission) Md. Jahangir Alam, General Manager Md. Shahriar Siddiqui, Dep. Director Saiful Islam, Joint Director (Bangladesh Bank) Arasstoo Khan, Additional Secretary (ERD)
Mozambique	May 31–June 1, 2010, Maputo	Gilda Fernandez (SPR)	Ms. Esselina Macome, Executive Director and Board Member (Bank of Mozambique)

Country Authorities			
Country	**Mission/Meeting Dates**	**Mission Members**	**Meeting Attendees**
			Mr. Waldemar F. De Sousa, Administrator (Bank of Mozambique) Ms. Silvina de Abreu, Director, Research and Statistics Department (Bank of Mozambique) Ms. Joana Jacinto David Matsombe Executive Director and Board Member, (Bank of Mozambique) Mr. Umaia Mahomed Director, Banking Supervision Department Ms. Maria Esperanca Mateus Majimeja Balance of Payments Division (Bank of Mozambique) Mr. Antonio Laice Director (National Treasury Directorate, Ministry of Finance)
Hong Kong SAR, China	May 31–June 1, 2010, Hong Kong SAR, China	Ketil Hviding, Jung Kim and Lawrence Dwight (all SPR)	Mr. Esmond Lee on Payment Systems (Executive Director, Financial Infrastructure, HKMA) Mr. Edmond Lau on MonTransparency (Executive Director, Monetary Management, HKMA) Mr. John Clayton on AML/CFT (Acting Division Head, Banking Conduct, HKMA) Ms. Rita Yeung on Basel Core Prinicples (Division Head, Banking Policy, HKMA) Mr. Leslie Tang on Data Transparency (Assistant Commissioner, Census and Statistics Department) Ms. Angela Kwan on AML/CFT (Principal Assistant Secretary, Financial Services and the Treasury)

Country Authorities			
Country	**Mission/Meeting Dates**	**Mission Members**	**Meeting Attendees**
			Mr. Keith Liu on Securities (Executive Director, Market Supervision, Securities and Futures Commission) Ms. Carol Hui on Insurance (Acting Assistant Commissioner on Insurance) Mr. Vincent Lo on informing markets (Associate Director, Fitch Ratings) Mr. James McCormick on informing markets (Executive Director, Credit Risk Management, Goldman Sachs Mr. Chris Joy on accounting (Executive Director, Hong Kong Institute of Certified Public Accountants)
Sri Lanka	May 12–21, 2010,	Lawrence Dwight (SPR)	Mr. D M Rupasinghe, Director, Financial Intelligence Unit, Central Bank of Sri Lanka (AML/CFT) Mr. Kumudhini Sarawanamuttu, Director, Financial System Stability Department, Central Bank of Sri Lanka (Basel Core Principles)
Bangladesh	May 24–25, 2010, Dhaka	Lawrence Dwight (SPR)	Joint Secretary, Treasury and Debt Management, Ministry of Finance (Fiscal Transparency) General Manager - Anti Money Laundering Dept., Bangladesh Bank (AML/CFT) General Manager - Banking Regulation & Policy Dept., Bangladesh Bank (Basle Core Principles) Mr. Mohammad Siddiqui, General Manager -Off-site Supervision Dept., Bangladesh Bank (Basel Core Principles)

Country Authorities			
Country	**Mission/Meeting Dates**	**Mission Members**	**Meeting Attendees**
India	June 2–3, 2010, Mumbai	Ketil Hviding and Jung Kim (all SPR)	(All RBI staff) Mr. Deepak Mohanty, Executive Director Mr. S.V.S. Dixit, Adviser (Dept. of Economic Analysis and Policy, RBI) Mr. B.M. Misra, Adviser (Dept. of Economic Analysis and Policy, RBI) Mrs. Mohua Ro, Director (Monetary Policy Dept) Mr. Arun Pasricha, General Manager (Department of Payment and Settlement System) Mr. P. K. Panda, Chief General Manager (Department of Banking Supervision) Mr. Ravi Shankar, Director (Internal Debt Management Dept) Mr. Ravi Mishra, General Manager, (Financial Stability Unit) Mr. Pramod Panda, Chief General Manager (Banking Supervision)
Brazil	October 8, 2010, Washington (Annual Meetings)	David Marston, Ketil Hviding, Lawrence Dwight, and Gilda Fernandez (all SPR)	Wagner Guerra Jr. (Head of the International Affairs Department), Otávio Damaso (Senior Advisor to the Deputy Governor of Bank Regulation), and Luis Gustavo Mansur (Deputy Head, International Affairs Department).

Standard Setters			
Country	**Mission/Meeting Dates**	**Mission Members**	**Meeting Attendees**
International Federation of Accountants (IFAC) and International Auditing and Assurances Standards Board (IAASB), New York	April 9, 2010	Ketil Hviding and Kingsley Obiora (SPR), Gillian Nkhata (MCM), and Zubaidur Rahman (World Bank)	Russell A Guthrie (Executive Director) and Thomas Zimmerman (Technical Manager) (IFAC) Kathleen Healy (Senior Technical Manager) and James Gunn (Technical Director) (IAASB)
International Accounting Standards Board (IASB), London	May 21, 2010	Gilda Fernandez (SPR) Ana Carvajal (MCM) Zubaidur Rahman (World Bank)	Sir David Tweedie (Chairman) Jan Engstron (Board member) Amaro Luiz de Oliveira Gomes (Board member) Prabhakar Kalavacherla (Board member) John Smith (Board member) Michael Wells (Board member) Wayne Upton, Director
UK Accounting Standards Board, London	May 21, 2010	Gilda Fernandez (SPR) Ana Carvajal (MCM) Zubaidur Rahman (World Bank)	Ian Mackintosh (Chairman) Jon Hopper (International Relations Manager)
Organization of Economic Cooperation and Development (OECD), Paris	May 25, 2010	Ketil Hviding and Gilda Fernandez (all SPR) Ana Carvajal (MCM) Jose Cartas (STA) Mario Guadamillas and Jean Pesme (World Bank)	James Colvin (Principal Administrator) Daniel Blume (Senior Policy Analyst)

Standard Setters			
Country	**Mission/Meeting Dates**	**Mission Members**	**Meeting Attendees**
Financial Action Task Force (FATF), Paris	May 25, 2010	Ketil Hviding and Gilda Fernandez (SPR) Ana Carvajal (MCM) Jose Cartas (STA) Mario Guadamillas and Jean Pesme (World Bank) Richard Lalonde (LEG)	Rick McDonell (Executive Secretary) John Carlson (Principal Administrator)
International Association of Deposit Insurers (IADI), Basel	May 27, 2010	Ketil Hviding and Gilda Fernandez (SPR) Ana Carvajal (MCM) Mario Guadamillas and David Scott (WB)	Donald E. Inscoe (Secretary-General)
Bank for International Settlements (BIS), Basel	May 27, 2010	Ketil Hviding and Gilda Fernandez (SPR) Ana Carvajal (MCM) Mario Guadamillas and David Scott (World Bank)	Karl Cordewener (Deputy Secretary General)
International Association of Insurance Supervisors (IAIS), Basel	May 27, 2010	Ketil Hviding and Gilda Fernandez (SPR) Ana Carvajal (MCM) Mario Guadamillas and David Scott (World Bank)	Yoshihiro Kawai (Secretary General) Takao Miyamoto (Principal Administrator) Arup Chatterjee (Principal Administrator)
Committee on Payments and Settlement Systems (CPSS), Basel	May 27, 2010	Ketil Hviding and Gilda Fernandez (SPR) Ana Carvajal (MCM) Mario Guadamillas and David Scott (World Bank)	Daniel Heller (Head of Secretariat) Robert Lindley (Deputy Head of Secretariat) Takeshi Shirakami (Member of Secretariat) Gudrun Mauerhofer (Member of Secretariat)

Standard Setters			
Country	**Mission/Meeting Dates**	**Mission Members**	**Meeting Attendees**
Financial Stability Board (FSB), Basel	May 27, 2010	Ketil Hviding and Gilda Fernandez (SPR) Ana Carvajal (MCM) Mario Guadamillas and David Scott (World Bank)	Svein Andresen (Secretary General) Rupert Thorne (Deputy Secretary General) Marina Moretti (FSB Secretariat) Philip Wooldridge (FSB Secretariat)
International Organization of Securities Commission (IOSCO), Madrid	June 21, 2010	Ketil Hviding (SPR)	Tajinder Singh, Deputy Secretary General Isabel Pastor, Senior Advisor

Market Participants			
Company	**Mission/Meeting Dates**	**Mission Members**	**Meeting Attendees**
Moody's Investors Service, New York	April 9, 2010	Ketil Hviding, Kingsley Obiora, and Gilda Fernandez (SPR), Gillian Nkhata (MCM), and Zubaidur Rahman (World Bank)	Mauro Leos (Regional Credit Officer), Sergio Valderrama (Associate Analyst), Jaime Reusche (Associate Analyst), Steven A. Hess (Vice President), Annette Fratantaro (Senior Associate)
eStandards Forum, New York	April 9, 2010	Ketil Hviding, Kingsley Obiora, and Gilda Fernandez (SPR), Gillian Nkhata (MCM), and Zubaidur Rahman (World Bank)	Carolina Azar (Director of External Relations), Tija Kurian (Director of Strategy), Andreas Grimminger (Director of Communications)
Standard and Poor's, New York	April 9, 2010	Ketil Hviding, Kingsley Obiora, and Gilda Fernandez (SPR), Gillian Nkhata (MCM), and Zubaidur Rahman (World Bank)	Olga Kalinina (Director)
Fitch Ratings, London	March 19, 2010	Gilda Fernandez (SPR)	Edward Parker (Head, Emerging Europe Sovereigns) David Riley (Head, Global Sovereign Ratings)