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THE WORLD BANK

Assessing the Implementation of Standards: A Review of Experience and Next Steps

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EXECUTIVE SUMMARY

Over the past three years the international community has attached increasing importance to the work on standards and codes as a crucial element of crisis prevention. The interest in standards is not new: for many years standards have provided a context for discussions between national authorities and the Bank and IMF staffs on specific policy and reform objectives, particularly in technical assistance (TA) activities. However, what is new—sparked by the crises in emerging market countries in the mid-1990s—is the realization that standards can serve as a framework to strengthen the functioning of markets and better focus policy discussions. There is now recognition that the rigor, context, and focus that have been added to the work on standards is essential to the crisis prevention efforts of the international community and the IMF, as well as efforts to better inform markets and assist the authorities' objectives for capacity building.

Since the Asian crisis, considerable progress has been made in articulating standards, developing assessment methodologies, forging agreement that standards should be implemented over time and in light of country circumstances, and undertaking external assessments of progress in implementing a broad range of standards. The Bank and IMF have played a major role in all of these efforts, including by experimenting with assessing implementation of standards using *Reports on the Observance of Standards and Codes* (ROSCs) as well as the framework of the *Financial Sector Assessment Program* (FSAP), which considers observance of relevant standards as an input into judgments on financial sector vulnerability and development needs.

This paper summarizes the experience with assessing standards and using ROSCs which is based on detailed background analysis by IMF and Bank staff. The review of the experience with standards and the ROSC process reveals that the modalities developed so far are working well and identifies the lessons which have emerged from this experience to inform next steps.

A number of key issues need to be addressed. In this regard, the paper proposes ways for bringing the results of ROSCs, and standards assessments more generally, into IMF surveillance, program design, and TA provision, and the means by which the results of assessments will determine Bank capacity building and TA activities. In particular:

- The preparation of ROSCs would continue to be based on the modalities so far developed, including the existing collaborative framework between the Bank and IMF.
- The ROSC, while voluntary, is an appropriate instrument to undertake assessments of members' progress in implementing standards. Members should be encouraged to participate in the ROSC process. To remain useful, assessments of progress in implementing standards need to remain current through periodic updates.

- The assessment of the implementation of identified standards should reflect members' circumstances, stage of development, institutional capacities, and other reform priorities. Against this background, a limited set of standards could be identified as benchmarks for Bank and IMF operations. Box 3 constitutes a suggested list, which could be subject to periodic review by the Bank and IMF Boards.
- IMF surveillance should take into account members' practices and policies in the areas relevant for the conduct of surveillance. The standards listed in Box 3 provide appropriate benchmarks to assist in understanding the implications of a member's practices and policies for macroeconomic and financial stability.
- Information on progress in implementing standards will be used in underpinning the Bank's policy dialogue with members, informing Country Assistance Strategies (CASs), and sharpening the focus of capacity-building efforts.
- The provision of TA to help members improve their observance of standards remains a priority. There will be a need for greater coordination of TA provided by various agencies in this area. The Bank and IMF could take the lead in coordinating efforts where appropriate.
- Publication of ROSCs should continue to be voluntary and encouraged consistent with the general publication policy agreed by the IMF and Bank Boards. There should be uniform publication and transmittal policies for the Bank and IMF.
- The work on standards has significant resource implications for national authorities, the Bank and the IMF. If efforts are to move beyond the experimental stage to a more central part of surveillance (Option 2), capacity building, and TA, this will require a commitment of resources—and larger annual output of ROSC modules—with implications for the broader work program of both institutions. In this regard, the proposed pace and coverage for the preparation of ROSCs and the process of updates need to be considered in light of the demands for ROSCs from national authorities, the efforts to strengthen surveillance and capacity building, and the expectations of the private sector.
- Some members have expressed concerns regarding the ownership and direction of the work on standards. This paper describes the steps taken and proposed by the Bank, the IMF, and standard setters to address these concerns.

I. INTRODUCTION AND BACKGROUND¹

A. The Role of Standards

1. In the wake of financial crises since 1997, the international community has emphasized the need for specific steps to strengthen the architecture of the international financial system. Increased transparency, and the development and implementation of standards and codes in areas relevant to the effective functioning of members' economic and financial systems, have been central elements of these efforts.²

2. **The implementation of standards can help national authorities in their efforts to strengthen domestic economic and financial sector policy frameworks, highlight potential vulnerabilities and provide information to enhance market discipline—and hence is a key component of crisis prevention.**³ Standards can provide useful guideposts—or benchmarks—for implementing structural reforms and building policymaking and supervisory capacity. They can also help to highlight potential vulnerabilities. If information on progress in implementing standards is made public and is used as an input into risk assessments, standards may also help market participants better discriminate between competing opportunities and thereby contribute to better-informed investment and lending decisions.

B. Progress So Far

3. **Three broad categories of standards have been developed—those dealing with disclosure and transparency; supervision and regulation; and market integrity.** Progress has been most marked in the area of disclosure standards. The IMF's *Special Data Dissemination Standard* (SDDS), *Code of Good Practices in Fiscal Transparency* (FPT Code), and *Code of Good Practice on Transparency in Monetary and Financial Policies*

¹ The contributors to this paper were Ydahlia Metzgen and Rachel Glennerster (PDR) from the IMF in collaboration with FAD, MAE, STA, and the Task Force on Monitoring and Assessment of Standards and Codes (TAMS); and Amar Bhattacharya and Axel Peuker (both PRMVP) from the World Bank, in collaboration with FSP, LEGOP, LOADR, OCSFM, and PSACG.

² For example, the IMFC has recognized “the importance of adherence to international standards and codes of good practice in improving the policy environment and in reducing countries' macroeconomic and financial vulnerability,” while the Development Committee has noted the need for the Bank, in partnership with other agencies, to support “strengthening international financial architecture ... [which] includes helping to develop appropriate standards and codes.” In addition, implementation of standards have been advocated by the Financial Stability Forum (FSF), G-20, the Manila Framework Group, Asia and Pacific Economic Cooperation (APEC), and Western Hemisphere Finance Ministers (see Appendix II).

³ Many of the main standards developed in recent years have their roots in past crises—for example, the IMF developed (and strengthened) its own data dissemination standards and two transparency codes in response to the Mexican crisis of 1994 and the emerging markets crises of 1997–1998.

(MFPT Code) have all been adopted or strengthened in the last three years. In the area of regulatory standards, the Basel *Core Principles for Effective Banking Supervision* (BCP) was developed in 1996; core principles in securities and insurance regulation are more recent and those for payments systems remain under development. Progress has been slower in achieving consensus around standards in the areas loosely grouped under the heading of “market integrity,” including corporate governance, insolvency, accounting, and auditing. A set of corporate governance principles was developed by the OECD in May 1999. So far, the International Accounting Standards Committee (IASC) has issued International Accounting Standards which cover some 40 areas, while the International Federation of Accountants has issued International Standards on Auditing covering 30 areas. Work has been, or is being, undertaken by the Bank, together with other institutions, on guidelines for insolvency regimes. The Bank’s draft principles and guidelines for effective insolvency regimes will be presented to the Bank’s Board in March 2001. The United Nations Commission of International Trade Law (UNCITRAL) has prepared a Model Law on Cross Border Insolvency and is considering a legislative guide on domestic insolvency law. The IMF has published *Orderly and Effective Insolvency Procedures—Key Issues*. INSOL (International Federation of Insolvency Practitioners) has also prepared principles for out-of-court workouts.

4. **Assessment methodologies have also been developed for the key financial sector regulatory and market integrity standards to help guide national authorities and third parties in reaching judgments on countries’ progress in implementing standards.** These methodologies are currently being used in the assessment of financial sector regulatory standards and staff are providing feedback to the standard-setting bodies on their experience with using the methodologies. In addition, the Bank, in consultation with other bodies, has developed assessment methodologies in the area of corporate governance, accounting, and auditing, and is in the process of preparing a diagnostic tool for insolvency assessments.

5. **Experience indicates the value of standards to countries at all stages of economic development. However, implementation of standards needs to be sequenced and prioritized in light of each member’s institutional capacity and economic structure.** Nevertheless, some countries remain concerned that there is an element of “one size fits all” to the development and implementation of standards, and efforts will continue to be made to address this concern (see Section III.C).

6. **Increasing attention has been placed on incentives to encourage countries to implement standards.** The benefits standards bring to countries in terms of stronger and more resilient economic and financial systems, and ultimately better economic performance, should provide an important motivation for members to implement standards appropriate to their economic circumstances and stage of development. To facilitate implementation, both the private and official sectors can provide important incentives. The private sector can provide the principal external incentive, as it is increasingly doing, by reflecting progress in implementing standards in its risk assessments. The official sector can provide incentives by undertaking assessments and through the provision of TA to members committed to

upgrading institutions and policy frameworks.⁴ The FSF has provided an impetus to this discussion and its working groups have examined in detail measures currently available to encourage countries to implement standards (Appendix I).

C. Role of the Bank and the IMF

7. **The Bank and the IMF have made important contributions to all aspects of the international community's work on standards and codes.** Together with other fora, they have helped to design and disseminate standards; to encourage their adoption; to develop assessment methodologies; and to assist members to improve their implementation of, and adherence to, a range of standards. Staff have also worked closely with other groups to assess and raise private sector awareness of the efforts underway.

8. **The Bank and the IMF have collaborated closely in a program to assess progress in implementing certain standards.** The results of these assessments are contributing to members' efforts to identify priority areas for reform, helping direct the capacity-building efforts of both institutions, and informing IMF surveillance, and are increasingly being used by the private sector. These assessments, which are presented in summary form as *Reports on the Observance of Standards and Codes* (ROSCs), are prepared using a variety of modalities, including as a by-product of the joint Bank-IMF *Financial Sector Assessment Program* (FSAP). The FSAP uses detailed assessments of relevant financial sector standards as input into broader assessments of financial system stability and development needs; summaries of these assessments provide ROSC modules for the financial sector.⁵

9. **The Bank-IMF collaborative effort on assessment of standards is at an early stage and will need to be reviewed in the light of further experience.** The two institutions have adopted an approach which involves each taking responsibility, and being accountable, for the assessment of standards and the preparation of ROSCs, in areas consistent with their respective mandates. Initial official and private reactions to the effort are promising.

10. This paper reports on the experience with preparing and using ROSCs in the operational activities of the Bank and the IMF (Section II). The paper also highlights a series

⁴ See the Summing Up by the Acting Chairman for *International Standards and Fund Surveillance—Progress and Issues* (SUR/99/112, September 20, 1999). Similar sentiments in favor of some type of monitoring are expressed in the Summings Up to *International Standards and Fund Surveillance—Further Issues* (SUR/99/42, March 31, 1999) and *International Standards and Fund Surveillance* (SUR/98/95, 7/30/98).

⁵ The FSAP is a cooperative exercise involving the collaboration of national authorities and standard-setting bodies. Assessments of observance of financial sector standards have, since early 2000, generally been undertaken as part of the FSAP. Bank-Fund collaboration in undertaking the FSAP is reviewed in *Financial Sector Assessment Program—A Review: Lessons from the Pilot and Issues Going Forward* (SM/00/263, 11/27/00).

of issues where clarification and guidance is needed from the Bank and the IMF Executive Boards (Section III).

II. EXPERIENCE WITH ASSESSING OBSERVANCE OF STANDARDS AND PREPARING ROSCs

11. **The interest in standards assessments is not new: for many years the Bank and the IMF have used various standards, where relevant to specific issues, in their normal operations, particularly TA.** The assessments of standards in these cases have taken a variety of forms, from short overviews to highly technical—component-by-component—analyses. What is new is the rigor, context, and focus which has been brought to the work and the realization that there are considerable benefits to having a consistent approach to these issues across countries. This section reviews the experience to date.

12. **In order to explore the modalities for, and implications of, IMF involvement in assessing and monitoring standards, in January 1999 IMF staff launched a series of experimental case studies on members' progress in implementing and observing selected internationally recognized standards.** Initially referred to as Transparency Reports, the ROSCs have now been through three rounds of pilot programs in the IMF.

13. **In early 2000, the Bank commenced experimenting with assessments of progress in implementing standards and codes in areas consistent with the Bank's mandate for capacity building and poverty reduction.** The Bank identified the areas of corporate governance, accounting, and auditing, and, when standards are available, insolvency and creditor rights, as areas in which it would begin to experiment with producing ROSCs (Box 1).

Box 1. Bank-IMF Collaboration on Standards Assessments

The Bank and the IMF have adopted a collaborative approach to preparing assessments of progress in implementing standards.

- The IMF is preparing assessments in the areas of **data dissemination** and **fiscal transparency** in the context of existing TA activities and surveillance and program reviews.
- The joint Bank-IMF FSAP focuses primarily on the assessment of financial sector vulnerabilities and the identification of developmental priorities. Addressing these objectives involves, in part, an assessment of those **financial sector standards** which are key to the individual member's macroeconomic and financial stability and development. All FSAPs assess observance of, at a minimum, the IMF's MFPT Code and the BCBS' *Core Principles for Effective Banking Supervision* (BCP). Other standards—such as IOSCO's *Objectives and Principles for Securities Regulation*, IAIS's *Insurance Supervisory Principles*, and the Committee on Payments and Settlements Systems' (CPSS) *Core Principles for Systemically Important Payments Systems*—are assessed as relevant. Some of the financial sector standards may also be assessed as part of Bank or IMF TA programs, i.e., independent of an FSAP.

The Bank, in cooperation with other bodies, is experimenting with assessments in the areas of **corporate governance**. It will shortly begin assessments of **accounting, auditing, and insolvency regimes** and is currently developing modalities for conducting these assessments

14. As of December 4, 2000, 83 ROSC modules had been produced for 32 countries, of which 67 have been published (Table 1).⁶

- The IMF staff have prepared 50 modules for 21 members from a range of developing, emerging market and industrial economies, including 11 data dissemination modules and 16 fiscal transparency modules. The IMF staff anticipates producing around 30 additional modules over the remainder of FY 2001.
- Working together through the FSAP, the Bank and the IMF staff have prepared 30 ROSC modules for 8 members, with a further 15 modules for another 4 members close to completion. In FY 2001, a further 24 countries will participate in the FSAP, generating at least 48, and possibly closer to 100, additional financial sector ROSC modules subsequently.⁷
- Bank staff have now finalized pilot ROSC modules for three developing and emerging market economies, with three more close to completion. They anticipate launching another 18 modules over the remainder of FY 2001. The first three ROSC modules are being circulated to the Bank and IMF Executive Boards for information in parallel with this report.

⁶ Statistics cited in the review relate to all completed ROSCs, even though the evolving nature of the ROSCs makes direct comparisons on some issues difficult.

⁷ For planning purposes, all FSAPs are assumed to produce a minimum of 2 ROSC modules. However, in the 12 FSAP pilots, an average of 3.8 standards (and hence ROSC modules) were assessed for each country. To date, the first 6 countries for which FSAPs are being prepared in FY 2001 have yielded an average of 4.2 modules. As a result, it is likely that the 24 FSAPs scheduled for FY 2001 will generate close to 100 ROSC modules.

Table 1. ROSC Modules Completed and Published by December 4, 2000 1/

Data Dissemination	Fiscal Transparency	Monetary and Financial Policy Transparency	Banking Supervision	Insurance Regulation	Securities Market Regulation	Payments Systems	Corporate Governance
Argentina Albania Australia Bulgaria Czech Republic Hong Kong SAR Tunisia Uganda United Kingdom	Argentina Australia Azerbaijan Bulgaria Cameroon Czech Republic France Greece Hong Kong SAR Pakistan Papua New Guinea Sweden Tunisia Turkey Uganda Ukraine United Kingdom	Argentina Australia Bulgaria Cameroon * Canada * Czech Republic Estonia * France Hong Kong SAR Ireland * Tunisia Uganda United Kingdom	Algeria Argentina Australia Bulgaria Cameroon * Canada * Czech Republic Estonia * Hong Kong SAR Ireland * Tunisia Uganda United Kingdom	Cameroon * Canada * Estonia * Ireland*	Canada * Czech Republic Estonia * Ireland*	Cameroon * Canada * Estonia * Ireland *	Malaysia Poland Zimbabwe
Total Completed 11	18	18	18	5	5	5	3
Total Published 9	17	13	13	4	4	4	3

Source: Staff estimates.

1/ Includes Azerbaijan, Ireland, Malaysia, Poland, Sweden, and Zimbabwe where the authorities have authorized publication of the finalized module but where the module has not yet been placed on the website.

* Indicates the module was derived from an FSAP

15. **Since September 1999, completed ROSC modules have been circulated to the IMF's Executive Board as supporting documentation for the Article IV consultation for 27 IMF members.** Article IV staff reports have reported on discussions with the authorities on progress in improving the implementation and observance of standards and in addressing recommendations contained in the ROSC modules.⁸ In addition, Article IV mission teams have begun experimenting with the preparation of short annual updates reporting on authorities' responses to recommendations contained in ROSCs. These updates are inserted in the ROSC binder. Prepared on the basis of discussion with the authorities, the updates so far have been restricted to descriptions of actions taken by members that could have a bearing on progress in observing standards.

16. **To date, ROSC binders have not been circulated to the Bank Board.** However, standards assessments have already begun to influence selected Economic and Sector Work as well as Country Assistance Strategies (CAS). For those countries for which assessments have been prepared and compiled in ROSC binders, it is proposed to provide these binders as background material to the Bank's Executive Board for upcoming CAS discussions.

A. Reviewing Experience—ROSCs

17. **The Bank and IMF staff have reviewed the experience with preparing and using ROSCs (and any underlying detailed assessment) during the three rounds of experimental case studies now completed.**⁹ The review involved a detailed examination of completed ROSC modules, the relevant Article IV staff reports, and minutes of IMF Board meetings; focus group discussions with IMF mission chiefs; consultations with Bank functional departments and task team leaders involved in standards assessments; and the results of a wide-ranging outreach program conducted by the IMF and Bank staff.

18. **Although the modalities remain experimental, and the links with IMF surveillance and the Bank's capacity-building efforts remain to be resolved, the broad structure of the organizing framework for standards assessment has emerged from the lessons learned over the last 18 months (Box 2).**

⁸ In the case of financial sector standards assessed under the FSAP, summary assessments (ROSC modules) are presented as part of the FSSA addressing issues of significance for financial system stability, including the contribution of standards observance to overall stability.

⁹ References to ROSC modules in this paper may also be applicable to the underlying detailed assessment produced in the FSAP from which the ROSC modules for the financial sector are generally derived.

Box 2. Modalities for Preparing ROSCs

Participation in the ROSC exercise by member countries is **voluntary**.

The **choice of standards to be assessed, and the sequence in which these are assessed**, is based on country circumstances, taking into account potential synergies in the preparation of standards assessments. Production of summary assessments—standard by standard—is generally **staggered over time** to allow staff and members to avoid bottlenecks and prioritize efforts. While members still face a significant burden in participating in the preparation of standards assessments, there are important sectoral interlinkages that argue for several financial sector standards to be considered simultaneously in reaching judgments on stability and developmental needs in the context of the FSAP.¹

ROSC modules are prepared across a range of standards using the **Bank-IMF collaborative approach** (Box 1).

Detailed assessments of progress in implementing and adhering to selected standards may be prepared, using assessment methodologies where available, to benchmark country practices against the relevant standard.² **Summary assessments—ROSC modules**—may be derived from these detailed assessments or may be prepared without the prior preparation of a detailed assessment.

Modules also attempt to discuss the underlying **quality of the information** being released publicly to the extent possible for disclosure standards, and to discuss the materiality and contribution to stability of country practices in areas subject to regulatory and system design standards.³

Assessments **avoid assigning country ratings or pass-fail grades**. Modules attempt to provide an **appropriate context for assessments** by reporting on both the absolute extent to which standards are being effectively implemented and by noting the extent of progress over time.

Modular assessments (and any underlying detailed assessment) contain specific, **prioritized recommendations, prepared in the light of country circumstances**, on how to improve implementation of the standard.

Modules are prepared and **authorized jointly by the relevant functional and area/regional departments**, after review by other departments, thereby bringing both functional expertise and broader country perspectives on priorities and issues to the exercise. They are then cleared either individually or, jointly, in the case of modules derived in the FSAP context, by Bank and IMF management.

ROSC modules are compiled in a **ROSC binder** allowing the development of a comprehensive picture of a member's progress in implementing standards to be developed over time. This binder is circulated to the IMF Board as background information to the Article IV consultation and is made available to the Bank Board. Authorship of each module is clearly identified. Staff of each institution would decide on the relevance of the conclusions contained in the partner institutions' modules in the course of preparing the Article IV staff reports and the Country Assistance Strategies (CAS).

The principal results of ROSC modules are reflected in Article IV staff reports and serve to underpin the Bank's country strategy and diagnostic work.

Publication of ROSC modules is voluntary.

1/ The FSAP also reaps broader synergies by undertaking standards assessments in conjunction with the use of other tools to provide information on stability, vulnerability, and development needs. Information on financial system standards assessed under the FSAP is used to inform IMF surveillance through the *Financial System Stability Assessment (FSSA)*, which is provided to the IMF's Board as background documentation to the Article IV consultation process. As a result, references to the contribution to surveillance from financial sector ROSCs are often, by extension, references to the contributions of the FSSA.

2/ Such detailed assessments are generally only prepared by the Bank and the IMF for financial sector standards. For non-financial sector standards, detailed information is collected, often in the form of questionnaires, but staff usually move directly from this background information to the preparation of the summary ROSC module.

3/ The IMF functional departments are placing priority on ensuring a better coverage of quality issues in ROSCs, including through efforts to investigate data quality (e.g., as was done for the Fiscal ROSC for Pakistan).

19. **In conducting the review, the staffs recognized that the process and content of ROSCs has evolved over time.** They also recognized the likelihood of selection bias in the pilot program: countries well advanced in implementing standards relative to their country peer group could be expected to be more likely to participate in the early ROSCs. The following sketches out eight main lessons, which emerged from the review.

20. **Lesson 1:** *Experience suggests that the modalities set out in Box 2 are working well.* The value of the modular approach and the importance of prioritized recommendations have been reaffirmed. Efforts to improve implementation of standards need to be placed in the context of a broader reform framework so as to prioritize between adherence to standards and other reforms. Using the ROSCs to inform Article IV surveillance and Bank country diagnostic work is critical to providing such a broader perspective.

21. **Lesson 2:** *Assessments need to be independently and consistently applied across countries.* The pilot program has shown that the Bank and the IMF can mobilize, either internally or externally, the technical expertise and the resources to carry out independent assessments against a range of standards for a diverse mix of industrial, developing and emerging market economies. The experience with assessing the BCP and MFPT also suggests that self-assessments can be a valuable first step if prepared on the basis of an assessment methodology. However, they tend to be more optimistic than third-party assessments and need to be followed by external evaluations to maximize credibility. It is also clear that ROSCs need to use consistent language across countries and across standards—the development of assessment methodologies has made a valuable contribution to ensuring uniformity of treatment across countries, but more needs to be done. In this regard, it is worth noting that IMF functional departments agreed on the desirability of developing more detailed methodologies and guidance for assessors.

22. **Lesson 3:** *Early evidence suggests that the ROSCs appropriately allow for consideration of the different stages of economic development, the range of administrative capacities, and the different cultural and legal traditions across the membership.* This is addressed by describing those elements of a standard that have been met and those that have not, as well as by providing a context for the assessment, and recounting the progress that has been achieved over time.¹⁰ Experience suggests that this approach is more useful to the authorities than a pass-fail grade. In particular, it provides an indication of areas of strengths and weaknesses, of the relative importance of gaps in adherence to standards, and of the member's commitment to achieving further improvement. Nevertheless, some members remain concerned that standards and the assessment process remain insufficiently responsive to the experience of individual countries (Section III.C). In contrast, private sector feedback suggests greater interest in a quantified "rating." Both Bank and IMF staff, however, believe

¹⁰ This approach was endorsed by the Fund Board when discussing *International Standards and Fund Surveillance—Progress and Issues* (EBS/99/158, 8/17/99).

that ratings could potentially subvert the appropriate role of the private sector in assessing and pricing risk.

23. **Lesson 4:** *While experience is limited, the evidence so far suggests that the ROSCs have been helpful in informing IMF surveillance, but the precise way in which assessments feed into surveillance needs to be clarified (Section III.D).* IMF mission chiefs interviewed for the review generally believe that ROSCs have added value to IMF surveillance, although the views on the degree to which this is so were wide ranging and influenced by a variety of factors. The assessments have also been used in program design and TA delivery. While it is difficult to measure precisely the contribution of ROSCs in the short term, particularly if staff have already been addressing some of the same issues on an ongoing basis, the review concludes that ROSCs have added value in a number of ways:

- ROSCs have developed into a useful vehicle for monitoring progress and establishing a dialogue on standards between the IMF and its members. Distilling detailed assessments into ROSCs has also provided a mechanism to draw out the main issues and place them into a broader surveillance context. The assessment of standards has strengthened the foundation for, and lent more authority to, IMF policy advice by providing an international benchmark against which to evaluate country practices. In particular, IMF staff believe the ROSCs have provided an important, institutional means to raise with the authorities, and in the IMF's Board, critical and sensitive standards-related issues, especially those with implications for governance or with a medium-term focus.
- ROSCs have proved a useful mechanism for bringing standards assessments into Board discussions, but the emphasis given to ROSCs has varied considerably across countries.
- The review process for ROSCs—involving staff and the Board—and the clear identification of authorship, and therefore responsibility, have the potential to add depth and quality control to the assessment of standards. However, more needs to be done to ensure consistently high quality reports.

24. **Lesson 5:** *Evidence suggests that authorities have found ROSCs helpful.* According to IMF mission chiefs, national authorities reacted positively to the ROSC process despite a lack of familiarity with some aspects of the initiative. Mission chiefs noted that countries participated in a ROSC for a variety of reasons: to signal their transparency; to complement their own efforts to observe standards; to make further progress toward observing international standards; and, for some emerging market and developing countries, to signal their intention to improve their regulatory framework. In many cases, the authorities have responded to the recommendations in the ROSCs by moving quickly to begin to address identified issues, including by seeking TA from the Bank and/or the IMF (Section III.F). However, the IMF needs to explain more clearly to country authorities how the standards initiative fits into the surveillance process.

25. **Lesson 6:** *While more recent, the initial experience in the Bank suggests that information on progress in implementing standards can be useful in underpinning Bank policy dialogue with members, informing CASs, and sharpening the focus of capacity-building efforts.* Work on standards in the context of FSAPs has already resulted in some follow-up requests for TA and is being incorporated into CASs. Similarly, work on corporate governance assessments is being integrated into private and financial sector development strategies and addressed in policy and project lending operations. The appropriate next steps to further integrate this work are discussed in Section III.E.

26. **Lesson 7:** *While interest in, and awareness of, the work underway on standards in general, and ROSCs in particular, has increased notably in recent months, much more remains to be done to raise the general level of awareness, with potential resource implications for both institutions.* The work on standards, and the ROSCs in particular, has received considerable attention from senior managers of a range of major financial institutions, especially risk managers. A number of private sector organizations are also moving to use the results of ROSCs in their own work and some organizations have even started to produce their own standards assessments for individual firms in the area of corporate governance.¹¹ Moreover, ROSC modules available on the IMF's external website have garnered increasing attention.¹² However, while the majority of completed ROSC modules have been published, there has been no measurable market impact on members so far, either positive or negative, and it is difficult to disentangle the benefits from those of transparency more generally. Private sector representatives have indicated that a critical mass of ROSCs will need to be published, along with frequent updates, if they are to utilize them as fully as they would like. More time, and more experience and potentially a faster pace of production and publication of ROSCs, may be necessary before the extent of the influence of this initiative on private sector behavior becomes apparent.

27. **Lesson 8:** *The preparation of ROSCs involves significant resource costs; this issue will need to be addressed if a decision is made to implement the program more widely and systematically (Section III.H).* The pilot has highlighted that preparing assessments is time consuming and requires specialist expertise, with significant implications for resource needs. If the pace were to be increased because this were considered important to strengthen surveillance and capacity building or in response to the demands of the private sector, additional resources would be required. Even more fundamental is the question of resources available in member countries to participate in this work and to follow-up on the ensuing recommendations (Section III.F).

¹¹ Standards and Poor's is producing corporate governance ratings for individual firms based on the OECD principles.

¹² The Bank's corresponding website was launched in early December, and no statistics on hits on this site are available as yet.

III. NEXT STEPS

A. Direction of Future Work

28. **A range of issues has emerged from the experience with assessing standards on which agreement will need to be reached.** These include:

- which standards are deemed appropriate for use in operational activities (Section III.B);
- how to respond to concerns about the ownership and direction of the work on standards (Section III.C);
- the role of standards in IMF surveillance, and the contribution of ROSCs to informing surveillance (section III.D);
- the links between ROSCs and Bank capacity building (Section III.E);
- the links between ROSCs and TA provision (Section III.F);
- issues relating to publication and transmittal of information to other agencies (Section III.G); and
- what the appropriate pace of assessments should be and how priorities should be set (Section III.H).

B. Ensuring an Appropriate Framework to Guide Work on Standards

29. **Periodic reviews by the Bank and IMF Boards of the list of standards against which members could choose to be assessed would provide all members with the opportunity to guide the direction of work on standards.** The Bank and the IMF currently focus on standards in 11 areas, out of more than 60 possible standards. Standards in these areas have either been explicitly endorsed by the Executive Boards of the Bank and the IMF as useful to the operational work of the institutions, or the two Boards have asked staff to experiment with assessments against standards in these areas (Box 3). The current list includes: the three standards developed by the IMF (on data dissemination, fiscal policy transparency, and monetary and financial policy transparency); those used additionally in the FSAP (on banking, securities, insurance, and payments systems); and those being used, or under consideration by the Bank (on corporate governance, accounting, auditing, and insolvency and creditor rights). The staff propose that in the periodic review of this list by the Executive Boards, the main criteria for inclusion would be the relevance to macroeconomic and financial stability and to capacity building. Adoption of any of the listed standards by members would remain voluntary and priorities in implementing standards would differ by country and through time, reflecting differences in economic circumstances and stages of development. However, all members could aspire to implement these standards as their circumstances warranted.

Box 3. List of Standards and Codes Useful for Bank and IMF Operational Work

Group 1: *these are the initial set of areas defined as within the IMF's direct operational focus when the ROSC pilot was initiated.*

Data Dissemination: the IMF's *Special Data Dissemination Standard/General Data Dissemination System (SDDS/GDDS).*

Fiscal Transparency: the IMF's *Code of Good Practices on Fiscal Transparency.*

Monetary and Financial Policy Transparency: the IMF's *Code of Good Practices on Transparency in Monetary and Financial Policies* (usually assessed under the FSAP).

Banking Supervision: Basel Committee's *Core Principles for Effective Banking Supervision (BCP)* (usually assessed under the FSAP).

Group 2: *these additional areas are assessed under the FSAP. It is arguable that the IMF's focus on financial sector monitoring under surveillance, and the development of the FSAP as the principal means to conduct that monitoring, combined with the Bank's responsibility for financial sector development, also make these areas of direct operational focus for both institutions.*

Securities: International Organization of Securities Commissions' (IOSCO) *Objectives and Principles for Securities Regulation.*

Insurance: International Association of Insurance Supervisors' (IAIS) *Insurance Supervisory Principles.*

Payments Systems: Committee on Payments and Settlements Systems' (CPSS) *Core Principles for Systemically Important Payments Systems.*

Group 3: *these areas were highlighted as important for the effective operation of domestic and international financial systems by the IMF Board^{1/} and are now being assessed by the Bank under the ROSC pilot.*

Corporate Governance: OECD *Principles of Corporate Governance.*

Accounting: International Accounting Standards Committee's *International Accounting Standards.*

Auditing: International Federation of Accountants' *International Standards on Auditing.*

Insolvency and creditor rights: see paragraph 3.

^{1/} Summing Up of the Acting Chairman, *International Standards and Fund Surveillance—Further Issues* (SUR/99/42, 3/31/99).

30. **Standard-specific reviews could also be undertaken by the Executive Boards in those areas for which they are responsible—giving members the opportunity to provide feedback on the process.** These reviews would focus on the individual features of each standard, the scope of assessment, their usefulness in policy analysis, and on lessons from the experience with using standards assessments in Bank and IMF operational work. The IMF

Board has already undertaken such reviews in the case of the SDDS/GDDS, Fiscal Transparency Code, MFPT, and BCP.

31. **At this stage, the Bank is the only institution formally collaborating with the IMF in the preparation of ROSCs.** However, collaboration could be extended to other institutions. If considered appropriate, the IMF's Board, after consultation with the Bank Board where appropriate, could invite other groups to collaborate in preparing ROSCs, either to extend the range of standards covered or to ensure more effective country coverage for those standards currently assessed. The possibility has been raised that the Financial Action Task Force (FATF) could be invited to prepare ROSC modules on members' observance of the FATF's 40 recommendations. The International Monetary and Financial Committee (IMFC) has asked the IMF and Bank to prepare a joint paper on their respective roles in combating money laundering, and has asked the IMF to consider incorporating work on financial abuse, particularly money laundering, into its various activities. While the mechanism exists to invite the FATF, or any other group, into the ROSC process, consideration of such an outcome would best be undertaken first in the context of the forthcoming joint paper, where the pros and cons of the particular code, assessment methodology and assessors may be discussed in the appropriate context. Thereafter, a decision on whether a new standard should be added to the list could be made at the time of the next review of the standards process. The procedure outlined here is designed to avoid extension of ROSCs to new areas without first gaining agreement from the IMF Board, and, where appropriate, the Bank Board.

C. Concerns About the Process

32. **Some Bank and IMF members have expressed concerns regarding the ownership, and direction, of the work on standards.** One concern is that they have not had a sufficient chance to discuss and debate many of the issues at the center of this work. Views have been expressed that the development of standards in some areas has not given sufficient recognition to the views of developing and emerging market members. In particular, reservations have been expressed about the adoption of a "one size fits all" approach, irrespective of the capacity of individual members to implement the range of standards being developed. In addition, some members have stressed the need to give adequate recognition to economic developments confronting members and their institutional capacities, when suggesting they implement standards rapidly.¹³

¹³ Standards developed at the IMF have had the benefit of input from the entire membership. The membership of the other standard setters is smaller than that of the Fund, although they still often represent a wide range of different economies (around 100 countries are represented in IOSCO, and over 80 are represented in the IAIS), and even when standards are prepared by smaller groups they have generally been subject to extensive consultation (e.g., the Basel Core Principles).

33. The Bank, the IMF, and standard setters have adopted several mechanisms to address these concerns, and this paper proposes others.

- The framework for decision making outlined in Section III.B above, centered in the Executive Boards of the Bank and IMF, can provide all members a role in shaping and guiding future work on standards.
- The MFPT and Fiscal Code were established as good—rather than best—practices so that all countries, both industrial and developing, could aspire to implement them.
- In many cases, standard setters have adopted a multi-track approach to allow differentiation across countries. While there remains a single standard appropriate for all countries to aspire to, the multi-track approach sets out benchmarks for countries at different stages of development. For example, the SDDS is designed for countries that have, or intend to gain, access to the international capital markets, whereas the GDDS is applicable to countries at a different stage. In addition to establishing good practices for all countries, the Fiscal Code contains a core sub-set of fiscal practices that countries with particularly weak institutions and governance can aim to observe. The Basel Committee is considering extending the ambit of the revised Basel Capital Accord more explicitly to banks worldwide, instead of just the “internationally active banks,” and is considering proposals for developing a simplified option within the next framework, which small domestic banks could adapt to more easily.
- The Bank and the IMF are continuing their efforts to ensure an appropriate prioritization and greater selectivity in the choice of standards against which members are assessed, including in the context of an FSAP. Each assessment would continue to focus only on those elements of a particular standard that are most relevant to the individual member or for systemic reasons.
- There is a gap in present procedures which would not normally allow industrial countries to be assessed against standards for which the Bank is in the lead. To ensure fair treatment, the Bank and the IMF are examining the modalities for preparing assessments for industrial countries in areas within the Bank’s mandate. Various possibilities are being considered, including a mechanism to allow Bank experts to prepare assessments in the context of IMF missions. Such options would be explored further in the next round of experimentation, in particular on corporate governance modules by the Bank.
- As noted in Box 2, the ROSC assessments place a member’s progress in context, recognizing its economic circumstances and stage of development in both the assessment and in the prioritization of reforms. This approach is distinct from the private sector’s desire for quantified ratings.
- The voluntary nature of the publication decision allows members to engage in a confidential discussion with their peers and to address some concerns before choosing to release material on an assessment more widely. Moreover, the staffs would propose

that the authorities' views on an assessment be included in the assessment as a right of reply.

- The work on standards is explicitly linked to the provision of TA, which should be prioritized and sequenced to the specific needs of the individual member.

34. **Ownership and commitment to implementing standards might also be enhanced by the Bank and the IMF undertaking or fostering more intensified research on the relationship between implementation of standards and macroeconomic and financial stability development.** This would help members to assess the value of standards for stability, risk containment, crisis management, and development, as circumstances change over time or differ across countries. The research would also look at cross-country experiences in this regard and evaluate how the market is incorporating assessments of standards in its work. The periodic review of standards by the Executive Boards would also provide a vehicle to report on the results of such research.

35. **The Bank and the IMF should continue to explore ways in which to better tailor the standards work to the circumstances of individual members and to promote broader ownership in the process.** Standards are an evolving process and the intention is to review them and the assessment process continuously in response to members' concerns. As an important step in this process, the Bank and Fund management will host a meeting of standard-setting bodies and representative Bank and IMF members in March 2001, in order to help explore issues related to the appropriateness of specific standards to all members and the pace of implementation.

36. **Nevertheless, in addressing these concerns, it would be important to preserve consistency of definitions so that comparisons can be made across countries.** For example, while it may be appropriate to expect countries which are more integrated into financial markets to provide more data, more frequently, many of the benefits of standards would be undermined if there were different definitions of, say, usable reserves across different countries. The major challenge is thus to combine appropriate differentiation with the overriding consensus for consistent international standards.

D. IMF Operational Activities

Surveillance

37. **While there appears to be broad support for the proposition that information on progress in implementing standards should inform surveillance, questions remain about the nature of the linkage to surveillance and the basis for the provision of information regarding standards by national authorities.**¹⁴ The information provided by the member

¹⁴ The Fund's Board has "supported the view that IMF surveillance needs to take into account the extent to which standards are observed as part of efforts to evaluate whether members' institutional structures and policy practices are consistent with economic and financial stability" (Umbrella Report, September 2000, paragraph 36). The IMFC has indicated that "Article IV surveillance provides the appropriate framework within

(continued...)

would need to be sufficiently detailed to allow staff to reach a judgment on the extent of progress in improving implementation. The standards for which information was sought would need to be relevant to the circumstances of the individual member and be chosen from a list deemed important for surveillance by the IMF's Executive Board.

38. **Two broad approaches to addressing the questions raised above may be considered.** The two approaches would differ in the mechanism by which information regarding the observance of standards by members would be obtained. Under **Option 1**, the Executive Board could decide that the provision of information would be an obligation of membership. Such a decision could be based on Article VIII, Section 5(a), which states that the IMF "may require members to furnish it with such information as it deems necessary for its activities," or Article IV, Section 3(a), which states that each member "shall provide the Fund with information necessary for such [firm] surveillance."¹⁵ So far, the IMF has not taken a decision requiring information not listed in Article VIII, Section 5(a) to be provided to the IMF under Article VIII or Article IV. Such a decision would require a majority of the votes cast.

39. **Under Option 2, which the staff recommends, the Board could: (i) agree on the standards for which progress by members in implementation is desirable; and (ii) indicate that the furnishing of information by members on the observance of such standards is important to the conduct of "comprehensive analysis" under surveillance and therefore would contribute toward making surveillance more effective.**¹⁶ The staff believes that it would be appropriate for the Board to decide that a member's implementation of identified standards is an important element of the general economic situation and economic policy strategy of the member, and therefore important to the conduct of comprehensive analysis for surveillance. In taking such a decision, the Board would clearly signal to members the importance of the provision of information on implementation of identified standards for the conduct of surveillance.¹⁷

which to organize and discuss the implications of assessments of certain standards with national authorities" (IMFC *Communiqué*, April 2000).

¹⁵ Another basis, which would require an amendment of the Articles of Agreement, is an expansion of the list of 12 categories of information that are specified in Article VIII, Section 5(a) as "the minimum necessary for the effective discharge of the Fund's duties."

¹⁶ The 1977 Surveillance Decision (as amended) provides in part, that "The Fund's appraisal of a member's exchange rate policies shall be based on an evaluation of the developments in the member's balance of payments, including the size and sustainability of capital flows, against the background of its reserve position and its external indebtedness. This appraisal shall be made within the framework of a comprehensive analysis of the general economic situation and economic policy strategy of the member, and shall recognize that domestic as well as external policies can contribute to timely adjustment of the balance of payments..." (*Selected Decisions*, Twenty-Fourth Issue, p.13).

¹⁷ Option 2 is consistent with the position taken in *International Standards and Fund Surveillance—Progress and Issues* (EBS/99/158, 8/17/99, paragraph 76).

40. **The standards and codes themselves provide a benchmark—or point of reference—to assist in understanding the implications for macroeconomic and financial stability of a member’s policies and practices.** Depending on the economic circumstances and stage of development of the member, not all benchmarks may be relevant or appropriate. In assessing the member’s practices in areas where the benchmark is deemed relevant, there would be advantages in describing how the member’s practices had evolved over time—that is, in describing the member’s progress in implementing the standard.

41. **The Board would need to identify for which areas—with their associated benchmarks—information on progress in implementing standards would be sought in order to conduct comprehensive analysis for surveillance purposes.** At the present time, staff would propose the areas and standards listed in Box 3 (where standards exist). If agreed by the IMF’s Board, this list would also be subject to periodic review.

ROSCs and surveillance

42. **If information on standards is to inform surveillance, how is this best done? It would seem desirable that the Article IV consultation discussions be informed by a structured assessment of the member’s practices against the benchmark, i.e., of progress in implementing a particular standard.** This would have the effect of drawing out the potential weaknesses that could come into play in the face of particular macroeconomic or financial developments. Without an effective instrument, the capacity of the Board to carry out its responsibilities for surveillance and strengthened crisis prevention may be diminished.

43. **The preparation of ROSCs offers an effective means of preparing a structured assessment to help guide and inform the surveillance discussion.** Standards assessments are an instrument to help assess risks to stability and, as already noted, the experimental ROSCs (and FSSAs) have turned out to be useful in adding value to the surveillance discussions. They provide a systematic way of marshalling and presenting the necessary information, of packaging this in a way that can be readily used by the Board, and can help provide uniformity of treatment of all members.

44. **The need for a structured assessment of progress to inform the surveillance discussion, however, will have to be reconciled with the fact that participation in the ROSC is voluntary.**

45. **Continuing the approach adopted for the pilot means that, when the IMF Board comes to exercise its surveillance responsibilities, it may have different information sets on which to draw for different members.**

- For some members, the Board may have detailed, expert and accountable judgments to draw upon, due to the existence of ROSC modules.

- Where a member has conducted a self-assessment of its progress in implementing standards, it might be appropriate for staff to report on the results of that exercise in the staff report provided staff had been able to conduct due diligence of the member's conclusions.
- If the member has had some standards-related TA, the results of this might be used to inform the surveillance discussion.¹⁸ Indeed, it is increasingly the case that information relevant to the assessment of vulnerabilities discovered during TA (or other activities) informs the surveillance process. The Board's discussion could then be guided to some degree by the results of functional department expert input.
- In still other cases, where the member has neither volunteered for a ROSC nor sought TA, the Board may have only minimal information on which to base its judgments. While an Article IV mission could, in principle, be augmented by specialist staff in order to help the mission team discuss standards-related issues in such cases, there may be limitations on the ability of staff to form a considered judgment.

46. These latter three situations may not provide the Board with sufficient assurance that it has the appropriate information on which to carry out fully its surveillance responsibilities and drawing on ad hoc or partial information could provide a false sense of security to the Board.

- Self-assessments, without augmentation by third-party evaluations, could be of limited use.
- The assessment of standards under TA tends to focus on observance of technical criteria and operational details, and may require additional information to take into account the broader policy context. In the case of financial sector regulatory standards, such assessments may fail to address the wider range of factors affecting risks to the financial system unless prepared in the FSAP context.
- It may also be difficult for an Article IV mission to draw firm conclusions on progress in implementing standards. Indeed, when the ROSC pilot was initiated, it was decided to separate the preparation of the ROSCs from the timing of the Article IV mission in part based on a concern that Article IV teams would lack the time and skill to make such assessments, and that attempting to do so would add an additional, unacceptable, burden on the national authorities. Similarly, the FSAP—in which financial sector ROSC modules are prepared—is conducted prior to the Article IV consultations (although the FSSA is only finalized during those consultations).

47. In the event that the IMF Board concludes that information derived from self-assessments, TA or from an augmented Article IV mission is insufficient, Directors could encourage the member to seek the preparation of ROSC modules (including

¹⁸The issue of the link between TA and surveillance has been recognized and discussed in some detail by the IMF's Board on a number of occasions over the last two years.

through an FSAP, as appropriate). In such a case, it would be appropriate for the PIN to contain a reference to such encouragement as having been given.

48. **There is also a risk that standards-related assessments outside the ROSC process could undermine the integrity of ROSCs.** A perception that members volunteering for ROSCs were being treated unequally and were being assessed more rigorously than others could reduce support for ROSCs. In addition, any report resulting from a partial assessment could be mistaken for a ROSC, potentially damaging the reputation of ROSCs. The selective use of information on observance of standards should thus be kept to a minimum unless it provides clear insights pointing to major and direct impacts on economic stability and performance.

Ensuring that ROSCs remain current

49. **To remain useful, assessments of progress in implementing standards need to be kept up to date.** Were current arrangements to be continued, it would take seven to eight years before an average of four ROSC modules could be prepared for the entire membership. Periodicity of this length would seem to undermine the value of preparing ROSCs, or would call for a far more selective preparation of ROSCs, for example, focusing on members believed to be of systemic importance or where the ROSC could help to identify specific developmental needs.

50. **To balance the need for more frequent information with the limited staff resources (and technical expertise) available to prepare ROSCs, short updates could be prepared in the context of the Article IV consultation.** Descriptive updates would provide one mechanism for staff to follow up with the authorities their responses to recommendations contained in past ROSCs, and to seek the authorities' intentions in terms of future actions to improve implementation of standards. By emphasizing description—rather than assessing the effectiveness of the initiatives—these updates could minimize the need for technical expertise while still providing information on developments over time. Staff have commenced experimenting with descriptive updates.¹⁹

51. **More experience will also be necessary before it can be determined whether these descriptive updates are useful; in particular, whether they can identify cases of regression in implementing standards, particularly if the regression is gradual, and detect incipient vulnerabilities and in some cases substantive updates may be needed.** Feedback from the private sector suggests that updates will only be useful if they are frequent. In some cases, technical expertise may be needed on the Article IV mission to provide the depth of analysis necessary to prepare an accurate update. In the event of major reforms in a particular area, the member could seek a new ROSC module.

¹⁹ To date, the Fund's Board has received an update for the Czech Republic and updates are being prepared for other countries. Several countries have asked for an update of the FSSA which would include a substantive update of some of the standards assessments and the associated ROSCs.

52. **Box 4 outlines staff's proposal on how Option 2 would operate in practice.**

Box 4. Standards as an Operational Part of IMF Surveillance: Option 2

The following are the main elements of staff's proposals to implement Option 2:

Which standards are relevant for surveillance? The paper proposes that the IMF Board should establish a list of areas and related standards that it considers important for surveillance. Box 3 provides a suggested list for consideration.

What information should national authorities provide? Information would be sought for only those standards that are on the list. The information would need to be sufficiently detailed to allow staff to judge the degree of progress in implementation. In individual cases:

- staff would seek information on those standards which are relevant to the circumstances and stage of development of the country;
- like economies would need to be treated alike, but not all economies would be treated identically, as the standards relevant to individual countries would differ over time as their economic circumstances change; and
- each assessment would focus on those elements that are most relevant to the individual member.

When would staff seek this information? Standards assessments would be an input into the IMF's Article IV consultation and would need to draw on the expertise of specialists. Thus, the information should be sought **prior** to an Article IV mission, and the implications of the assessment should be discussed during the Article IV mission.

Who should seek this information? The area department will be the main link between national authorities and the IMF. They would need to seek this information in consultation with relevant functional departments.

How would this information be obtained? Staff believe that it would be **preferable** to obtain the information through the preparation of ROSC modules. However, it may be possible to rely on other sources of information.

How often would ROSCs need to be prepared? At the current pace, every IMF member would, on average, receive four modules every seven to eight years. It would be possible to allow considerable variation around this average cycle. Countries implementing reforms, of systemic importance, or at greater perceived risk, could be assessed more frequently, but others would be assessed over a longer cycle. Nevertheless, it is not clear that this average periodicity is sufficient to be consistent with the view that ROSCs are the preferred method of obtaining information to inform surveillance in these areas.

How would ROSCs be kept current? Short updates could be prepared in the context of an Article IV consultation in years between the preparation of a module. These updates could be largely descriptive in nature and would be prepared by the area department. However, it is not clear that such an approach will provide the information necessary to undertake effective surveillance. The alternative of **substantive** updates would increase resource requirements.

What if a country does not volunteer for a ROSC? Participation in the ROSC is voluntary. If a member has not volunteered to participate, other information sets would need to be used to inform surveillance, if available. If a ROSC is not used, it would be important to say how the information was collected. Such information could be presented in an Annex with the limitations clearly spelled out. In the absence of a ROSC, staff could report on a member's self-assessment provided it had conducted a "due diligence" of the member's conclusions, and the results of standards-related TA or questionnaires could be used.

In cases where countries' observance of standards is deemed poor, the Board could encourage countries to participate in a ROSC.

E. Bank Group Activities

53. **The Bank's involvement in the international effort on the implementation of standards is based on its role as a global development institution.** There are three main considerations underlying the Bank's decision to join the collaborative efforts on standards assessments in the framework of the FSAP and ROSC exercises. First, that structural and institutional underpinnings of a market economy are an important complement to sound macroeconomic policies for both successful integration with the world economy and for sound development. Second, that implementation of standards can help countries establish these necessary foundations, in turn contributing to national and global financial stability. And third, that the partnership with the IMF provides the basis for a comprehensive approach and broad-based effort on the implementation of standards.

54. **In supporting the international effort on the implementation of standards, the Bank has sought to play a catalytic role complementing the effort of others.** The collaborative framework laid out in Box 1 is based on the comparative mandates and strengths of the Bank and the IMF, and provides a platform for engaging other partners in the assessment of standards. In the areas where it is taking lead responsibility, the Bank has built on the work of the standard-setting bodies by developing methodologies for assessing progress in the implementation of standards. In the area of insolvency regimes, where no standards or guidelines had been developed, the Bank has catalyzed an international effort to develop such principles and guidelines. Finally, although the Bank is undertaking the initial set of assessments in the three areas where it is taking the lead, the aim is to leverage this effort by engaging other partners including the regional development banks.

55. **As noted above, preliminary experience with the FSAP exercises and corporate governance assessments points to the value of detailed standards assessments and ROSCs to Bank Group activities.** The work on standards can underpin Bank policy dialogue, inform CASs, and sharpen the focus of capacity-building efforts. In the case of the FSAP, the assessment of standards has contributed to the identification of reform and institution-building priorities, which in turn has already led in several instances to follow-up requests and activities such as in Estonia. Supervision activities have taken on insights resulting from the FSAP, in several cases. Work on standards in the context of the FSAP exercise has also influenced the CASs in Kazakhstan and other countries.

56. **Similarly, corporate governance assessments are beginning to inform operational activities of the Bank in a number of ways.** The integration of corporate governance into the private sector development (PSD) and financial sector development (FSD) agenda of the Bank is taking shape on three levels: the firm, country, and project level.

- Corporate governance assessments can be of practical use in day-to-day operations of the IFC, which is now considering the introduction of certain corporate governance compliance conditions at the firm level. Also, in its capacity as minority shareholder, IFC is frequently represented on the boards of its clients, and has important

- responsibility in attempting to ensure that the duties and responsibilities of directors are executed in line with international best practices.
- Corporate governance assessments (including evaluations undertaken outside the ROSC exercise) have begun to influence private and financial sector development strategies in Bank client countries. Most visible is the influence of corporate governance work on strategies in the East Asia and Europe and Central Asia Regions.
 - Corporate governance issues are being addressed in Bank FSD and PSD policy and project lending operations, again prominently so in the East Asia and Europe and Central Asia Regions, and the new ROSCs are providing additional input into such operations.
57. **Some key issues, however, need to be addressed in taking the program forward.**
- A first issue is how to scale up the number of assessments and integrate them into the Bank's analytical work. In the coming year, apart from the assessments carried out under the FSAP, as noted earlier the Bank will be undertaking about half a dozen assessments in each of the areas of corporate governance, accounting, auditing, and insolvency regimes. While this will provide the experience that was aimed for in the pilot phase, the number of assessments in these areas will have to be increased significantly to match the pace of the FSAP (to which these areas of work are closely related) and the frequency of assessments being undertaken by the IMF in its areas. Over time, these assessments can provide the building blocks for the FSAP and the integrative work of the Bank on the social and structural agenda, which is key to the Bank's business model in both low and middle income countries. The scope, timing, and design of assessments will have to be planned carefully and must take into account a country's overall stage of development, institutional capacity, and reform priorities. This implies, inter alia, that while following a general template, the emphasis and scope of assessments will vary among countries. Assessments should also be timed to complement the Bank's work in the related areas of private and financial sector development.
 - A second challenge is to ensure systematic follow up to assist countries in addressing the policy and institutional shortcomings identified by the assessments. As highlighted in the next section, the identification and support for TA is a major challenge for the international community requiring resources and expertise that are globally scarce. Given its development mandate, the Bank can play both a catalytic and direct role in supporting such concerted international effort. Although much of the focus to date has been to get the program of assessments underway, the ultimate goal is to provide a better basis for the Bank and others to provide assistance for capacity building in the context of demand-driven country assistance strategies.
 - Both of these goals—scaling up the program of assessments and concerted support for capacity building—place a premium on strengthening partnership with other institutions and the private sector. In the FSAP exercise, the Bank and the IMF have

been successful in engaging standard-setting bodies and more than 60 other national supervisory bodies and institutions. In the area of corporate governance, the Bank has established a broad-based partnership with the OECD, the regional development banks, and the private sector. In the areas of accounting and auditing, the Bank is working closely with the private sector and other public institutions through the International Forum for Accountancy Development. It is anticipated that some of the assessments in the current round will be undertaken in collaboration with the regional development banks. In the area of insolvency regimes, the collaborative framework established in developing the principles and guidelines provides a good basis for collaboration in the next phase of assessment and implementation. There is scope to broaden and deepen these partnerships, and that will be an important objective in taking this work forward.

F. Technical Assistance

58. **Many countries are likely to need substantial TA to support their efforts to introduce and adhere to standards and codes.** The amount of such TA and the extent to which it may replace, overlap with, or be additional to, TA already provided by the IMF, the Bank, and other agencies will only become clearer as work on FSAPs and ROSCs proceeds and detailed country-by-country plans for implementation are drawn up. This will involve both resources for bilateral, Bank, and IMF TA, and resources for the preparation of assessments of observance of standards that will be required to help guide the TA efforts. In addition, there will be a need to establish clearer priorities for TA and to ensure that TA is better coordinated among the various providers. In a recent IMF Board discussion on ensuring closer alignment of IMF TA with the organization's policies, helping members improve their observance of standards was identified as a key priority for TA. The Board also considered ways for setting priorities among countries, and for improving coordination with other TA providers.

59. **Some assessments of members' observance of standards have been conducted in the context of TA.** Although these assessments have a more technical focus and are not reported to the Bank and Fund Boards in the form of ROSCs, these have served to identify needed reforms and facilitate implementation. The results of both ROSCs and TA-derived assessments can be used to inform Article IV surveillance and Bank capacity building efforts. However, the link from TA to surveillance could be strengthened by staff seeking members' agreement to update and enhance TA-based assessments in an appropriately broader framework, to discuss these findings in the context of Article IV surveillance, and to issue these as ROSC modules to both the Bank and IMF Boards.

60. **As noted in the Fund's *Annual Report on Technical Assistance (SM/00/227, 10/5/00)* the initiatives on financial sector assessments and standards and codes have already had important ripple effects on the Fund's technical assistance program.** While preparation of FSAPs and assessments of adherence to standards and codes may have initially

diverted resources away from more traditional IMF TA, they have also led to changes in the type of TA sought by members. Moreover, the interplay between these initiatives and the TA program is more complicated than just a reduction in resources and diversion in demand. In particular, much of the work on FSAPs, FSSAs, and ROSCs embodies a TA element. While there has always been some interplay between TA and IMF surveillance, the development of these procedures has raised this to a new level.

61. **The financial sector and standards initiatives provide concrete examples of the IMF Board's recent efforts to expand the links between surveillance and TA.** ROSCs and FSAPs can help efforts to strengthen the planning of TA, within limits set by the need to balance standards-related TA against TA addressing other policy and institution-building requirements. They can also help to intensify the links to IMF surveillance represented by the IMF's Technical Consultations (TCs) and the medium-term Technical Cooperation Action Plans (TCAPs), by providing information on standards-related issues which can be used as an input to TCs and TCAPs. In order to identify TA needs, however, members individually need to take action on several fronts.

- First, activities of other possible TA providers need to be identified.
- Second, implementation efforts need to be prioritized to address weaknesses amongst the different standards, and within the elements of the individual standards.
- Third, the country needs to carefully assess its capacity to implement improvements through its own efforts.
- As discussed by the IMF Board (see above), the Fund may be in a position to help coordinate this effort in some circumstances.

62. **As noted above (Section III.E), the initiatives of financial sector assessments and standards and codes also have begun to impact Bank TA, and have the potential to systematically strengthen provision of Bank TA.** The Bank has a long-standing role in providing and helping to coordinate TA in the areas covered by financial sector assessments and ROSCs, in the context of investment projects, through TA loans and credits, and through various grant facilities. Bank participation in the FSAP and ROSCs initiatives can further enhance the contribution of the Bank in delivering technical assistance. Standard assessments can help provide a more systematic diagnosis and prioritization of TA needs and hence support greater focus and consistency in the provision of TA.

63. **In the context of the standards initiative the IMF (through TCAPs) and Bank can provide an opportunity to stimulate a broader examination of these issues and help members develop an action plan to which all parties can subscribe.** Such an action plan could lay out a timeline for implementation with clearly identified mile markers indicating the progress the authorities hope to have made by particular points in time.

64. **Clearly, prioritization decisions and the implementation time frame would need to reflect the member's stage of economic development, institutional capacities, and**

other policy and institution-building reform priorities. Subsequent ROSCs would then focus on the overall progress made in strengthening the different standards, benchmarked against the previous assessment.

65. **There is a need to marshal additional TA resources for the purposes of implementing standards and codes.** As noted in the Fund's TA Annual Report, the potential demand for TA to remedy perceived weaknesses in members' institutional and policy environments could be significant.²⁰ This would also be the case in the Bank. Industrial country members could provide an important stimulus to efforts to strengthen the international financial architecture through a pledge to boost significantly the bilateral and multilateral resources (funds and manpower) available to help members improve implementation of standards.

G. Publication

66. **The current publication policies of the Bank and the IMF, which formalized the voluntary approach to publication of ROSCs, appear to be working well.** Members are advised at the outset that they will be asked whether they agree to publication after modules are completed. Publication of IMF-prepared modules and those prepared in the FSAP context occurs by placement on the IMF's standards and codes web-page, which is to be linked to the Bank's website. Bank-prepared modules will be placed on the Bank's standards and codes homepage which will be linked to the IMF's website. It would also seem appropriate to propose that any update notes be subject to the same publication arrangements that apply to ROSC modules themselves.²¹ ROSCs published on the website would be cross-referenced to any statement or action plan that the authorities might release in response to the ROSC.

67. **Feedback from the private sector has highlighted the need to be more active in drawing attention to the existence of ROSCs.** Accordingly, IMF staff will begin to notify potential users, by email, of the publication of IMF-prepared ROSC modules, in the same way that the release of other documents is notified. In addition, when a PIN is published following Article IV consultations, it would be cross-referenced to any published ROSCs, including updates.

68. **IMF staff also propose that new IMF-prepared ROSC modules generally be published at the time of the IMF Board's release of a PIN where one follows conclusion**

²⁰ This point has been echoed by the FSF *Follow-Up Group on Incentives to Foster Implementation of Standards*, which noted that: "Technical assistance needs are large and will continue to grow. The international community needs to make a clear commitment to enhanced partnerships and coordination, and substantially scaled-up effort to augment the availability and effectiveness of technical assistance."

²¹ There could be complications if a member that has previously published a ROSC module chose not to release the update. This could mislead the public in those situations where implementation has deteriorated and consideration needs to be given to what would occur in these circumstances.

of the Article IV consultation. However, in some cases the ROSC modules may be finalized a number of months prior to the Article IV discussions. In order to maximize disclosure, publication could be allowed upon completion of the module with the member's agreement and after prior notice to the Executive Board. Completion of the modules would be deemed to occur (i) after comments by the member and clearance by Management for data dissemination and fiscal transparency modules, and (ii) upon completion of the Board's Article IV consultation for financial sector modules derived from the FSSA.

69. **To minimize the number of separate documents being circulated, there would be benefits in publishing these “early release” ROSC modules on a periodic basis.** A quarterly report to the Board on modules completed in the preceding three months could provide such a vehicle. That report could indicate all modules completed since the previous report and identify those for which members had sought immediate publication. These modules could be placed on the website a fixed period after the quarterly report was circulated to the Board—a three week time lag between circulation of the Report and publication would provide Directors with the opportunity to call for a Board discussion, if necessary.

70. **It would be desirable if the Bank and the IMF could also establish a unified policy for the transmittal of all ROSCs to external organizations, irrespective of whether the ROSC modules were to be eventually published (see Appendix III).** The relevant considerations include whether new organizations will need to be added to the list of external bodies deemed by the Boards as having a commonality of operational interest and need that qualifies them to receive IMF and Bank documents, or whether the bodies to receive a ROSC will be determined on a case-by-case basis. Even for ROSCs that are published, a transmittal policy remains relevant since the question of the timing of selective release to other international organizations before publication still apply. The existing policy for Article IV consultation documents would seem to provide a useful model, since in the IMF, ROSCs are classified in the category of surveillance and supporting documents.

H. Appropriate Pace of Assessments and Prioritization

71. **The experience of the pilot has shown that standards assessments are resource intensive (see Box 5 which summarizes the evidence) and any move to increase the pace of assessments beyond that of the pilot stage will entail further costs.** A serious commitment of resources and a reprioritization of some activities will be necessary if standards are to play a more central role in surveillance, capacity building, and TA activities, with implications for the broader work program of both institutions. More generally, a significant increase is likely to be required in bilateral and multilateral resources available for TA in order to help members implement standards.

Box 5. Resource Implications for the IMF and the Bank

The IMF

The FY 2001 budget provided an additional 32 staff to develop policies and procedures on standard assessment, conduct outreach, prepare 88 ROSC modules and provide standards-related TA. The results for the first half of FY 2001 suggest these estimates are broadly on track. Preparing around 88 ROSC modules in FY 2001 would be consistent with, on average, assessing each member every 7–8 years (this is in line with the current pace at which FSAPs are being prepared—24 in FY 2001).^{1/} However, no resources were budgeted for the work required of area departments or for the preparation of updates. There may also be a need for additional resources for follow-up TA, a strengthened focus on quality issues in standards assessments, and continued outreach.

The Bank

No firm estimates for the ultimate costs of preparing ROSCs in Bank-led areas are available yet. The first six corporate governance assessments required some US\$120,000 on average. The next set of corporate governance assessments, based on streamlined templates, are estimated to cost around US\$70,000. The first self-standing accounting and auditing assessments are estimated to cost around US\$60,000, and insolvency assessments around US\$50,000. It is expected that both savings and synergies can be gained by synchronizing these assessments and linking them to the work of the FSAP. However, there may be a need for additional resources to provide TA to support countries' efforts to introduce and adhere to international standards.

^{1/} For these purposes it is assumed that each of the 24 FSAPs produced only two ROSC modules, although the actual number produced is likely to be higher.

72. **In light of the continuing need to strengthen institutions and bolster crisis prevention, and the evidence produced by the review, the staffs suggest that the current pace of the ROSC exercise be at least maintained.**²² Under the pilot program, a range of different countries were assessed against different standards. Current budget allocations mean that IMF staff could assess members, on average, every seven to eight years in those areas for which it has responsibility, and the Bank staff could assess countries with lending arrangements every 23 years. This raises the question of whether the current pace is sufficient and how priorities should be set for assessments of the various standards. Executive Directors have decided that, under the FSAP, a variety of criteria could be employed to establish priorities, including a country's systemic importance, its external weakness and financial vulnerability, the nature of its exchange rate and monetary arrangements, and geographical balance among countries.²³ While the SDDS/GDDS and the Fiscal Code were designed

²² Fund staff are presently preparing around 15 data modules and almost 30 fiscal transparency modules annually. In addition, 24 FSAPs are being prepared annually. Bank staff are planning to launch around 6 modules each in the areas of corporate governance, accounting, auditing, and insolvency in FY 2001.

²³ *Summing Up by the Acting Chairman Financial Sector Assessment Program—A Review: Lessons from the Pilot and Issues Going Forward* (BUFF/00/190, 12/14/00).

to apply to all interested members, the staff are now considering how best to determine priorities.

73. **If the Board were to seek a faster pace of coverage because the current periodicity was deemed insufficient to provide information of a quality and timeliness needed to inform surveillance, program design, TA prioritization, and private sector risk assessments, this would require a proportionate increase in functional department staffing.** In addition, it would require a further increase in resources (and training) for area/regional departments in order to effectively coordinate this activity, follow developments, discuss the implications of standards assessments with member countries, and to prepare updates. If countries were to be assessed every five to six years in areas within the IMF's mandate, this would involve the preparation of around 120–140 modules per annum, up from 88 planned for FY 2001.

74. **Alternatively, if the Board wished to remain with the existing annual output of modules, it would be possible to be more selective in undertaking assessments than was the case under the pilot (as noted in paragraph 72).** ROSC modules could then be prepared for some countries with higher frequency although this would imply that the periodicity would need to be longer, perhaps significantly so, for other members. With this option, a small increase in budgetary resources for area departments to prepare updates would still be required.

IV. ISSUES FOR DISCUSSION

For Bank and IMF Directors:

75. Do Directors agree that ROSC modules should continue to be prepared under the modalities summarized in Box 2?

76. Adoption of standards would remain voluntary and priorities in implementing standards would differ by country and through time, reflecting differences in economic circumstances, and stages of development. Against this background, Box 3 identifies a limited list of areas and associated standards and codes which the Boards have considered useful for the work of the Bank and the IMF. Do Directors agree that this is the appropriate list against which members could be assessed by the Bank and the IMF? Do they further agree that this list, and potential collaboration with other institutions, should be reviewed periodically by the Boards? Would Directors agree to such a review in two years time?

77. Do Directors agree with the steps taken and proposed by the staffs described in paragraphs 33, 34, and 36, to address the concerns about the process raised by some members? Do Directors agree that staff should explore various possibilities for preparing assessments for industrial countries in areas within the Bank's mandate, including that Bank experts prepare assessments in the context of IMF missions?

For IMF Directors:

78. While there appears to be broad support for the proposition that standards should inform surveillance, questions remain about the nature of the linkage with surveillance and basis for the provision of information regarding standards by national authorities. In this regard, do Directors agree with what is proposed under Option 2 (see paragraphs 39–41 and Box 4), and that the areas relevant to the conduct of surveillance are those listed in Box 3? In addition, do Directors consider the ROSC, although voluntary, and any updates, effective means of preparing a structured assessment to help guide and inform the surveillance discussion?

79. The IMF's new publication policy formalizes the voluntary approach to publication of IMF-prepared ROSCs. It would also seem appropriate to propose that any updates be subject to the same publication arrangements that apply to ROSC modules themselves. Do Directors agree with the approach outlined and the other proposals for publishing new IMF-prepared ROSC modules as described in paragraphs 66–69 above? Do Directors agree to a transmittal policy of ROSCs to other organizations that follows that currently in operation for Article IV documents?

80. The work on standards has significant resource implications for national authorities, the Bank, and the IMF. Do Directors agree that keeping the output of ROSCs at the current level is the minimum necessary to strengthen IMF surveillance but risks falling short of the expectations of the private sector?

For Bank Directors:

81. Do Directors agree with the approach and the nature of the Bank's engagement in the international effort on the implementation of standards as set out in Section III.E? Do Directors endorse the proposed program of assessments for corporate governance, accounting, and auditing, and insolvency regimes?

82. Do Directors agree that the Bank needs to consider how to scale up its engagement to ensure appropriate coverage and frequency while seeking to enhance its catalytic role and leverage? Do Directors agree that it will be important to ensure that the diagnostic work leads to effective follow-up for capacity building and helps sharpen the focus of the Bank's country assistance strategies? The World Bank Group Strategic Framework discussions and its follow-up provides the appropriate context for assessing the implications for the Bank's overall agenda and action plan.

83. Do Directors agree to a transmittal policy for ROSCs consistent with that of the IMF.

INCENTIVES TO ADOPT STANDARDS

1. The FSF *Task Force on Implementation of Standards*, established in September 1999, identified three key factors for fostering implementation of standards: (i) promoting country ownership; (ii) providing a judicious blend of market and official incentives; and (iii) mobilizing resources to assist countries to implement standards and to assess progress in implementation.
2. In September 2000, the FSF *Follow-Up Group on Incentives to Foster Implementation of Standards* examined the incentives countries face to adopt standards and what could be done to strengthen market and official sector incentives.
3. For **market incentives** to work, market participants need to be familiar with standards; judge them relevant to their risk assessments, pricing and allocation decisions; and have access to credible and timely information on observance. To accelerate this process, the group suggested the Bank and the IMF mount a sustained education effort to help raise the level of awareness of standards in financial centers; explain links between standards and crisis prevention; enhance the availability of information on observance of standards and improve the presentation of ROSCs reflecting feedback from market participants.
4. **Official incentives** are a powerful means to encourage countries to implement standards and can complement market incentives. The group suggested a three-track approach: (i) *assist countries to improve their observance of standards by*: undertaking external assessments to help members identify where reform is needed; use Bank and IMF policy dialogue with countries to promote standards; provide TA to help countries make improvements; (ii) *help promote market discipline by*: raising market awareness and publishing assessments, including information on observance of standards in sovereign bond issues; and (iii) *integrate assessments into market access and regulatory decisions by, for example*: restricting domestic financial institutions from operations in jurisdictions with a poor record in implementing standards.

VIEWS ON PREPARING AND USING ASSESSMENTS OF STANDARDS

IMF Executive Board

1. In discussing *International Standards and Fund Surveillance* (SUR/98/95), Directors concluded that “the Fund should monitor compliance in those areas of most direct concern to the Fund, and where it had relevant technical expertise.” Regardless of the areas monitored, Directors also “believed the most efficient way for the Fund to monitor members’ compliance with international standards would be through the Article IV consultation process.”
2. In discussing *International Standards and Fund Surveillance—Further Issues* (SUR/99/42) it was “agreed that standards in areas such as data dissemination, fiscal transparency, monetary and financial policy transparency, banking supervision, securities regulation, insurance regulation, accounting, auditing, bankruptcy, and corporate governance,

were all important for the effective operation of domestic and international financial systems.”

3. Directors “agreed that it was important for the Fund, as part of its surveillance activities, to understand thoroughly country practices in areas of direct operational concern, such as data dissemination, transparency of fiscal, monetary, and financial policies, and banking supervision, the core areas.”

4. It was also noted that countries’ “practices in the areas of accounting, auditing, bankruptcy, corporate governance, and the like, have had an increasing bearing on issues arising in Fund surveillance and Fund-supported programs.” A number of Directors believed that, in order to conduct effective surveillance and identify potential problems, it was important for the IMF to have a sufficient understanding of practices in these areas to allow it to assess vulnerabilities—possibly on the basis of the judgments of others—and to understand the implications of particular developments for the effective operation of domestic and international financial systems.

5. When discussing the results of the second round of the pilot program (*International Standards and Fund Surveillance—Progress and Issues*, SUR/99/112), Executive Directors welcomed the adoption of the modular approach to the preparation of ROSCs, noting “it would provide a suitable and flexible mechanism with which to incorporate information on standards into the surveillance process.”

6. Directors welcomed the involvement of the Bank in the second round of case studies. They emphasized the importance of standards outside of the IMF’s core areas for the effective operation of financial systems, and stressed the importance of devising ways to make them subject to assessment. This could be achieved over time by inviting the Bank and other organizations to indicate a domain of responsibility for which they would prepare assessments. In September 1999, the IMF’s Board extended an invitation to the Bank to “experiment in co-producing reports and to indicate those areas for which it could take responsibility.”

7. In September 2000, the Managing Director reported to the IMFC that the Executive Board “supported the view that Fund surveillance needs to take into account the extent to which standards are observed as part of efforts to evaluate whether members’ institutional structures and policy practices are consistent with economic and financial stability.”²⁴

International Monetary and Financial Committee (IMFC)/Interim Committee (IC)

8. In September 2000, the IMFC noted that it was “encouraged by the experience so far in producing ROSCs” and noted “their crucial role in helping countries to improve economic

²⁴ See the *Report of the Managing Director to the International Monetary and Financial Committee on Progress in Strengthening the Architecture of the International Financial System and Reform of the IMF*, September 2000, paragraph 36.

policies, identifying priorities for institutional and structural reform, and in promoting the flow of important information to markets.” It went on to note that it looked forward to the next review of the FSAP and “encourages members to participate in these initiatives.”

9. In April 2000, the IMFC reiterated that the adoption of standards was voluntary but agreed, “that the Article IV surveillance process provides the appropriate framework within which to organize and discuss with national authorities the implications of assessments of adherence to standards and codes.”

10. In April 1999, the IC “welcomed the Fund’s use of experimental case studies in the preparation of transparency reports and planned financial system stability assessments” and “encouraged the Fund to use transparency reports on a trial basis as a part of its surveillance.” In September 1999, the Committee encouraged “the IMF, in cooperation with other standard-setting bodies, to continue to experiment with assessments of members’ observance of international standards and codes of good practice” and invited “the Executive Board to consider whether to integrate such assessments into the surveillance process.”

Other fora

11. In October 2000, the G-20 stated that that “IMF surveillance should be the principal mechanism for monitoring countries’ progress in implementing standards and codes, working closely with other international institutions, such as the World Bank, as well as standard-setting bodies and international groups such as the Financial Stability Forum.” Members reaffirmed their December 1999 commitment to undertake ROSCs and FSAPs and looked forward to the continued publication of ROSCs.

12. In September 2000, the G-24 recognized the “positive aspects of the development of international codes, standards and best practices in the spheres of data dissemination, fiscal transparency and transparency in monetary and financial policies, and the management of debt as well as reserves.” However, it was also noted that “compliance with standards should not be prematurely integrated into the Article IV consultation process...”

13. In September 2000, APEC Finance Ministers encouraged “participation in the IMF/World Bank Financial Sector Assessment Program (FSAP) and Reports on Observance of Standards and Codes (ROSC) to strengthen financial systems by assessing countries’ implementation of key financial and economic policy standards. These processes will contribute to adapting the Fund’s surveillance role and the World Bank’s developmental role. Voluntary disclosure of ROSCs can serve to promote policy transparency while enabling more effective measurement of progress towards meeting key standards.”

14. In February 2000, Western Hemisphere Finance Ministers endorsed the ongoing work on standards, encouraged members to undertake FSAPs and committed themselves to participate in ROSCs