



FINANCIAL SURVEILLANCE STRATEGY—PROGRESS REPORT

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- 1. The [IMF's Financial Surveillance Strategy \(FSS\)](#) was adopted by the Executive Board in September 2012 in line with a key recommendation of the 2011 [Triennial Surveillance Review \(TSR\)](#).** The strategy sets out concrete and prioritized actions over three to five years to strengthen financial surveillance to help the Fund fulfill its mandate of ensuring the effective operation of the international monetary system and supporting global financial stability (Table 1). It is built on three main pillars: (i) improving risk identification and policy analysis; (ii) fostering an integrated view of financial sector risks in products and instruments; and (iii) engaging more effectively with stakeholders.
- 2. This note provides background to the informal Board briefing on the one-year progress in implementation of the FSS.** The Board will have the opportunity to review progress in implementing the FSS in the context of the 2014 TSR and the 2014 review of the Financial Sector Assessment Program (FSAP), as well as through periodic reports to the International Monetary and Financial Committee and the semi-annual work program.
- 3. Over the first year of implementation, progress has been made on each of the three pillars, especially on improving risk identification and policy analysis.** This lays the necessary groundwork for strengthening financial surveillance. Table 2 provides details on the progress achieved on each pillar. In summary:
 - ***Improving risk identification and policy analysis:*** the analytical basis for Fund policy advice has seen most advancement in the areas of capital flow management and macroprudential policy. Significant progress has also been made in the assessment of regulatory reforms and the effectiveness of unconventional monetary policy. Some progress has been made in other areas, such as sovereign-bank feedback loops, cross-border linkages and spillover analysis, and financial deepening in countries with shallow financial systems.
 - ***Fostering an integrated view of financial sector risks:*** good progress has been made in incorporating global risks into bilateral surveillance through enhanced inter-departmental collaboration, such as coordinating the underlying work on Risk Assessment Matrices (RAMs). In Article IV consultations, some aspects of financial surveillance are generally well covered, such as

key vulnerabilities and regulation and supervision, but others, such as the risk aspects of macrofinancial linkages, are less well covered. Institutional support for financial surveillance has been reinforced with new staff guidance notes, reinvigorated interdepartmental collaboration groups in critical policy areas, the increased availability of financial risk monitoring tools, and the development of guidance to MCM participants in Article IV missions. However, cluster-level surveillance is at an early pilot stage and resource constraints have prevented an increase in FSAPs to non-S25 vulnerable countries.

- **Engaging more actively with stakeholders:** some progress has been made in all the areas identified in the FSS. The Fund has facilitated global dialogue through various high-level events in key policy areas, such as macroprudential policy and risks to the global financial system, and, under the leadership of the FSB, continues to make contributions to the work on the global regulatory reform agenda. At the same time, some progress has been made in addressing data gaps and deepening collaboration with the World Bank.

4. **The implementation of the FSS continues to face important challenges.** In the area of risk and policy analysis, the development of a unified macrofinancial framework as a workhorse for Fund surveillance remains incomplete. Resource constraints have impeded progress in other areas. Specifically, the goal of increasing the frequency of FSAPs to non-S25 vulnerable countries has not been met. In addition, the continued need to support crisis countries with specific skills has meant that other requests for MCM support have not been fully met. Moreover, while the pilot project on enhancing financial surveillance in low-income countries was welcomed by the relevant authorities, it has proved to be resource intensive. Finally, although implementation of the 2012 [Integrated Surveillance Decision](#) is at an early stage, increasing traction on issues involving outward policy spillovers has proved challenging.

5. **Over the next year, implementation will focus on those areas where further progress is most needed (Table 3).** On risk and policy analysis, further work will be needed on exit from unconventional monetary policies (as events unfold), the design of future monetary policy frameworks, and the policy implications of sovereign-bank spillovers and of financial interconnectedness between countries. In products and instruments, more progress is needed on strengthening financial surveillance within Article IV consultations by better incorporating macrofinancial linkages, systematically following up on FSAP recommendations, and using the new guidance notes. Engagement with stakeholders will focus in part on helping member countries strengthen financial sector oversight, enhancing collaboration with central banks and the BIS on interconnectedness analysis, and continuing to facilitate global discussions on key emerging policy areas. In order to fulfill the mandate on supporting global financial stability, staff will continue to make the case for greater data dissemination to the Fund.

Table 1. Financial Surveillance: Strategic Priorities

	PRIORITY	TIME HORIZON	ADDITIONAL RESOURCE NEEDS ^{1/}	LEAD RESPONSIBILITY
ACTION 1: IMPROVE RISK IDENTIFICATION AND MACROFINANCIAL POLICY ANALYSIS^{2/}				
Deepen analysis of macroprudential policies	High	Short-term	None	MCM and RES
Develop a comprehensive approach to managing capital flows	High	Short-term	None	SPR, with MCM and RES
Advise on policies to contain sovereign-bank feedback loops	High	Short-term	None	MCM, SPR, and (where relevant) FAD
Deepen analysis of cross-border linkages	High	Short- to medium-term	None	MCM, RES, and SPR
Assess implications of regulatory reform	High	Short- to medium-term	None	MCM with RES
Explore effectiveness of monetary policy in current economic downturn	Medium	Short-term	None	MCM and RES
Advise on financial deepening in countries with shallow financial systems	Medium	Short- to medium-term	None	ADs, with MCM, RES, and SPR
Assist in exit from extraordinary macrofinancial policies	Medium	Medium-term	None	ADs, with MCM, RES, and SPR
ACTION 2: INNOVATE FURTHER AND FOSTER AN INTEGRATED VIEW OF FINANCIAL SECTOR RISKS				
Strengthen financial surveillance within Article IV consultations	High	Short- to medium-term	Yes	ADs with MCM
Ensure through the review process integration of financial risks and consistent follow-up of FSAPs in Article IV consultations	High	Short- to medium-term	None	SPR
Conduct more frequent FSAPs for vulnerable countries and LICs, assess more complex standards, strengthen review process	High	Short- to medium-term	Yes	MCM
Deepen the culture of integrated risk analysis	High	Short- to medium-term	None	FAD, MCM, RES, and SPR
Move towards more thematic, cluster-level financial surveillance	Medium	Medium-term	Depends on modalities	MCM, SPR, and ADs
ACTION 3: INCREASE TRACTION BY ENGAGING MORE ACTIVELY WITH STAKEHOLDERS				
Serve as the global facilitator on macroprudential policy	High	Short-term	Marginal	MCM and RES, with EXR
Contribute to the global regulatory reform agenda	High	Short- to medium-term	Marginal	MCM, with LEG
Deepen collaboration with World Bank	High	Short- to medium-term	None	MCM, SPR, and ADs
Address data gaps and improve data provision for surveillance purposes	High	Medium-term	Depends on modalities	MCM, SPR, and STA
Function as global risk advisor and expand contacts with stakeholders	Medium	Medium-term	Depends on modalities	MCM, RES, SPR, and ADs, with EXR

1/ "None" means existing resources will be reprioritized, or processes or products will be streamlined.

2/ Area departments (ADs) play a key role in shaping policy lines given their operational experiences.

Source: [IMF's Financial Surveillance Strategy](#).

Table 2. Highlights of Progress to Date (October 2012–September 2013)

ACTION 1: IMPROVE RISK IDENTIFICATION AND MACROFINANCIAL POLICY ANALYSIS	
Deepen analysis of macroprudential policies	“Interaction of Monetary and Macroprudential Policies” (Board Paper, January 2013); “Microprudential and Macroprudential Policies: Towards Cohabitation” (SDN, June 2013); “Key Aspects of Macroprudential Policy” (Board Paper, July 2013); “Rethinking Macro Policy II” (SDN, April 2013); the risks of regulatory arbitrage from banks to nonbanks and shadow banks analyzed in the 2013 Spillover Report.
Develop comprehensive approach to managing capital flows	“The Liberalization and Management of Capital Flows: An Institutional View” (Board Paper, November 2012).
Advise on policies to contain sovereign-bank feedback loops	“A Banking Union for the Euro Area” (SDN, February 2013); “A New Look at the Role of Sovereign Credit Default Swaps” (April 2013 GFSR Ch 2).
Deepen analysis of cross-border linkages	“Global Impact and Challenges of Unconventional Monetary Policy” (Board Paper, Sep 2013); potential spillovers of unconventional monetary policy analyzed in April 2013 WEO; analysis of outward spillovers of macroprudential policies in the 2013 Spillover Report and in the Fall 2013 WEO.
Assess implications of regulatory reform	“Regulatory Reform” (regular Board briefings, December and June); participation in various FSB committees, including SCAV; “The Reform Agenda: An Interim Report on Progress Toward a Safer Financial System” (Oct 2012 GFSR Ch 3); “Creating a Safer Financial System: Will the Volcker, Vickers, and Liikanen Structural Measures Help?” (SDN, May 2013); Contributions to the FSB study on the macro impact of regulatory reforms on Emerging Markets and Developing Economies (G20 Note, Sep 2013); Contributions to Cost Analysis in MAGD group (Macroeconomic Assessment Group for OTC Derivatives Reforms at the Basel Committee) (August 2013).
Explore effectiveness of monetary policy in current economic downturn	“Unconventional Monetary Policies—Recent Experience and Prospects” (Board Paper, May 2013); “Do Central Bank Policies since the Crisis Carry Risks to Financial Stability?” (April 2013 GFSR Ch 3); “Global Impact and Challenges of Unconventional Monetary Policy” (Board Paper, Sep 2013); Effectiveness of monetary policy in the current economic downturn in the April 2013 WEO.
Advise on financial deepening in countries with shallow financial systems	Pilot project on enhancing financial surveillance in low income countries (completed Pilots for Benin, Ghana, Senegal, and WAEMU); “Local Currency Bond Markets: A Diagnostic Framework” (Board briefing, May 2013); “Helping Developing Countries Address Public Debt Management

Assist in exit from extraordinary macrofinancial policies	Challenges (Board paper, March 2013); advice on monetary policy and financial deepening through technical assistance; collaboration with academic to develop quantitative models and policy notes for country teams.
	Preliminary work is reflected in the April and October 2013 GFSR; “Unconventional Monetary Policies—Recent Experience and Prospects” (Board Paper, May 2013); Global Impact and Challenges of Unconventional Monetary Policy (Board Paper, Sep 2013).
ACTION 2: INNOVATE FURTHER AND FOSTER AN INTEGRATED VIEW OF FINANCIAL SECTOR RISKS	
Strengthen financial surveillance within Article IV consultations	A4 reports covering some financial surveillance issues effectively, reflecting in part the development of guidance to MCM participants in A4 missions; MCM staff is expected to continue participating in any A4 mission for two years; financial tools to support A4s are now readily available on MCM website; MCM internal training to improve the quality and focus of its review comments; and delivery of Fund-wide briefings on WEO and GFSR and global financial regulatory reform; revamped inter-departmental Financial Surveillance Group; ongoing interdepartmental collaboration through existing working groups on Macroprudential Policy, and Capital Flows.
Ensure through the review process integration of financial risks and consistent follow-up of FSAPs in Article IV consultations	SPR has strengthened the review process to provide more consistent and focused feedback on whether A4 reports are effectively implementing guidance on integrating financial sector issues and following up on FSAP recommendations; reflecting the Guidance Note for Surveillance under Article IV Consultations (Board Paper, Oct 2012), the Guidance Note on Capital Flows (Board Paper, April 2013).
Conduct more frequent FSAPs for vulnerable countries and LICs, assess more complex standards, strengthen review process	Completed assessment of revised standards; the framework for assessment of the new Key Attributes of Effective Resolution Regimes and a new standard for deposit insurance ongoing; enhanced the consistency and depth of the FSAP review process; first-ever EU-wide FSAP; no increase in frequency of FSAPs for vulnerable countries due to resource constraints.
Deepen the culture of integrated risk analysis	Incorporating global risks into A4s through enhanced inter-departmental collaboration, such as coordinating the underlying work on RAMs; A4 reports are generally including more extensive analysis of risks and their policy implications, with many also including RAMs.
Move towards more thematic,	ADs are experimenting with cluster-level surveillance, e.g., German supply

cluster-level financial surveillance	chain and Nordic cluster reports, with both providing coverage of financial sector issues.
ACTION 3: INCREASE TRACTION BY ENGAGING MORE ACTIVELY WITH STAKEHOLDERS	
Serve as the global facilitator on macroprudential policy	Financial Stability and Systemic Risk Forum (March 2013); “Rethinking Macro Policy II: First Steps and Early Lessons” (Conference, April 2013).
Contribute to the global regulatory reform agenda	Extensive participation in FSB meetings; High-level Spring Meetings events on “Cross-Border Bank Resolution”, “Structural Constraints on Banks’ Activities”, and “Financial Sector Taxation”; “Systemically Important Financial Institutions: Priorities and Policies in a Volatile World” (June 2013, High Level Outreach with WB and FRB); participation through key committees and working groups of the FSB and standard-setting bodies.
Deepen collaboration with World Bank	Collaboration on the LIC Pilot; continuing engagement on country issues (e.g., banking sector fragility within the Caribbean) and on the developmental modules for FSAPs; delivery of Medium Term Debt Management Strategy program.
Address data gaps and improve data provision for surveillance purposes	“Review of Data Provision to the Fund for Surveillance Purposes” (Board Paper, October 2012), which inter alia calls for more prominent identification of data deficiencies in A4 reports; finalizing the reporting template on global financial institutions; ongoing support for implementation of Data Gaps Initiative; initiatives to improve the reporting of financial soundness indicators, liquidity funding indicators, and shadow banking data; STA started working with central banks to create a global flow of funds database that maps domestic sectoral data with external sectoral data, with the domestic sectoral part done.
Function as global risk advisor and expand contacts with stakeholders	“Challenges of the Global Financial System: Risks and Governance under Evolving Globalization” (High Level seminar, Annual Meetings 2012, with BoJ); “Future of Asia’s Finance” (Spring Meetings High Level Seminar); external communication has been stepped up through increases in press releases, survey stories, and blogs around the GFSR, FSAPs, SDNs, Board papers, WPs, and event-based items; media contacts have been intensified, including through background briefings and interviews.

Table 3. Work Ahead for Next Year

ACTION 1: IMPROVE RISK IDENTIFICATION AND MACROFINANCIAL POLICY ANALYSIS	
Advise on policies to contain sovereign-bank feedback loops	“From Financial to Sovereign Stress—Implications for Public Debt” (Board Paper); “Sovereign Debt Restructurings—Too Little, Too Late” (Board Paper).
Deepen analysis of cross-border linkages	“Updating the List of Systemically Important Financial Sectors” (Board Paper) using different measures on systemic importance, including cross-border network measures; “Recent Trends in Portfolio Flows to African Frontier Markets” (AFR REO Chapter); Joint AFR/MCM project on assessing the risks from emerging Pan-African banking groups in the absence of consolidated supervision (Conference).
Assess implications of regulatory reforms	Cross-border Resolution Regimes (Board briefing).
Advise on financial deepening in countries with shallow financial systems	“Enhancing Financial System Surveillance in LICs” (Board Paper); Enhancing Resilience and Supporting Growth in EMs: Role of Financial Deepening” (Board Paper).
Assist in exit from extraordinary macrofinancial policies	“Monetary Policy-Its Role Now and in the Future” (Board Paper).
ACTION 2: INNOVATE FURTHER AND FOSTER AN INTEGRATED VIEW OF FINANCIAL SECTOR RISKS	
Strengthen financial surveillance within Article IV consultations	Use Guidance Notes on Surveillance, Capital Inflows, and Macroprudential Policy (forthcoming) for financial surveillance in Article IVs; increase staff awareness of, and use for surveillance where warranted, the tools in the MCM financial toolbox; implementation of the new guidance to MCM participants in A4s.
Ensure through the review process integration of financial risks and consistent follow-up of FSAPs in Article IV consultations	Improve coverage of macrofinancial linkages of Article IV reports.
Conduct more frequent FSAPs for vulnerable countries and LICs, assess more complex standards, strengthen review process	“Macrofinancial Approach to Standards Assessments” (Board Paper); conduct more frequent FSAPs for vulnerable and LICs once more resources are available.
Deepen the culture of integrated risk analysis	Further develop operational implications of inter-departmental risk analysis for country work.
Move towards more thematic, cluster-level financial surveillance	Extend cluster-level financial surveillance to other regions and countries.

ACTION 3: INCREASE TRACTION BY ENGAGING MORE ACTIVELY WITH STAKEHOLDERS

Serve as the global facilitator on macroprudential policy	Increase technical cooperation with member countries on issues related to macroprudential policies; “Macroprudential Policy in a Multi-Speed Global Economy” (Annual Meetings High Level Outreach, 2013).
Address data gaps and improve data provision for surveillance purposes	Several areas of progress being made under various initiatives and projects—continue expanding coverage of G20 countries across a range of datasets; STA working with central banks to develop a global flow of funds matrix.
Function as global risk advisor and expand contacts with stakeholders	Collaborate with central banks and other institutions on analyzing interconnectedness and spillovers; continue to use the Annual and Spring meeting seminars to engage and disseminate policy messages; continue to collaborate with donors and other stakeholders in advancing analytical work on financial sector issues and technical assistance on LICs.