

Financial Sector Supervision—Phase V program and RBM Logical Framework

Financial Sector Supervision

Objective: Improved management and resolution of risks in financial institutions

3.1 <i>Regulatory and Prudential Framework</i> <i>Strengthened financial sector oversight through upgrading of regulatory framework in line with international standards</i>					
Outcomes (expected results)	Verifiable indicators	Member Countries ¹⁴	Main Partners in CD	Synergies with other PFTAC CD Areas	Comments Including Risk Factors Promoting/Delaying Progress
3.1.1. Clear supervisory process to review licensing applications, <i>on a timely basis</i> , and ensuring that it meets required criteria, implemented	1. Updated licensing manual being used by [date] 2. Documentation, describing how the application meets all relevant license criteria, to support License recommendation, is finalized within (xx) days of receipt of all information	Countries with a banking sector	IMF Legal Department	Obtain example of similar licensing applications in use in other countries Draw on experience from other jurisdictions	The licensing approval process can be time consuming.
3.1.2. Amended legal/regulatory frameworks underpinning the implementation of risk-based supervision implemented	Implementation of necessary amended legislation and regulations to operationally underpin risk-based supervision started by [date]	Countries with a banking sector	IMF Legal Department	Draw on experience from other jurisdictions	The legislative approval process can be time consuming.

¹⁴ The countries visited will be chosen on the basis of risk profile and available funding.

3.1 Regulatory and Prudential Framework					
Strengthened financial sector oversight through upgrading of regulatory framework in line with international standards					
Outcomes (expected results)	Verifiable indicators	Member Countries¹⁴	Main Partners in CD	Synergies with other PFTAC CD Areas	Comments Including Risk Factors Promoting/Delaying Progress
3.1.3. Bank risk assessment frameworks strengthened: a) Quality and timeliness of regulatory data enhanced; and b) Flexibility of reporting system improved	1. Reports have been modified and adopted to require more relevant data for risk assessment by [date]	Countries with a banking sector	none	Obtain similar procedures from other jurisdictions	Locating robust system can be a challenge
3.1.4. Strengthened institutional structure and operational procedures for implementation of risk-based supervision	1. Supervisory structure and responsibilities are adopted to allow more cooperation between different functions, notably onsite and offsite functions 2. Risk-based processes and manuals are implemented	Countries with a banking sector	none	Obtain similar procedures from other jurisdictions	Implementation of manual can be time consuming.
3.1.5. Supervisors address on a timely basis unsafe and unsound practices or activities that could pose risks to banks or to the banking system	1. Supervisors apply sanctions and enforce prompt corrective actions to address banking problems	Countries with a banking sector	none	None	Enforcement is required.
3.1.6. Supervisors have sufficient capacity to effectively implement risk-based supervision and other supervisory processes	1. Supervisors fully trained to be able to implement risk-based supervision and other supervisory process	Countries with a banking sector	none	None	Staffing turnover is always an issue in small countries

3.2 Financial Sector Law (Legal Department) Promote financial stability by strengthening the financial sector's legal and regulatory framework					
Outcomes (expected results)	Verifiable indicators	Member Countries¹⁵	Main Partners in CD	Synergies with other PFTAC CD Areas	Comments Including Risk Factors Promoting/Delaying Progress
3.2.1 New or amended laws adopted or regulations or other legal or policy instruments (e.g., memoranda of understanding, interagency cooperation arrangements) issued	New or amended laws adopted by legislator <u>or</u> regulations/other instruments issued by executive	Countries with Banking authorities	IMF Legal Department	none	Risk: Time frame could be long.

3.3 Risk Based Supervision & other Supervisory Processes More efficient use of supervisory resources to better oversee key risks in the banking system					
Outcomes (expected results)	Verifiable indicators	Member Countries¹⁶	Main Partners in CD	Synergies with other PFTAC TA Areas	Comments Including Risk Factors Promoting/Delaying Progress
3.3.1 Clear supervisory process to review licensing applications, <i>on a timely basis</i> , and ensuring that it meets required criteria, implemented	1. Assessment of risk and risk mitigants are analyzed together with assessment of application against key criteria including peer review, as required 2. Documentation, describing how the application meets all relevant license criteria, to support License recommendation, is finalized within (xx) days of receipt of all information	All countries member of PFTAC with a Banking Authority.	None	TA needs assessment for banking supervision questionnaire	Updated licensing manual being used

¹⁵ The countries visited will be chosen on the basis of risk profile and available funding.

¹⁶ The countries visited will be chosen on the basis of risk profile and available funding.

3.3 Risk Based Supervision & other Supervisory Processes					
More efficient use of supervisory resources to better oversee key risks in the banking system					
Outcomes (expected results)	Verifiable indicators	Member Countries¹⁶	Main Partners in CD	Synergies with other PFTAC TA Areas	Comments Including Risk Factors Promoting/Delaying Progress
3.3.2. Amended legal/regulatory frameworks underpinning the implementation of risk-based supervision implemented	Implementation of necessary amended legislation and regulations to operationally underpin risk-based supervision started by [date]	All countries member of PFTAC with a Banking Authority.	IMF legal Dept.	Obtain examples from other jurisdictions.	The risk associated with not having up to date legislation and prudential statements, and Regulations.
3.3.3 Bank risk assessment frameworks strengthened: a) Quality and timeliness of regulatory data enhanced; and b) Flexibility of reporting system improved	1. Reports have been modified and adopted to require more relevant data for risk assessment by [date] 2. Databases and management practices modified to ensure data adequacy and integrity by [date] 3. Flexible automated reporting solution employs improved data by [date].	Countries with a banking sector	None	Obtain from other jurisdictions examples of prudential return to be provided as guidelines for analysis	Supervisory agencies will require a comprehensive and robust prudential return regime which can produce accurate and timely reporting.
3.3.4 Strengthened institutional structure and operational and procedures for RBS implementation	1. Supervisory structure and responsibilities are adopted to allow more cooperation between different functions, notably onsite and offsite functions 2. Staffing levels are reviewed and enhanced 3. Risk-based processes and manuals are implemented 4. On-site inspection scope and frequency is performed based on risk and impact of banks and are guided by off-site risk analysis	Countries with a banking sector	None	None	Developing adequate knowledge require a number of years of experience. The risk is directly proportional to staff turnover.

3.3 Risk Based Supervision & other Supervisory Processes					
More efficient use of supervisory resources to better oversee key risks in the banking system					
Outcomes (expected results)	Verifiable indicators	Member Countries¹⁶	Main Partners in CD	Synergies with other PFTAC TA Areas	Comments Including Risk Factors Promoting/Delaying Progress
3.3.5 Supervisors timely address unsafe and unsound practices or activities that could pose risks to banks or to the banking system	1. Supervisors apply sanctions and enforce prompt corrective actions to address banking problems 2. Supervisors follow implementation of corrective measures and escalate actions as needed	Countries with a banking sector.	None	None	Strong legislative framework required to support the actions
3.3.6. Supervisors have sufficient capacity to effectively implement risk-based supervision and other supervisory processes	1. Supervisors fully trained to be able to implement risk-based supervision and other supervisory process 2. Supervisory reports focus on key risk aspects of the banking system, and provide appropriate recommendations 3. Inspection reports of individual banks are more risk oriented and identify key qualitative and quantitative risks 4. Supervisors monitor banking problems and risks and take early action as needed	Countries with a banking sector	None	None	Staff turnover is always an issue in Small countries. Ability to perform standard on-site examination.