

### RECENT & UPCOMING TA MISSIONS

#### October

|            |             |  |
|------------|-------------|--|
| PFM        | Samoa       | PEFA Self-Assessment   |
|            | Tonga       | SPC sponsored Climate Change Finance Workshop                                      |
|            | Cook Is.    | Assistance with PEFA Self-Assessment   |
|            | Solomon Is. | Review of PFM and Constituency Development Fund Laws & Implementation Instructions |
| Tax        | Kiribati    | Review Implementation Plan for VAT and Revenue Administration                      |
|            | Nauru       | Implementation Strategy for Revenue Reforms  |
| Statistics | Fiji        | Review rebased GDP estimates   |
|            | FSM         | National Accounts - Quarterly  |
|            | Palau       | National Accounts - Expenditure  |
| Banking    | Fiji        | 2013 bi-annual Pacific Microfinance Week   |
|            | Samoa       | Meeting on Association of Financial Supervisors of Pacific Countries (AFSPC)       |

#### November

|            |          |   |
|------------|----------|---|
| PFM        | Cook Is. | Assistance with PEFA Self-Assessment                        |
|            | Fiji     | Implementing Accrual Accounting                             |
| Tax        | Palau    | Awareness seminars on VAT                                   |
| Statistics | FSM      | Sub-regional training course on National Accounts           |
|            | Cook Is. | National Accounts - Quarterly                               |
| PFTAC/IMF  | Vanuatu  | PFTAC Steering Committee and IMF Pacific Islands Conference |

#### December

|            |        |   |
|------------|--------|---|
| PFTAC/IMF  | PNG    | South Pacific Central Bank Governors' meeting       |
| PFM        | Fiji   | Implementing Accrual Accounting                     |
| Statistics | Noumea | Regional Meeting for Statistical Heads (PSSC)       |
|            | PNG    | Review of methodology used to compile GDP estimates |

#### IN THIS ISSUE

|  |   |
|--|---|
| Recent & Upcoming TA Missions                  | 1 |
| Meetings, Seminars & Workshops                 | 1 |
| Staff Developments                             | 2 |
| TA Issues: Financial Sector Prudential returns | 2 |
| Country TA Strategies : RMI                    | 3 |

### MEETINGS, SEMINARS & WORKSHOPS

#### FIJI INSTITUTE OF BANKERS (FIB) ANNUAL CONVENTION, SUVA, FIJI: 5 OCTOBER.

IMF Resident Representative [Yongzheng Yang](#) and PFTAC Financial Supervision Advisor [Pierre Séguin](#) participated in the FIB convention. Pierre made a presentation on *Financial Sector Issues - an IMF perspective*, which included an overview of relationship management between regulators and banks, and a discussion of differences in central bank and commercial bank perspectives on reputational risk.

#### 2013 PACIFIC MICROFINANCE WEEK, NADI, FIJI: 21-25 OCTOBER.

PFTAC Financial Supervision Advisor [Pierre Séguin](#) attended the week-long event, which included workshops, field visits, seminars and a formal conference. The meetings provided Pacific financial sector stakeholders with an opportunity to share knowledge, network and engage in technical exchanges to further the effective, efficient and sustainable delivery of financial services to the economically disadvantaged, within the particular constraints of the region.

#### 2013 ASSOCIATION OF FINANCIAL SUPERVISORS OF PACIFIC COUNTRIES (AFSPC) ANNUAL MEETING, APIA, SAMOA, 30 OCTOBER - 1 NOVEMBER.

PFTAC Coordinator [Scott Roger](#) and Financial Supervision Advisor [Pierre Séguin](#) participated in the meeting, co-hosted by the Central Bank of Samoa. In addition to reviewing supervisory developments in the region, a

number of particular topics were discussed, including: (i) implementation of standardized prudential reporting forms and development of the FSIS data management software developed by RBNZ; (ii) training for implementation of risk-based supervision; (iii) regulation and supervision of credit unions; (iv) promotion of financial inclusion, the role of micro-finance, and implications for financial supervision.

## TECHNICAL ASSISTANCE ISSUES

### IMPLEMENTATION OF FINANCIAL SECTOR PRUDENTIAL RETURNS IN PACIFIC ISLANDS

by **Pierre Séguin**

A key component for monitoring and assessing the condition and performance of financial institutions is through the regular submission of prudential returns reporting core financial indicators by commercial banks and selected financial institutions to the financial system regulator.

A major initiative in the Pacific region in recent years has been the development of a base set of prudential returns for banks by PFTAC with inputs from the Association of Financial Supervisors of Pacific Countries (AFSPC). The use of base returns is aimed at consolidating supervision and statistical reporting requirements and harmonizing major reporting requirements among regional supervisors while still allowing countries to customize details of underlying data requests. Harmonizing prudential returns initially applied to the three large regional banks ANZ, Westpac, and BSP, while continued expansion of BRED's operation could result in it also being included in the reporting. The Solomon Islands is also including some other local financial institutions in their own reporting program.

Currently, the base set of prudential returns has been implemented by the Cook Islands, Palau, Solomon Islands, Tonga, and Vanuatu. The FSM and RMI have indicated an interest in implementing the returns as well as possibly Samoa. The Bank of Papua New Guinea and the Reserve Bank of Fiji have independent programs of their own. Commercial banks are reporting on a monthly basis and

## STAFF DEVELOPMENTS

### DOUG HOSTLAND, MACROECONOMIC ANALYSIS AND FORECASTING ADVISOR

**Doug Hostland** joined PFTAC in October 2013. As a Canadian, Doug served in the central bank and Ministry of Finance in Canada, followed by experience with the IMF, the World Bank and the Institute of International Finance. Much of his career has focused on macroeconomic modeling, monetary and fiscal policy issues and international finance in a wide range of countries.




---

supervisors are analyzing the resulting information as part of their off-site supervisory activities.

To assist with prudential data management, the Reserve Bank of New Zealand (RBNZ) is providing its Financial Sector Information System software (FSIS) to Pacific supervisors. FSIS is an electronic platform designed to receive and store data in a consistent time series format, facilitating production of standard reports.

The RBNZ piloted the implementation of FSIS at the Central Bank of Solomon Islands (CBSI) in August-September 2013. RBNZ staff made a preliminary visit in August to ensure that CBSI was ready to receive the system. The software was downloaded and tested and all auxiliary hardware was tested to ensure it was adequate to support the software. In September a workshop was held by the RBNZ at CBSI to familiarize the staff with the system and ensure they were confident in processing data and inputting the information generated from the bank returns into the FSIS.

The FSIS is a repository data system; it is not designed to generate reports. Supervisors will have to develop their own reports based on Excel software and select and retrieve the required data from the FSIS which will populate the template used for production of reports. At the AFSPC annual meeting members agreed to share templates developed under the FSIS program.

Following the successful deployment of the FSIS at the CBSI, a number of Central Banks have expressed interest in adopting FSIS. At the AFSPC meeting Cook Islands, Palau, Tonga, and Vanuatu expressed an interest in migrating to the new system and asked PFTAC to initiate the next round of FSIS deployment with the RBNZ.

## COUNTRY TA STRATEGIES



### REPUBLIC OF THE MARSHALL ISLANDS

#### Public Financial Management

Following on PFTAC's assistance in developing a draft PFM Roadmap, our future TA in RMI is expected to focus on supporting the authorities to finalize the roadmap. Activities to support the roadmap's implementation will be planned in coordination with other partners, in particular the ADB, but are expected to include moving towards medium-term budgeting, modernization of legislation and financial instructions and strengthened cash management, accounting and financial reporting. PFTAC will also provide assistance in analyzing the funding situation for the Social Security fund and developing options to improve its sustainability.

#### Revenue Administration

In 2008, the Minister of Finance established a Tax and Revenue Reform and Modernization Commission (TRRM) to review and make recommendations on the revenue collection system and the effectiveness of the Division of Revenue and Taxation (DRT). In 2010 TRRM finalized its deliberations and recommended comprehensive revenue reform introducing a modern profits-based income tax and domestic sales tax. Following PFTAC advice, the recommendation was changed to VAT instead of a sales tax and a presumptive tax for small and micro business rather than a full profits based tax.

The Government accepted the TRRM recommendations and PFTAC subsequently carried out a number of TA missions to provide tax policy advice, tax administration advice, develop the reform program high level implementation plans, draft legislation for the income tax, VAT, excise taxes and revenue administration legislation and to develop an information technology strategic plan for both tax and customs.

To support the reform program, PFTAC assisted in the recruitment of a long term tax adviser to oversee the development and implementation of the reform program. The adviser was recruited in 2012 and PFTAC plays a mentoring role in assisting the adviser to promote the tax reform agenda and improve the overall level of tax administration. The reform program has been advanced at a cautious rate with a considerable amount of public involvement and it is anticipated that the package of laws will be tabled in Parliament in November 2013.

The DRT is optimistic that the reform package will be passed by February 2014 and will take effect on October 1<sup>st</sup> 2014. PFTAC will continue to provide TA to support DRT during the implementation process and will provide follow up TA after October 2014 to ensure that new system operates effectively.

#### Statistics

The Economic Policy, Planning and Statistics Office (EPPSO) has received significant PFTAC support on balance of payments (BOP) and national accounts statistics since 2005, including through training courses, and technical support for compilation of national accounts and BOP statistics.

In November 2008, PFTAC undertook a joint BOP and national accounts statistics mission to RMI to continue development work on BOP and national accounts sources and methods, as well as to assist in updating BOP and national accounts estimates. The EPPSO counterpart left in early 2009 and has just been replaced in August of this year. As a result, two consultants funded by the U.S. Department of Interior visit RMI annually to update the BOP and national accounts statistics for inclusion in the Annual Compact Report.

#### Financial Sector Supervision

In February 2011 training and support was provided to Commission staff in conducting a follow-up examination to assess efforts by a bank to correct weaknesses and concerns noted as a result of an earlier examination. As a result of the follow-up visit, assistance was provided to the Commission in drafting an appropriate regulatory response to the examination findings. Future visits with the Commission will include expanding and revising on-site examination procedures to allow for risk-focused procedures in order to improve examination efficiencies. The Commission is a member of the Association of Financial Supervisors of Pacific Countries; however the Commissioner has not attended a meeting in the past two years.

#### Macroeconomics

No TA is currently planned in the area of macroeconomic analysis, but PFTAC could lend support on the development of enhanced debt sustainability analysis if requested.