

ASIA-PACIFIC REGULATORS' AND INDUSTRY DIALOGUE

Session 3

Preconditions for Industry Response

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SUMMARY PAPER

International Standards and Preconditions: Do they work for Emerging Markets?

International standards are coming at an increasing pace. Many organizations are now promulgating principles, standards, guidance, or best practices. Increasingly, these standards are being used to compare the systems and conditions across the globe and to provide a guide for priority improvements.

The alphabet soup

There are a large number of organizations that have been established, or established themselves, with a view to contributing to or developing international standards. These include the IOPS but also IAIS, BCBS, FSF, IOSCO and the Joint Forum specifically targeting regulation and supervision in the financial sector. In addition, the OECD, World Bank (IBRD) and IMF all have a role. The FSAP is one significant role that has become core to standard setting and implementation initiatives. And the FATF can be a very significant setter and assessor.

But do not forget the IASB and their IFRS or similar emerging initiatives for auditors! And even the IAA is now getting involved in international standard setting.

Preconditions?

There are a number of key fundamentals that need to be in place for effective supervision and the operation of the financial sector to be able to develop and advance. These include but are not limited to:

- A clear financial sector policy: In the case of pensions, this also involves the interrelated issues of social security, health, as well as savings, and investment;
- Contractual certainty: being able to form and enforce contracts both with clients of financial services firms as well as with those who are seeking to be the recipients of investments, provide collateral that is enforceable, etc.
- Basic business environment: The ability to form and dissolve enterprises;
- Literacy and financial literacy:

- Credible accounting for both the institutions and for those that they would seek to invest in;
- Professional associations and expertise;

Beyond this, supervisory standards then look for independence from both political and industry capture. This is usually expressed through such issues as addressing the appointment and removal of the leadership, funding, salaries and employment conditions, confidentiality, and legal protection.

Transparency and accountability comes with independence. This is more difficult to achieve than it is to state. Regular reporting, consultative development of subsidiary rules, and other elements of the process can be key to ensuring that confidentiality is balanced with credibility. Industry participants cannot know every action taken by the supervisor but it can know that any action is part of a process that is even handed and consistent. Risk based supervisory frameworks are often published. Annual reports become more discursive. Financial resource allocation is reported. And public reporting to parliamentary committees is used. All tools are directed at achieving the supervisory objectives as well as reinforcing the credibility and independence of the agency.

At the end of the day, the role and caliber of the leadership of the agency is the most effective guarantee of independence and success.

Taking circumstances into account

It is important that all standards are implemented taking into account the circumstances of the country. Limited preconditions have to be reflected. They are not simply a reason to avoid effective supervision – rather, steps can be taken by the agency to ensure that weaknesses in the environment can be mitigated at least in part.