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REPORTS ON THE OBSERVANCE OF STANDARDS AND CODES: OVERVIEW

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REPORTS ON THE OBSERVANCE OF STANDARDS AND CODES:

AN OVERVIEW

<http://www.worldbank.org/ifa/rosc.html>

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KSC Research Series

ABSTRACT: The Reports on the Observance of Standards and Codes (ROSC) is discussed in this overview in terms of its purpose and methodology. Relevant issues are discussed, and guidance on accessing country reports is offered.

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Purpose: A stable financial system is highly correlated with economic growth. After the financial crises of the 1990s, the International Monetary Fund (IMF) and the World Bank created the standards and codes initiative. This initiative was designed to evaluate the strengths and weaknesses of a country's institutional environment (i.e., rules of the game). The IMF and the World Bank developed an internationally recognized list of standards and codes that would promote financial stability. Reports on the Observance of Standards and Codes (ROSCs) are intended to be public documents promoting open knowledge about key aspects of the institutional environment.

Methodology: In 1999, the IMF and World Bank identified twelve financial-sector standards thought to be necessary for stability. These standards are associated with **policy transparency** (data transparency, fiscal transparency, monetary and financial-policy transparency), **financial sector regulation and supervision** (banking supervision, securities, insurance, payments systems, anti-money laundering and combating the financing of terrorism), and **market integrity** (corporate governance, accounting, auditing, insolvency and creditor rights). Each of the twelve areas requires a separate assessment, and not every country has an assessment performed for each area.

Assessments are performed by different bodies in both the IMF and the World Bank. The IMF takes the lead for assessments related to data dissemination and fiscal transparency. The World Bank deals with assessments in money laundering, corporate governance, accounting and auditing, and insolvency regimes and creditor rights. The Financial Sector Assessment Program (FSAP), a joint IMF/World Bank program, takes on monetary and financial policy transparency, banking supervision, securities, market regulation, insurance, supervision, and payment systems.

There are three types of assessments:

1. *Initial assessment:* the first assessment for a given standard resulting in a ROSC.
2. *Reassessment (or Substantive update):* an assessment following an initial assessment that reevaluates the ROSC grading and results. This document replaces the initial assessment ROSC.
3. *Update (or Factual update):* an analysis pertaining to developments under a particular standard. This complements but does not replace the previous ROSC.

Each ROSC report has an executive summary that provides a general overview of the code or standard in question. The report also contains a "principle-by-principle summary of observance of the standard" and a list of recommendations, prioritized by importance.

Issues: ROSCs contain a wealth of information about a given standard or code in a given country's institutional environment, but they are not quantitative indicators. At this point, there is no easy way to compare this information across countries and time. Rather, the documents paint a picture of the current state of a standard within a given country.

Country Coverage and Report Access: From 1999 to 2005, a total of 742 assessments were carried out for 122 countries. The most recent ROSC reports can be found on the IMF Web site (<http://www.imf.org/external/np/rosc/rosc.asp>) or the World Bank Web site (<http://www.worldbank.org/ifa/rosc.html>). A report on the effectiveness of the ROSC reports can be found at <http://www.worldbank.org/ifa/ROSC%20review%202005.pdf>.

	12 Policy Standards	Benchmark Sources
Policy Transparency	Data Transparency	IMF's Special Data Dissemination Standard and General Data Dissemination System (SDDS and GDDS)
	Fiscal Transparency	IMF's Code of Good Practices on Fiscal Transparency
	Monetary and Financial Policy Transparency	IMF's Code of Good Practices on Transparency in Monetary and Financial Policies (MFPT), (usually assessed under the FSAP)
Financial Sector Regulation and Supervision	Banking Supervision	Basel Committee on Banking Supervision's (BCBS) Core Principles for Effective Banking Supervision (BCP)
	Securities	International Organization of Securities Commission's (IOSCO) Objectives and Principles for Securities Regulation
	Insurance	International Association of Insurance Supervisors' (IAIS) Insurance Supervisory Principles (ISP)
	Payments Systems	Committee on Payments and Settlements Systems' (CPSS) Insurance Supervisory Principles, complemented by Recommendations for Securities Settlement Systems (RSSS) for countries with significant securities trading
	Anti-money Laundering and Combating the Financing of Terrorism	Financial Action Task Force (FATF)'s 40+9 Recommendations
Market Integrity	Corporate Governance (CG)	Organization for Economic Cooperation and Development's (OECD) Principles of Corporate Governance
	Accounting	International Accounting Standards Board's International Accounting Standards (IASB)
	Auditing	International Federation of Accountants' International Standards on Auditing (ISA)
	Insolvency and Creditor Rights (ICR)	A standard based the Bank's Principles for Effective Insolvency and Creditor Rights Systems and the United Nations Commission on International Trade Law (UNCITRAL) Legislative Guide on Insolvency Law

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