Workshop on Self-Assessments

IPAB’s Self-Assessment of compliance with the Core Principles

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Introduction: self-assessment exercise

- **Objective**: to review IPAB’s compliance with CP after being granted *new powers* and *responsibilities* in the 2014 Financial Reform.

- To formally involve the areas, it was included in the program of internal evaluation as a *strategic project*.

- Began in August 2015. By start of December 2015 the team had accomplished:
  - Integration of the *core team* of people who all completed the FSI Tutorial
  - Coordination with IPAB’s areas to *request information* through a questionnaire by specific CP
  - Scheduling of *working sessions* to discuss the answers with the corresponding experts within IPAB
  - Processing information and *deliver a first analysis*
  - Preparing a *report* which included ratings
Timeline

12 weeks: end of August – mid-November 2015

- **1st week:** assembling **core team, administrative team** and developing the **work plan** and format for information requirements

- **2nd week:** e-mail to areas requiring information and supporting evidence

- **3rd week:** Core team analysis of **operating environment**

- **4th – 6th weeks:** Face to face **meetings** with areas

- **7th week:** core team’s first evaluation and **rating**

- **8th to 12th weeks:** **first draft, corrections and final report**

- **13th week:** originally planned for an **external assessor** to review results
Announcement of FSAP mission

- In the last quarter of 2015, the FSAP to Mexico was announced
- IPAB was in the process of performing its Self-assessment
- It was decided that a full assessment of compliance with the Core Principles would be part of the mission
- FSAP mission included in the strategic project

Milestones:

- The first time the updated CPs would be used in the context of an FSAP
- FSAP would provide a **immediate** and **unique opportunity** as an external validation of the results, as originally planned, but on a broader context of the full review of Mexican financial sector
FSAP

• Mexico is among the 29 jurisdictions with systemically important financial sectors for which the IMF has made it mandatory to undergo assessments under the FSAP every five years

• Last mission to Mexico was in 2011. In January 2016, the FSAP mission began

• As an annex to the complete FSAP Technical Note on Crisis Preparedness, the mission published an Assessment of Compliance with the CP

• The FSAP analysis was built on the work performed in the self-assessment

• FSAP team was to deliver the recommendations to address the gaps
Review by FSAP

• Provided IPAB with the opportunity to compare our analysis with that from the FSAP mission

  • **Validated** our findings or
  
  • **Recast** the gaps in our report in a different light

• It should be noted this was a review that was linked to the **entire financial sector**; not only IPAB. In that sense, most findings:

  • Apply to the financial sector as a whole due to the design of structural framework: **Governance** and **Crisis Management** issues are found throughout the sector

• Produced a series of recommendations which are the basis for the action plan.
Coincidences and differences findings and analysis between FSAP and IPAB

• Different approach in grading by the FSAP mission
  
  • Although both IPAB’s core team and FSAP mission produced fairly similar ratings for overall CPs (Compliant and Largely Compliant for most), main differences were found in ratings of essential criteria, and the focus of the gaps in compliance.

  • The main significant differences in rating were found in:
    
    • Core Principle 3 – Governance; regarding the structure of the Governing Board and the lack of a fixed term for the head of IPAB
    
    • Core Principle 9 -- Sources and Uses of Funds; regarding the use of funds for payment of the legacy debt of the 94-95 financial crisis thus limiting the build up of the fund, no target fund ratio and no limit to the amount IPAB must contribute for recapitalizing a systemic bank
**Action plan to implement recommendations**

**Considering the nature of the recommendations:**

- **FIRST** criteria is dividing which ones can be implemented in the short, medium or long term
- **KEY** criteria lies in:
  - Those that can be addressed by IPAB itself, and
  - Those that require a change in policy by the government

**Therefore:**

- Develop a work plan with short and medium term specific deliverables
- Consider those recommendations which imply a legal reform and prepare for a next round of reforms (*bridge bank, P&A*)
Summary of action plan

Actions to implement short term recommendations for

• Core Principles 1, 5, 6, 7, 8 and 10 are being addressed in-house through several mechanisms:

  • Issuing an annual report and internal guidelines, expanding the scope of MOUs, developing a contingency plan along the FSN, developing analysis, etc.

Actions to implement long term recommendations

• Core Principles 3, 9, 14 and 15 require a change in policy and probably a new wave of reforms to the law.
Conclusions

• Provided IPAB with the best possible validation for our self assessment.

• Validation by FSAP report may provide leverage before Mexican authorities to implement reforms

• Beyond a simple issue of grading, and complying with a standard, it becomes a process of reflecting on core issues.

• Provides insight with objectivity in order to reframe key aspects of the institutional framework, and also, for the whole sector’s structural policy foundations.
Thank you! Gracias!