Financial Sector Assessment

A HANDBOOK





Contents

Abbreviations and Acronyms	xvii
Preface	ххі
Contributors	xxiii
Chapter 1 Financial Sector Assessments: Overall Framework and Executive Summary 1.1 Introduction 1.2 Overall Analytical and Assessment Framework—Executive Summary Annex 1.A Tailoring Financial Sector Assessment to Country Needs Notes References and Other Sources	1 1 3 11 13 13
Chapter 2 Indicators of Financial Structure, Development, and Soundness 2.1 Financial Structure and Development 2.1.1 System-wide Indicators 2.1.2 Breadth of the Financial System	15 15 15 17
 2.1.3 Competition, Concentration, and Efficiency 2.1.4 Scope and Coverage of Financial Services 2.2 Financial Soundness Indicators 2.2.1 FSIs for Non-financial Sectors 2.2.2 FSIs for Banking 	18 20 22 25 26
 2.2.3 FSIs for Insurance 2.2.4 FSIs for Securities Markets 2.2.5 Market-Based Indicators of Financial Soundness 2.3 Aggregate Balance Sheet Structure of Financial and Non-financial Sectors—Inter-sectoral Linkages 	27 27 28 28
Notes References	31 32

Assessing Financial Stability 3.1 Overall Framework for Stability Analysis and Assessment 3.2 Macroeconomic and Financial Market Developments 3.3 Macroprudential Surveillance Framework 3.3.1 Analysis of Financial Soundness Indicators 3.3.2 System-Focused Stress Testing 3.4.1 Effect of Financial Soundness on Macroeconomic Developments 3.4.2 Effect of Financial Stability Analysis 3.4.2 Effect of Financial Stability Analysis 3.4.3 Effect of Financial Stability Analysis 3.4.3 Effect of Financial Stability Analysis 3.5.1 International Financial Centers and Offshore Financial Development 3.5 Special Topics in Financial Stability Analysis 3.5.1 International Financial Centers and Offshore Financial Centers 3.5.2 Capital Account Liberalization 3.5.3 Dollarization: Implications for Stability 3.5.4 Islamic Banking—Stability Issues 3.6 Key Policy Issues and Policy Priorities to Support Stability Notes References Chapter 4 Assessing Financial Structure and Financial Development 4.1 Overview 4.1.1 Motivation for Assessing Financial Structure and Financial Development 4.1.2 Scope of Analysis 4.1.3 Stability and Development: Complementarities Despite the Different Perspective 4.2 Quantitative Benchmarking 4.3 Review of Legal, Informational, and Transactional Technology Infrastructures for Access and Development Reviews 4.3.1 Information Infrastructures 4.3.2 Information Infrastructures 4.3.3 Transactional Technology Infrastructures 4.4.4 Sectoral Development Reviews 4.4.4 Banking 4.4.5 Information Infrastructures 4.5.1 Enterprise Finance 4.5.2 Households, Firms, and Microenterprises 4.6.1 Missing Markets and Missing Products 4.6.2 Taxation Issues 4.6.3 Tompetition Aspects 4.6.4 Development Obstacles Imposed by Unwarranted Prudential Regulation 4.7 From Finding Facts to Creating Policies Notes	Chapter 3	
3.1 Overall Framework for Stability Analysis and Assessment 3.2 Macroperonomic and Financial Market Developments 3.3 Macroproudential Surveillance Framework 3.3.1 Analysis of Financial Soundness Indicators 3.3.2 System-Focused Stress Testing 3.4.1 Effect of Financial Soundness on Macroeconomic Developments 3.4.2 Effect of Financial Soundness on Debt Sustainability 4.3.4.3 Effect of Financial Soundness on Debt Sustainability 4.3.4.3 Effect of Financial Soundness on Drowth and Financial Development 3.5 Special Topics in Financial Stability Analysis 3.5.1 International Financial Centers and Offshore Financial Centers 3.5.2 Capital Account Liberalization 3.5.3 Dollarization: Implications for Stability 3.5.4 Islamic Banking—Stability Issues 3.6 Key Policy Issues and Policy Priorities to Support Stability Notes References Chapter 4 Assessing Financial Structure and Financial Development 4.1 Overview 4.1 Overview 4.1 Indivivation for Assessing Financial Structure and Financial Development 4.1.2 Scope of Analysis 4.1.3 Stability and Development: Complementarities Despite the Different Perspective 4.2 Quantitative Benchmarking 4.3 Review of Legal, Informational, and Transactional Technology Infrastructures for Access and Development 4.3.1 Legal Infrastructure 4.3.2 Information Infrastructures 4.3.3 Transactional Technology Infrastructures 4.4 Sectoral Development Reviews 4.4.1 Banking 4.4.2 Near-banks 4.4.3 Insurance and Collective Investment Arrangements 4.4.4 Securities Markets 4.5 The Demand-Side Reviews and the Effect of Finance on the Real Sector 4.5.1 Enterprise Finance 4.5.2 Households, Firms, and Microenterprises 4.6.1 Missing Markets and Missing Products 4.6.2 Taxation Issues 4.6.3 Competition Aspects 4.6.4 Development Obstacles Imposed by Unwarranted Prudential Regulation 4.7 From Finding Facts to Creating Policies Notes	Assessing Financial Stability	35
3.2 Macroeconomic and Financial Market Developments 3.3 Macroprudential Surveillance Framework 3.3.1 Analysis of Financial Soundness Indicators 3.3.2 System-Focused Stress Testing 3.4.1 Effect of Financial Soundness on Macroeconomic Developments 3.4.2 Effect of Financial Soundness on Debt Sustainability 3.4.3 Effect of Financial Soundness on Debt Sustainability 3.4.3 Effect of Financial System Soundness on Debt Sustainability 3.5 Special Topics in Financial Stability Analysis 3.5.1 International Financial Centers and Offshore Financial Centers 3.5.2 Capital Account Liberalization 3.5.3 Dollarization: Implications for Stability 3.5.4 Islamic Banking—Stability Issues 3.6 Key Policy Issues and Policy Priorities to Support Stability Notes References 62 Chapter 4 Assessing Financial Structure and Financial Development 4.1 Overview 4.1.1 Motivation for Assessing Financial Structure and Financial Development 4.1.2 Scope of Analysis 4.1.3 Stability and Development: Complementarities Despite the Different Perspective 4.2 Quantitative Benchmarking 4.3 Review of Legal, Informational, and Transactional Technology Infrastructures for Access and Development 4.3.1 Legal Infrastructure 4.3.2 Information Infrastructures 4.4.5 Securities Markets 4.4.5 Recurities Markets 4.4.1 Banking 4.4.2 Near-banks 4.4.3 Insurance and Collective Investment Arrangements 4.4.4 Securities Markets 4.5 The Demand-Side Reviews and the Effect of Finance on the Real Sector 4.5.1 Enterprise Finance 4.5.2 Households, Firms, and Microenterprises 4.6.3 Competition Aspects 4.6.4 Development Obstacles Imposed by Unwarranted Prudential Regulation 4.7 From Finding Facts to Creating Policies Notes		35
3.3.1 Analysis of Financial Soundness Indicators 3.3.2 System-Focused Stress Testing 3.4 Analysis of Macrofinancial Linkages 3.4.1 Effect of Financial Soundness on Macroeconomic Developments 3.4.2 Effect of Financial Soundness on Debt Sustainability 4.9 3.4.3 Effect of Financial Sundness on Growth and Financial Development 5.0 3.5 Special Topics in Financial Stability Analysis 3.5.1 International Financial Centers and Offshore Financial Centers 3.5.2 Capital Account Liberalization 3.5.3 Dollarization: Implications for Stability 3.5.4 Islamic Banking—Stability Issues 3.6 Key Policy Issues and Policy Priorities to Support Stability Notes References 62 Chapter 4 Assessing Financial Structure and Financial Development 4.1 Overview 4.1.1 Motivation for Assessing Financial Structure and Financial Development 4.1.2 Scope of Analysis 4.1.3 Stability and Development: Complementarities Despite the Different Perspective 72 42 Quantitative Benchmarking 4.3 Review of Legal, Informational, and Transactional Technology Infrastructures for Access and Development 4.3.1 Legal Infrastructure 4.3.2 Information Infrastructures 4.3.3 Transactional Technology Infrastructures 4.4 Sectoral Development Reviews 4.4.1 Banking 4.4.2 Near-banks 4.4.3 Insurance and Collective Investment Arrangements 4.4.4 Securities Markets 4.5 The Demand-Side Reviews and the Effect of Finance on the Real Sector 4.5.1 Enterprise Finance 8.5.2 Households, Firms, and Microenterprises 4.6.2 Traxation Issues 4.6.3 Competition Aspects 4.6.4 Development Obstacles Imposed by Unwarranted Prudential Regulation 93 Notes 95		36
3.3.1 Analysis of Financial Soundness Indicators 3.3.2 System-Focused Stress Testing 3.4 Analysis of Macrofinancial Linkages 3.4.1 Effect of Financial Soundness on Macroeconomic Developments 3.4.2 Effect of Financial Soundness on Debt Sustainability 4.9 3.4.3 Effect of Financial Sundness on Growth and Financial Development 5.0 3.5 Special Topics in Financial Stability Analysis 3.5.1 International Financial Centers and Offshore Financial Centers 3.5.2 Capital Account Liberalization 3.5.3 Dollarization: Implications for Stability 3.5.4 Islamic Banking—Stability Issues 3.6 Key Policy Issues and Policy Priorities to Support Stability Notes References 62 Chapter 4 Assessing Financial Structure and Financial Development 4.1 Overview 4.1.1 Motivation for Assessing Financial Structure and Financial Development 4.1.2 Scope of Analysis 4.1.3 Stability and Development: Complementarities Despite the Different Perspective 72 42 Quantitative Benchmarking 4.3 Review of Legal, Informational, and Transactional Technology Infrastructures for Access and Development 4.3.1 Legal Infrastructure 4.3.2 Information Infrastructures 4.3.3 Transactional Technology Infrastructures 4.4 Sectoral Development Reviews 4.4.1 Banking 4.4.2 Near-banks 4.4.3 Insurance and Collective Investment Arrangements 4.4.4 Securities Markets 4.5 The Demand-Side Reviews and the Effect of Finance on the Real Sector 4.5.1 Enterprise Finance 8.5.2 Households, Firms, and Microenterprises 4.6.2 Traxation Issues 4.6.3 Competition Aspects 4.6.4 Development Obstacles Imposed by Unwarranted Prudential Regulation 93 Notes 95	3.3 Macroprudential Surveillance Framework	38
3.3.2 System-Focused Stress Testing 3.4 Analysis of Macrofinancial Linkages 3.4.1 Effect of Financial Sundness on Macroeconomic Developments 3.4.2 Effect of Financial System Soundness on Debt Sustainability 3.4.3 Effect of Financial System Soundness on Debt Sustainability 3.5.4 Effect of Financial System Soundness on Crowth and Financial Development 3.5 Special Topics in Financial Stability Analysis 3.5.1 International Financial Centers and Offshore Financial Centers 3.5.2 Capital Account Liberalization 3.5.3 Dollarization: Implications for Stability 3.5.4 Islamic Banking—Stability Issues 3.6 Key Policy Issues and Policy Priorities to Support Stability Notes References Chapter 4 Assessing Financial Structure and Financial Development 4.1 Overview 4.1 Motivation for Assessing Financial Structure and Financial Development 4.1.2 Scope of Analysis 4.1.3 Stability and Development: Complementarities Despite the Different Perspective 4.2 Quantitative Benchmarking 4.3 Review of Legal, Informational, and Transactional Technology Infrastructures for Access and Development 4.3.1 Legal Infrastructure 4.3.2 Information Infrastructures 4.3.3 Transactional Technology Infrastructures 4.4 Sectoral Development Reviews 4.4.1 Banking 4.4.2 Near-banks 4.4.3 Insurance and Collective Investment Arrangements 4.4.4 Securities Markets 4.5 The Demand-Side Reviews and the Effect of Finance on the Real Sector 4.5.1 Enterprise Finance 4.5.2 Households, Firms, and Microenterprises 4.6.4 Reviews of Cross-Cutting Issues 4.6.5 Taxation Issues 4.6.6 Competition Aspects 4.6.6 Competition Aspects 4.6.7 Taxation Issues 4.6.7 Taxation Issues 4.6.8 Competition Aspects 4.6.9 Torsing Poducts 4.6.9 Torsing Finance 4.7 From Finding Facts to Creating Policies Notes		39
3.4 Analysis of Macrofinancial Linkages 3.4.1 Effect of Financial Soundness on Macroeconomic Developments 3.4.2 Effect of Financial Soundness on Debt Sustainability 49 3.4.3 Effect of Financial Soundness on Debt Sustainability 3.5 Special Topics in Financial Stability Analysis 51 3.5.1 International Financial Centers and Offshore Financial Centers 51 3.5.2 Capital Account Liberalization 54 3.5.3 Dollarization: Implications for Stability 54 3.5.4 Islamic Banking—Stability Issues 57 3.6 Key Policy Issues and Policy Priorities to Support Stability Notes References 62 Chapter 4 Assessing Financial Structure and Financial Development 4.1 Overview 4.1.1 Motivation for Assessing Financial Structure and Financial Development 4.1.2 Scope of Analysis 4.1.3 Stability and Development: Complementarities Despite the Different Perspective 4.2 Quantitative Benchmarking 4.3 Review of Legal, Informational, and Transactional Technology Infrastructures for Access and Development 4.3.1 Legal Infrastructure 4.3.2 Information Infrastructures 4.3.3 Transactional Technology Infrastructures 4.4 Sectoral Development Reviews 4.4.1 Banking 4.4.2 Near-banks 4.4.3 Insurance and Collective Investment Arrangements 4.4.4 Securities Markets 4.5 The Demand-Side Reviews and the Effect of Finance on the Real Sector 4.5.1 Enterprise Finance 4.5.2 Households, Firms, and Microenterprises 4.6.1 Missing Markets and Missing Products 4.6.2 Taxation Issues 4.6.3 Competition Aspects 4.6.4 Development Obstacles Imposed by Unwarranted Prudential Regulation 4.7 From Finding Facts to Creating Policies Notes		46
3.4.1 Éffect of Financial Soundness on Macroeconomic Developments 3.4.2 Effect of Financial System Soundness on Debt Sustainability 49 3.4.3 Effect of Financial System Soundness on Debt Sustainability 49 3.5.3 Effect of Financial Stability Analysis 51 3.5.1 International Financial Centers and Offshore Financial Centers 3.5.2 Capital Account Liberalization 3.5.3 Dollarization: Implications for Stability 3.5.4 Islamic Banking—Stability Issues 3.6 Key Policy Issues and Policy Priorities to Support Stability 57 Notes 59 References 62 Chapter 4 Assessing Financial Structure and Financial Development 4.1.0 Verview 4.1.1 Motivation for Assessing Financial Structure and Financial Development 4.1.2 Scope of Analysis 4.1.3 Stability and Development: Complementarities Despite the Different Perspective 4.2 Quantitative Benchmarking 4.3 Review of Legal, Informational, and Transactional Technology Infrastructures for Access and Development 4.3.1 Legal Infrastructure 4.3.2 Information Infrastructures 4.3.3 Transactional Technology Infrastructures 4.4 Sectoral Development Reviews 4.4.1 Banking 4.4.2 Near-banks 4.4.3 Insurance and Collective Investment Arrangements 4.4.4 Securities Markets 4.5 The Demand-Side Reviews and the Effect of Finance on the Real Sector 4.5.1 Enterprise Finance 4.5.2 Households, Firms, and Microenterprises 4.6.3 Competition Aspects 4.6.4 Development Obstacles Imposed by Unwarranted Prudential Regulation 4.7 From Finding Facts to Creating Policies Notes	· · · · · · · · · · · · · · · · · · ·	47
3.4.2 Effect of Financial System Soundness on Debt Sustainability 3.4.3 Effect of Financial Soundness on Growth and Financial Development 50 3.5 Special Topics in Financial Stability Analysis 51.3.5.1 International Financial Centers and Offshore Financial Centers 51 3.5.2 Capital Account Liberalization 54 3.5.3 Dollarization: Implications for Stability 55 3.6 Key Policy Issues and Policy Priorities to Support Stability 57 3.6 Key Policy Issues and Policy Priorities to Support Stability Notes References 62 Chapter 4 Assessing Financial Structure and Financial Development 69 4.1.1 Motivation for Assessing Financial Structure and Financial Development 69 4.1.2 Scope of Analysis 69 4.1.3 Stability and Development: Complementarities Despite the Different Perspective 72 4.2 Quantitative Benchmarking 73 4.3 Review of Legal, Informational, and Transactional Technology Infrastructures 67 67 67 6.3.1 Legal Infrastructure 68 69 69 60 70 71 72 73 74 75 76 76 77 78 79 79 79 79 79 79 79 79 79 79 79 79 79	,	47
3.4.3 Effect of Financial Soundness on Growth and Financial Development 3.5 Special Topics in Financial Stability Analysis 3.5.1 International Financial Centers and Offshore Financial Centers 3.5.2 Capital Account Liberalization 3.5.3 Dollarization: Implications for Stability 3.5.4 Islamic Banking—Stability Issues 3.6 Key Policy Issues and Policy Priorities to Support Stability Notes References Chapter 4 Assessing Financial Structure and Financial Development 4.1 Overview 4.1 Motivation for Assessing Financial Structure and Financial Development 4.1.2 Scope of Analysis 4.1.3 Stability and Development: Complementarities Despite the Different Perspective 4.2 Quantitative Benchmarking 4.3 Review of Legal, Informational, and Transactional Technology Infrastructures for Access and Development 4.3.1 Legal Infrastructure 4.3.2 Information Infrastructures 4.3.3 Transactional Technology Infrastructures 4.4 Sectoral Development Reviews 4.4.1 Banking 4.4.2 Near-banks 4.4.3 Insurance and Collective Investment Arrangements 4.4.4 Securities Markets 4.5 The Demand-Side Reviews and the Effect of Finance on the Real Sector 4.5.1 Enterprise Finance 4.6.2 Taxation Issues 90 4.6.1 Missing Markets and Missing Products 4.6.2 Taxation Issues 91 4.7 From Finding Facts to Creating Policies 95 Notes	3.4.2 Effect of Financial System Soundness on Debt Sustainability	49
3.5.1 International Financial Centers and Offshore Financial Centers 3.5.2 Capital Account Liberalization 3.5.3 Dollarization: Implications for Stability 3.5.4 Islamic Banking—Stability Issues 3.6 Key Policy Issues and Policy Priorities to Support Stability Notes References 62 Chapter 4 Assessing Financial Structure and Financial Development 4.1 Overview 4.1 Overview 4.1.1 Motivation for Assessing Financial Structure and Financial Development 4.1.2 Scope of Analysis 4.1.3 Stability and Development: Complementarities Despite the Different Perspective 4.2 Quantitative Benchmarking 4.3 Review of Legal, Informational, and Transactional Technology Infrastructures for Access and Development 4.3.1 Legal Infrastructure 4.3.2 Information Infrastructures 4.3.3 Transactional Technology Infrastructures 4.3.3 Transactional Technology Infrastructures 4.4.4 Sectoral Development Reviews 4.4.1 Banking 4.4.2 Near-banks 4.4.3 Insurance and Collective Investment Arrangements 4.4.4 Securities Markets 4.5.5 The Demand-Side Reviews and the Effect of Finance on the Real Sector 4.5.1 Enterprise Finance 4.5.2 Households, Firms, and Microenterprises 4.6.1 Missing Markets and Missing Products 4.6.2 Taxation Issues 4.6.3 Competition Aspects 4.6.4 Development Obstacles Imposed by Unwarranted Prudential Regulation 4.7 From Finding Facts to Creating Policies 95 Notes	3.4.3 Effect of Financial Soundness on Growth and Financial Development	50
3.5.1 International Financial Centers and Offshore Financial Centers 3.5.2 Capital Account Liberalization 3.5.3 Dollarization: Implications for Stability 3.5.4 Islamic Banking—Stability Issues 3.6 Key Policy Issues and Policy Priorities to Support Stability Notes References 62 Chapter 4 Assessing Financial Structure and Financial Development 4.1 Overview 4.1 Overview 4.1.1 Motivation for Assessing Financial Structure and Financial Development 4.1.2 Scope of Analysis 4.1.3 Stability and Development: Complementarities Despite the Different Perspective 4.2 Quantitative Benchmarking 4.3 Review of Legal, Informational, and Transactional Technology Infrastructures for Access and Development 4.3.1 Legal Infrastructure 4.3.2 Information Infrastructures 4.3.3 Transactional Technology Infrastructures 4.3.3 Transactional Technology Infrastructures 4.4.4 Sectoral Development Reviews 4.4.1 Banking 4.4.2 Near-banks 4.4.3 Insurance and Collective Investment Arrangements 4.4.4 Securities Markets 4.5.5 The Demand-Side Reviews and the Effect of Finance on the Real Sector 4.5.1 Enterprise Finance 4.5.2 Households, Firms, and Microenterprises 4.6.1 Missing Markets and Missing Products 4.6.2 Taxation Issues 4.6.3 Competition Aspects 4.6.4 Development Obstacles Imposed by Unwarranted Prudential Regulation 4.7 From Finding Facts to Creating Policies 95 Notes	3.5 Special Topics in Financial Stability Analysis	51
3.5.3 Dollarization: Implications for Stability 3.5.4 Islamic Banking—Stability Issues 3.6 Key Policy Issues and Policy Priorities to Support Stability Notes References 62 Chapter 4 Assessing Financial Structure and Financial Development 4.1 Overview 4.1.1 Motivation for Assessing Financial Structure and Financial Development 4.1.2 Scope of Analysis 4.1.3 Stability and Development: Complementarities Despite the Different Perspective 4.2 Quantitative Benchmarking 4.3 Review of Legal, Informational, and Transactional Technology Infrastructures for Access and Development 4.3.1 Legal Infrastructure 4.3.2 Information Infrastructures 4.3.3 Transactional Technology Infrastructures 75 4.4 Sectoral Development Reviews 4.4.1 Banking 4.4.2 Near-banks 4.4.3 Insurance and Collective Investment Arrangements 4.4.4 Securities Markets 4.5.1 Enterprise Finance 4.5.2 Households, Firms, and Microenterprises 4.6.1 Missing Markets and Missing Products 4.6.2 Taxation Issues 4.6.3 Competition Aspects 4.6.4 Development Obstacles Imposed by Unwarranted Prudential Regulation 4.7 From Finding Facts to Creating Policies Notes		51
3.5.3 Dollarization: Implications for Stability 3.5.4 Islamic Banking—Stability Issues 3.6 Key Policy Issues and Policy Priorities to Support Stability Notes References 62 Chapter 4 Assessing Financial Structure and Financial Development 4.1 Overview 4.1.1 Motivation for Assessing Financial Structure and Financial Development 4.1.2 Scope of Analysis 4.1.3 Stability and Development: Complementarities Despite the Different Perspective 4.2 Quantitative Benchmarking 4.3 Review of Legal, Informational, and Transactional Technology Infrastructures for Access and Development 4.3.1 Legal Infrastructure 4.3.2 Information Infrastructures 4.3.3 Transactional Technology Infrastructures 4.4 Sectoral Development Reviews 4.4.1 Banking 4.4.2 Near-banks 4.4.3 Insurance and Collective Investment Arrangements 4.4.4 Securities Markets 4.5 The Demand-Side Reviews and the Effect of Finance on the Real Sector 4.5.1 Enterprise Finance 4.5.2 Households, Firms, and Microenterprises 4.6.1 Missing Markets and Missing Products 4.6.2 Taxation Issues 4.6.3 Competition Aspects 4.6.4 Development Obstacles Imposed by Unwarranted Prudential Regulation 4.7 From Finding Facts to Creating Policies Notes	3.5.2 Capital Account Liberalization	54
3.5.4 Islamic Banking—Stability Issues 3.6 Key Policy Issues and Policy Priorities to Support Stability Notes References 62 Chapter 4 Assessing Financial Structure and Financial Development 4.1 Overview 4.1.1 Motivation for Assessing Financial Structure and Financial Development 4.1.2 Scope of Analysis 4.1.3 Stability and Development: Complementarities Despite the Different Perspective 4.2 Quantitative Benchmarking 4.3 Review of Legal, Informational, and Transactional Technology Infrastructures for Access and Development 4.3.1 Legal Infrastructure 4.3.2 Information Infrastructures 4.3.3 Transactional Technology Infrastructures 4.4 Sectoral Development Reviews 4.4.1 Banking 4.4.2 Near-banks 4.4.3 Insurance and Collective Investment Arrangements 4.4.4 Securities Markets 4.5 The Demand-Side Reviews and the Effect of Finance on the Real Sector 4.5.1 Enterprise Finance 4.5.2 Households, Firms, and Microenterprises 4.6.4 Reviews of Cross-Cutting Issues 4.6.1 Missing Markets and Missing Products 4.6.2 Taxation Issues 4.6.3 Competition Aspects 4.6.4 Development Obstacles Imposed by Unwarranted Prudential Regulation 4.7 From Finding Facts to Creating Policies Notes	-	54
3.6 Key Policy Issues and Policy Priorities to Support Stability Notes References 62 Chapter 4 Assessing Financial Structure and Financial Development 4.1 Overview 4.1.1 Motivation for Assessing Financial Structure and Financial Development 4.1.2 Scope of Analysis 4.1.3 Stability and Development: Complementarities Despite the Different Perspective 4.2 Quantitative Benchmarking 4.3 Review of Legal, Informational, and Transactional Technology Infrastructures for Access and Development 4.3.1 Legal Infrastructure 4.3.2 Information Infrastructures 4.3.3 Transactional Technology Infrastructures 4.4 Sectoral Development Reviews 4.4.1 Banking 4.4.2 Near-banks 4.4.3 Insurance and Collective Investment Arrangements 4.4.4 Securities Markets 4.5 The Demand-Side Reviews and the Effect of Finance on the Real Sector 4.5.1 Enterprise Finance 4.5.2 Households, Firms, and Microenterprises 4.6.4 Development Obstacles Imposed by Unwarranted Prudential Regulation 4.7 From Finding Facts to Creating Policies Notes		57
References Chapter 4 Assessing Financial Structure and Financial Development 4.1 Overview 4.1.1 Motivation for Assessing Financial Structure and Financial Development 4.1.2 Scope of Analysis 4.1.3 Stability and Development: Complementarities Despite the Different Perspective 7.2 Quantitative Benchmarking 7.3 Asview of Legal, Informational, and Transactional Technology Infrastructures for Access and Development 7.5 A.3.1 Legal Infrastructure 7.6 A.3.2 Information Infrastructures 7.7 A.4 Sectoral Development Reviews 7.8 A.4.1 Banking 7.9 A.4.2 Near-banks 7.9 A.4.2 Near-banks 7.9 A.4.5 Executities Markets 7.9 A.4.5 The Demand-Side Reviews and the Effect of Finance on the Real Sector 7.9 A.5.1 Enterprise Finance 7.0 A.5.2 Households, Firms, and Microenterprises 7.0 A.6 Reviews of Cross-Cutting Issues 7.1 A.6 Reviews of Cross-Cutting Issues 7.2 A.6 Reviews of Cross-Cutting Issues 7.3 A.6 Reviews of Cross-Cutting Issues 7.4 A.6 Development Obstacles Imposed by Unwarranted Prudential Regulation 7.9 A.7 From Finding Facts to Creating Policies 7.9 Notes	·	57
Chapter 4 Assessing Financial Structure and Financial Development 4.1 Overview 4.1.1 Motivation for Assessing Financial Structure and Financial Development 4.1.2 Scope of Analysis 4.1.3 Stability and Development: Complementarities Despite the Different Perspective 72 4.2 Quantitative Benchmarking 73 4.3 Review of Legal, Informational, and Transactional Technology Infrastructures for Access and Development 75 4.3.1 Legal Infrastructure 75 4.3.2 Information Infrastructures 76 4.3.3 Transactional Technology Infrastructures 77 4.4 Sectoral Development Reviews 78 4.4.1 Banking 79 4.4.2 Near-banks 83 4.4.3 Insurance and Collective Investment Arrangements 4.4.4 Securities Markets 4.5.1 Enterprise Finance 85 4.5.1 Enterprise Finance 86 4.5.2 Households, Firms, and Microenterprises 90 4.6 Reviews of Cross-Cutting Issues 4.6.1 Missing Markets and Missing Products 4.6.2 Taxation Issues 91 4.6.3 Competition Aspects 92 4.6.4 Development Obstacles Imposed by Unwarranted Prudential Regulation 93 4.7 From Finding Facts to Creating Policies 95		59
Assessing Financial Structure and Financial Development 4.1 Overview 4.1.1 Motivation for Assessing Financial Structure and Financial Development 4.1.2 Scope of Analysis 4.1.3 Stability and Development: Complementarities Despite the Different Perspective 4.2 Quantitative Benchmarking 4.3 Review of Legal, Informational, and Transactional Technology Infrastructures for Access and Development 4.3.1 Legal Infrastructure 4.3.2 Information Infrastructures 4.3.3 Transactional Technology Infrastructures 4.4.4 Sectoral Development Reviews 4.4.1 Banking 4.4.2 Near-banks 4.4.3 Insurance and Collective Investment Arrangements 4.4.4 Securities Markets 4.5 The Demand-Side Reviews and the Effect of Finance on the Real Sector 4.5.1 Enterprise Finance 4.5.2 Households, Firms, and Microenterprises 4.6 Reviews of Cross-Cutting Issues 4.6.1 Missing Markets and Missing Products 4.6.2 Taxation Issues 4.6.3 Competition Aspects 4.6.4 Development Obstacles Imposed by Unwarranted Prudential Regulation 4.7 From Finding Facts to Creating Policies Notes	References	62
Assessing Financial Structure and Financial Development 4.1 Overview 4.1.1 Motivation for Assessing Financial Structure and Financial Development 4.1.2 Scope of Analysis 4.1.3 Stability and Development: Complementarities Despite the Different Perspective 4.2 Quantitative Benchmarking 4.3 Review of Legal, Informational, and Transactional Technology Infrastructures for Access and Development 4.3.1 Legal Infrastructure 4.3.2 Information Infrastructures 4.3.3 Transactional Technology Infrastructures 4.4.4 Sectoral Development Reviews 4.4.1 Banking 4.4.2 Near-banks 4.4.3 Insurance and Collective Investment Arrangements 4.4.4 Securities Markets 4.5 The Demand-Side Reviews and the Effect of Finance on the Real Sector 4.5.1 Enterprise Finance 4.5.2 Households, Firms, and Microenterprises 4.6 Reviews of Cross-Cutting Issues 4.6.1 Missing Markets and Missing Products 4.6.2 Taxation Issues 4.6.3 Competition Aspects 4.6.4 Development Obstacles Imposed by Unwarranted Prudential Regulation 4.7 From Finding Facts to Creating Policies Notes		
4.1 Overview 4.1.1 Motivation for Assessing Financial Structure and Financial Development 4.1.2 Scope of Analysis 4.1.3 Stability and Development: Complementarities Despite the Different Perspective 7.2 Quantitative Benchmarking 7.3 Review of Legal, Informational, and Transactional Technology Infrastructures for Access and Development 7.5 4.3 Review of Legal, Informational, and Transactional Technology Infrastructures for Access and Development 7.5 4.3.1 Legal Infrastructure 7.6 4.3.2 Information Infrastructures 7.7 4.4 Sectoral Development Reviews 7.8 4.4 Sectoral Development Reviews 7.9 4.4.1 Banking 7.9 4.4.2 Near-banks 7.9 4.4.2 Near-banks 7.9 4.4.3 Insurance and Collective Investment Arrangements 7.9 4.4.4 Securities Markets 7.9 4.5.1 Enterprise Finance 7.9 4.5.2 Households, Firms, and Microenterprises 7.9 4.6.1 Missing Markets and Missing Products 7.9 4.6.2 Taxation Issues 7.9 4.6.3 Competition Aspects 7.9 4.6.4 Development Obstacles Imposed by Unwarranted Prudential Regulation 7.9 4.7 From Finding Facts to Creating Policies 7.9 Notes	•	69
4.1.1 Motivation for Assessing Financial Structure and Financial Development 4.1.2 Scope of Analysis 69 4.1.3 Stability and Development: Complementarities Despite the Different Perspective 72 4.2 Quantitative Benchmarking 73 4.3 Review of Legal, Informational, and Transactional Technology Infrastructures for Access and Development 75 4.3.1 Legal Infrastructure 76 4.3.2 Information Infrastructures 77 4.3.3 Transactional Technology Infrastructures 78 4.4 Sectoral Development Reviews 78 4.4.1 Banking 79 4.4.2 Near-banks 79 4.4.2 Near-banks 79 4.4.3 Insurance and Collective Investment Arrangements 79 4.4.4 Securities Markets 79 4.5 The Demand-Side Reviews and the Effect of Finance on the Real Sector 79 4.5 The Demand-Side Reviews and Microenterprises 79 4.6 Reviews of Cross-Cutting Issues 79 4.6.1 Missing Markets and Missing Products 79 4.6.2 Taxation Issues 79 4.6.3 Competition Aspects 79 4.7 From Finding Facts to Creating Policies 79 Notes		
4.1.2 Scope of Analysis 4.1.3 Stability and Development: Complementarities Despite the Different Perspective 72 4.2 Quantitative Benchmarking 73 4.3 Review of Legal, Informational, and Transactional Technology Infrastructures for Access and Development 75 4.3.1 Legal Infrastructure 75 4.3.2 Information Infrastructures 76 4.3.3 Transactional Technology Infrastructures 77 4.4 Sectoral Development Reviews 78 4.4.1 Banking 79 4.4.2 Near-banks 83 4.4.3 Insurance and Collective Investment Arrangements 84 4.4.4 Securities Markets 86 4.5 The Demand-Side Reviews and the Effect of Finance on the Real Sector 87 4.5.1 Enterprise Finance 89 4.5.2 Households, Firms, and Microenterprises 90 4.6 Reviews of Cross-Cutting Issues 91 4.6.1 Missing Markets and Missing Products 91 4.6.2 Taxation Issues 91 4.6.3 Competition Aspects 92 4.6.4 Development Obstacles Imposed by Unwarranted Prudential Regulation 93 Notes	·	
4.1.3 Stability and Development: Complementarities Despite the Different Perspective 72 4.2 Quantitative Benchmarking 73 4.3 Review of Legal, Informational, and Transactional Technology Infrastructures for Access and Development 75 4.3.1 Legal Infrastructure 75 4.3.2 Information Infrastructures 76 4.3.3 Transactional Technology Infrastructures 77 4.4 Sectoral Development Reviews 78 4.4.1 Banking 79 4.4.2 Near-banks 83 4.4.3 Insurance and Collective Investment Arrangements 84 4.4.4 Securities Markets 86 4.5 The Demand-Side Reviews and the Effect of Finance on the Real Sector 88 4.5.1 Enterprise Finance 89 4.5.2 Households, Firms, and Microenterprises 90 4.6 Reviews of Cross-Cutting Issues 91 4.6.1 Missing Markets and Missing Products 91 4.6.2 Taxation Issues 91 4.6.3 Competition Aspects 92 4.6.4 Development Obstacles Imposed by Unwarranted Prudential Regulation 93 4.7 From Finding Facts to Creating Policies 93 Notes 95		
Different Perspective 72 4.2 Quantitative Benchmarking 73 4.3 Review of Legal, Informational, and Transactional Technology Infrastructures for Access and Development 75 4.3.1 Legal Infrastructure 75 4.3.2 Information Infrastructures 76 4.3.3 Transactional Technology Infrastructures 77 4.4 Sectoral Development Reviews 78 4.4.1 Banking 79 4.4.2 Near-banks 83 4.4.3 Insurance and Collective Investment Arrangements 84 4.4.4 Securities Markets 86 4.5 The Demand-Side Reviews and the Effect of Finance on the Real Sector 88 4.5.1 Enterprise Finance 89 4.5.2 Households, Firms, and Microenterprises 90 4.6 Reviews of Cross-Cutting Issues 91 4.6.1 Missing Markets and Missing Products 91 4.6.2 Taxation Issues 91 4.6.3 Competition Aspects 92 4.6.4 Development Obstacles Imposed by Unwarranted Prudential Regulation 93 4.7 From Finding Facts to Creating Policies 93 Notes 95		0)
4.2 Quantitative Benchmarking 4.3 Review of Legal, Informational, and Transactional Technology Infrastructures for Access and Development 75 4.3.1 Legal Infrastructure 76 4.3.2 Information Infrastructures 77 4.4 Sectoral Development Reviews 78 4.4.1 Banking 79 4.4.2 Near-banks 79 4.4.3 Insurance and Collective Investment Arrangements 79 4.4.4 Securities Markets 79 4.5 The Demand-Side Reviews and the Effect of Finance on the Real Sector 79 4.5 Households, Firms, and Microenterprises 79 4.6 Reviews of Cross-Cutting Issues 79 4.6.1 Missing Markets and Missing Products 79 4.6.2 Taxation Issues 79 79 79 79 70 70 70 71 72 73 74 75 75 76 76 77 77 78 79 79 79 79 79 79 79 79 79 79 79 79 79		72
4.3 Review of Legal, Informational, and Transactional Technology Infrastructures for Access and Development 75 4.3.1 Legal Infrastructure 75 4.3.2 Information Infrastructures 76 4.3.3 Transactional Technology Infrastructures 77 4.4 Sectoral Development Reviews 78 4.4.1 Banking 79 4.4.2 Near-banks 83 4.4.3 Insurance and Collective Investment Arrangements 84 4.4.4 Securities Markets 86 4.5 The Demand-Side Reviews and the Effect of Finance on the Real Sector 88 4.5.1 Enterprise Finance 89 4.5.2 Households, Firms, and Microenterprises 90 4.6 Reviews of Cross-Cutting Issues 91 4.6.1 Missing Markets and Missing Products 91 4.6.2 Taxation Issues 91 4.6.3 Competition Aspects 92 4.6.4 Development Obstacles Imposed by Unwarranted Prudential Regulation 93 4.7 From Finding Facts to Creating Policies 93 Notes		
for Access and Development 4.3.1 Legal Infrastructure 75 4.3.2 Information Infrastructures 76 4.3.3 Transactional Technology Infrastructures 77 4.4 Sectoral Development Reviews 78 4.4.1 Banking 79 4.4.2 Near-banks 83 4.4.3 Insurance and Collective Investment Arrangements 4.4.4 Securities Markets 84 4.5 The Demand-Side Reviews and the Effect of Finance on the Real Sector 88 4.5.1 Enterprise Finance 4.5.2 Households, Firms, and Microenterprises 90 4.6 Reviews of Cross-Cutting Issues 91 4.6.1 Missing Markets and Missing Products 91 4.6.2 Taxation Issues 91 4.6.3 Competition Aspects 92 4.6.4 Development Obstacles Imposed by Unwarranted Prudential Regulation 4.7 From Finding Facts to Creating Policies Notes	-	13
4.3.1 Legal Infrastructure 4.3.2 Information Infrastructures 76 4.3.3 Transactional Technology Infrastructures 77 4.4 Sectoral Development Reviews 78 4.4.1 Banking 79 4.4.2 Near-banks 83 4.4.3 Insurance and Collective Investment Arrangements 4.4.4 Securities Markets 86 4.5 The Demand-Side Reviews and the Effect of Finance on the Real Sector 87 4.5.1 Enterprise Finance 89 4.5.2 Households, Firms, and Microenterprises 90 4.6 Reviews of Cross-Cutting Issues 91 4.6.1 Missing Markets and Missing Products 91 4.6.2 Taxation Issues 91 4.6.3 Competition Aspects 92 4.6.4 Development Obstacles Imposed by Unwarranted Prudential Regulation 93 94.7 From Finding Facts to Creating Policies 95		75
4.3.2 Information Infrastructures 76 4.3.3 Transactional Technology Infrastructures 77 4.4 Sectoral Development Reviews 78 4.4.1 Banking 79 4.4.2 Near-banks 83 4.4.3 Insurance and Collective Investment Arrangements 84 4.4.4 Securities Markets 86 4.5 The Demand-Side Reviews and the Effect of Finance on the Real Sector 88 4.5.1 Enterprise Finance 89 4.5.2 Households, Firms, and Microenterprises 90 4.6 Reviews of Cross-Cutting Issues 91 4.6.1 Missing Markets and Missing Products 91 4.6.2 Taxation Issues 91 4.6.3 Competition Aspects 92 4.6.4 Development Obstacles Imposed by Unwarranted Prudential Regulation 93 4.7 From Finding Facts to Creating Policies Notes	•	
4.3.3 Transactional Technology Infrastructures 77 4.4 Sectoral Development Reviews 78 4.4.1 Banking 79 4.4.2 Near-banks 83 4.4.3 Insurance and Collective Investment Arrangements 84 4.4.4 Securities Markets 86 4.5 The Demand-Side Reviews and the Effect of Finance on the Real Sector 88 4.5.1 Enterprise Finance 89 4.5.2 Households, Firms, and Microenterprises 90 4.6 Reviews of Cross-Cutting Issues 91 4.6.1 Missing Markets and Missing Products 91 4.6.2 Taxation Issues 91 4.6.3 Competition Aspects 92 4.6.4 Development Obstacles Imposed by Unwarranted Prudential Regulation 93 4.7 From Finding Facts to Creating Policies 95	· ·	
4.4 Sectoral Development Reviews 78 4.4.1 Banking 79 4.4.2 Near-banks 83 4.4.3 Insurance and Collective Investment Arrangements 84 4.4.4 Securities Markets 86 4.5 The Demand-Side Reviews and the Effect of Finance on the Real Sector 88 4.5.1 Enterprise Finance 89 4.5.2 Households, Firms, and Microenterprises 90 4.6 Reviews of Cross-Cutting Issues 91 4.6.1 Missing Markets and Missing Products 91 4.6.2 Taxation Issues 91 4.6.3 Competition Aspects 92 4.6.4 Development Obstacles Imposed by Unwarranted Prudential Regulation 93 4.7 From Finding Facts to Creating Policies Notes	·	
4.4.1 Banking 4.4.2 Near-banks 83 4.4.3 Insurance and Collective Investment Arrangements 4.4.4 Securities Markets 86 4.5 The Demand-Side Reviews and the Effect of Finance on the Real Sector 4.5.1 Enterprise Finance 89 4.5.2 Households, Firms, and Microenterprises 90 4.6 Reviews of Cross-Cutting Issues 91 4.6.1 Missing Markets and Missing Products 91 4.6.2 Taxation Issues 91 4.6.3 Competition Aspects 92 4.6.4 Development Obstacles Imposed by Unwarranted Prudential Regulation 93 4.7 From Finding Facts to Creating Policies Notes		
4.4.2 Near-banks 4.4.3 Insurance and Collective Investment Arrangements 4.4.4 Securities Markets 86 4.5 The Demand-Side Reviews and the Effect of Finance on the Real Sector 4.5.1 Enterprise Finance 89 4.5.2 Households, Firms, and Microenterprises 90 4.6 Reviews of Cross-Cutting Issues 91 4.6.1 Missing Markets and Missing Products 91 4.6.2 Taxation Issues 91 4.6.3 Competition Aspects 92 4.6.4 Development Obstacles Imposed by Unwarranted Prudential Regulation 93 4.7 From Finding Facts to Creating Policies Notes		
4.4.3 Insurance and Collective Investment Arrangements 4.4.4 Securities Markets 86 4.5 The Demand-Side Reviews and the Effect of Finance on the Real Sector 88 4.5.1 Enterprise Finance 89 4.5.2 Households, Firms, and Microenterprises 90 4.6 Reviews of Cross-Cutting Issues 91 4.6.1 Missing Markets and Missing Products 91 4.6.2 Taxation Issues 91 4.6.3 Competition Aspects 92 4.6.4 Development Obstacles Imposed by Unwarranted Prudential Regulation 93 4.7 From Finding Facts to Creating Policies 95 Notes	<u> </u>	
4.4.4 Securities Markets 4.5 The Demand-Side Reviews and the Effect of Finance on the Real Sector 4.5.1 Enterprise Finance 4.5.2 Households, Firms, and Microenterprises 90 4.6 Reviews of Cross-Cutting Issues 4.6.1 Missing Markets and Missing Products 4.6.2 Taxation Issues 91 4.6.3 Competition Aspects 4.6.4 Development Obstacles Imposed by Unwarranted Prudential Regulation 4.7 From Finding Facts to Creating Policies Notes		
4.5 The Demand-Side Reviews and the Effect of Finance on the Real Sector 4.5.1 Enterprise Finance 89 4.5.2 Households, Firms, and Microenterprises 90 4.6 Reviews of Cross-Cutting Issues 91 4.6.1 Missing Markets and Missing Products 91 4.6.2 Taxation Issues 91 4.6.3 Competition Aspects 92 4.6.4 Development Obstacles Imposed by Unwarranted Prudential Regulation 93 4.7 From Finding Facts to Creating Policies 95 Notes	The state of the s	
4.5.1 Enterprise Finance 4.5.2 Households, Firms, and Microenterprises 90 4.6 Reviews of Cross-Cutting Issues 91 4.6.1 Missing Markets and Missing Products 91 4.6.2 Taxation Issues 91 4.6.3 Competition Aspects 92 4.6.4 Development Obstacles Imposed by Unwarranted Prudential Regulation 93 4.7 From Finding Facts to Creating Policies 93 Notes		
4.5.2 Households, Firms, and Microenterprises 4.6 Reviews of Cross-Cutting Issues 4.6.1 Missing Markets and Missing Products 4.6.2 Taxation Issues 4.6.3 Competition Aspects 4.6.4 Development Obstacles Imposed by Unwarranted Prudential Regulation 4.7 From Finding Facts to Creating Policies Notes		
4.6 Reviews of Cross-Cutting Issues 4.6.1 Missing Markets and Missing Products 4.6.2 Taxation Issues 4.6.3 Competition Aspects 4.6.4 Development Obstacles Imposed by Unwarranted Prudential Regulation 4.7 From Finding Facts to Creating Policies Notes 91 4.6.4 Development Obstacles Imposed by Unwarranted Prudential Regulation 93 Notes	•	
4.6.1 Missing Markets and Missing Products 4.6.2 Taxation Issues 4.6.3 Competition Aspects 4.6.4 Development Obstacles Imposed by Unwarranted Prudential Regulation 4.7 From Finding Facts to Creating Policies Notes 93 Notes		
4.6.2 Taxation Issues 91 4.6.3 Competition Aspects 92 4.6.4 Development Obstacles Imposed by Unwarranted Prudential Regulation 93 4.7 From Finding Facts to Creating Policies 93 Notes 95	· · · · · · · · · · · · · · · · · · ·	
4.6.3 Competition Aspects 4.6.4 Development Obstacles Imposed by Unwarranted Prudential Regulation 4.7 From Finding Facts to Creating Policies 93 Notes 95		
4.6.4 Development Obstacles Imposed by Unwarranted Prudential Regulation 4.7 From Finding Facts to Creating Policies 93 Notes 95		
4.7 From Finding Facts to Creating Policies Notes 93 Notes		
Notes 95		
References 97	References	97

Chapter 5	
Evaluating Financial Sector Supervision: Banking, Insurance, and	
Securities Markets	101
5.1 Legal and Institutional Framework for Financial Supervision	102
5.2 Aspects of Financial Safety Nets	104
5.2.1 Frameworks for Liquidity Support	105
5.2.2 Deposit Insurance	106
5.2.3 Investor and Policyholder Protection Schemes	107
5.2.4 Crisis Management	109
5.3 Assessment of Banking Supervision	110
5.3.1 Basel Core Principles—Their Scope and Coverage, and Their Relevance	
to Stability and Structural Development	110
5.3.2 Preconditions for Effective Banking Supervision	114
5.3.3 Assessment Methodology and Assessment Experience	115
5.3.4 Basel II	120
5.3.5 Bank Insolvency Procedures: Emerging Bank-Fund Guidelines	121
5.3.6 Large and Complex Financial Institutions	123
5.3.7 Consolidated Supervision	125
5.3.8 Unique Risks in Islamic Banking	127
5.4 Assessment of Insurance Supervision	127
5.4.1 Relevance to Stability and Development	128
5.4.2 The Structure of the ICPs	129
5.4.3 Assessment Methodology and Assessment Experience	131
5.5 Assessment of Securities Market Regulation	140
5.5.1 IOSCO Core Principles—Relevance to Stability Considerations and	1.41
Structural Development	141
5.5.2 Preconditions for Effective Securities Market Regulation	142
5.5.3 Assessment Methodology and Assessment Experience	143
5.5.4 Key Considerations in Conducting an Assessment	145
5.5.5 Assessment Experience 5.5.6 Special Topics in Securities Medicat Development and Regulation	147 149
5.5.6 Special Topics in Securities Market Development and Regulation Annex 5.A Legal and Institutional Environment for Effective Bank Insolvency Procedures	151
Autonomy of Banking Authority	151
Legal Mandate	151
Appropriate Legal Protection of Banking Authorities and Their Staff Members	152
Transparency	152
Accountability and Judicial Review	153
Coordination among Banking Authorities	153
Annex 5.B Consolidated Supervision	154
Annex 5.C IAIS Insurance Core Principles	156
Annex 5.D List of IOSCO Objectives and Principles of Securities Regulation	158
Principles Relating to the Regulator	158
Principles for Self-Regulation	158
Principles for the Enforcement of Securities Regulation	158
Principles for Cooperation in Regulation	159
Principles for Issuers	159
Principles for Collective Investment Schemes	159
Principles for Market Intermediaries	159
Principles for the Secondary Market	160
Annex 5.E IOSCO Methodology—Scope and Use of Principle 8	160
Principle 8	161
Annex 5.F Enforcement and the Exchange of Information	162

Notes	164
References	167
Chapter 6	454
Assessing the Supervision of Other Financial Intermediaries	171
6.1 Overview	171
6.2 Objectives of the Legal and Regulatory Framework for OFIs	173
6.3 Assessing Institutional Structure and Regulatory Arbitrage6.4 Assessing Regulatory Practice and Effectiveness	174 176
6.5 Selected Issues on the Regulation and Supervision of Leasing Companies	179
6.6 Selected Issues on the Regulation and Supervision of Factoring Companies	180
6.7 Selected Issues on the Regulation and Supervision of Pactoring Companies	182
Annex 6.A Regulation and Supervision of OFIs: A Few Guiding Principles	182
A. The regulatory framework should minimize adverse effects on competition	102
and encourage competition	182
B. The regulatory framework should clearly define the power of the regulator	102
and the permissible activities of OFIs.	183
C. Similar risks and functions should be supervised similarly to minimize scope	103
for regulatory arbitrage.	183
D. The links between OFIs and other players in the financial sector should be	100
closely monitored.	183
E. The unique risks of OFIs should be recognized within the supervisory structure	
and when defining prudential norms.	183
F. Supervision should be proportionate and consistent with costs and benefits.	184
G. Resources and skills should be targeted to the higher-impact and	
more-complex OFIs.	184
H. There should be a strengthening of the self-regulatory capacity	184
Notes	184
References	185
Chapter 7	407
Rural and Microfinance Institutions: Regulatory and Supervisory Issues	187
7.1 Overview	187
7.2 Rationale for Assessing the Regulatory Framework for Rural Finance and	107
Microfinance Institutions	187
7.3 Institutional Providers of Rural Finance and Microfinance Services	189
7.3.1 Government Rural Finance, Microfinance, or SME Finance Programs	101
or Agencies	191
7.3.2 Non-bank, Non-profit NGO MFIs	192
7.3.3 Membership-Based CFIs	193
7.3.4 Postal Savings Banks 7.3.5 Development Finance Institutions	193 193
7.3.6 Specialized Banking Institutions	193
7.3.7 Commercial Banks	194
7.4 Conceptual Framework for the Regulation of Rural Finance	177
and Microfinance Institutions	194
7.5 Assessment of the Regulatory Framework Issues for Rural Finance	177
and Microfinance Institutions	196
7.6 Some Cross-Cutting Issues Affecting Rural Finance and Microfinance Institutions	199
7.7 Ways to Address Rural Finance and Microfinance Regulatory Framework Issues	201
7.8 Consensus Guidelines on Regulating and Supervising Microfinance	202
Notes	203
References	204

Chapter 8 Assessing Financial System Integrity—Anti-Money Laundering and 207 **Combating the Financing of Terrorism** 8.1 AML-CFT Standards—Links to Stability and Institutional Development 210 210 8.2 AML-CFT Standards—Scope and Coverage 8.3 Preconditions for Effective Implementation of AML-CFT Standards 211 8.4 Assessment Methodology and Assessment Experience 212 8.4.1 AML-CFT Assessment Methodology 214 215 8.4.2 Assessment Experience 8.5 Special Topics in AML-CFT Assessments 215 8.5.1 Assessing Preventive Measures: The Example of Customer Due Diligence 216 8.5.2 Financial Intelligence Units 216 Annex 8.A FATF 40+8 Recommendations for AML-CFT 217 Forty Recommendations 217 Special Recommendations for Combating the Financing of Terrorism 219 Notes 220 References 221 Chapter 9 Assessing the Legal Infrastructure for Financial Systems **223** 9.1 Financial Sector Legal Framework 223 9.1.1 Central Banking Law 224 9.1.2 Banking Law 224 9.1.3 Payment Systems 225 9.1.4 Government Debt Management 225 9.1.5 Capital Markets 226 9.1.6 Insurance 226 9.1.7 Financial Safety Nets 228 9.2 Commercial Laws 228 9.2.1 Company Law 228 9.2.2 Corporate Governance 228 9.2.3 Consumer Protection 229 230 9.3 Creditors Rights and Insolvency Systems 9.4 Access to Credit and Land Rights 234 9.5 The Judicial System 235 Notes 237 References 238 Chapter 10 **Assessing Information and Governance Infrastructure** 241 10.1 Monetary and Financial Policy Transparency 242 10.1.1 Code of Good Practices 242 10.1.2 Assessment Methodology and Assessment Experience 243 10.2 Accounting and Auditing Assessments 245 10.2.1 Role of the Accounting and Auditing Framework: Relevance to 247 Development and Stability 10.2.2 Scope and Content of International Accounting and Auditing Standards 248

10.2.3 ROSCs and Role of the Bank and the Fund

10.3.1 Introduction to Credit-Reporting Systems

10.3 Credit-Reporting Systems and Financial Information Services

10.2.4 Focus of A&A Assessments

10.2.5 ROSC A&A Methodology

10.2.6 Assessment Experience

252

254

255

255

256

256

10.3.2 Elements of a Robust Credit-Reporting System	257
10.3.3 Credit Registries, Efforts to Strengthen Credit Risk Measurement,	
and New Basel Capital Accord (Basel II)	262
10.3.4 Role of Credit Rating Agencies in Financial Stability and Development	264
10.4 Corporate Governance Assessments	266
10.4.1 Rationale for Good Corporate Governance?	266
10.4.2 OECD Principles of Corporate Governance	267
and New Basel Capital Accord (Basel II) 10.3.4 Role of Credit Rating Agencies in Financial Stability and Development 10.4 Corporate Governance Assessments 10.4.1 Rationale for Good Corporate Governance? 10.4.2 OECD Principles of Corporate Governance 10.4.3 World Bank ROSC Corporate Governance Assessments 10.4.4 Key Findings from Country Assessments 10.5 Disclosure Regime for Financial Institutions 10.5.1 Current Practices and Evolving Standards 10.5.2 Pillar III and Market Discipline Annex 10.4 Code of Good Practices on Transparency in Monetary and Financial Policies 1. Clarity of Roles, Responsibilities, and Objectives of Central Banks for Monetary Policy 2. Open Process for Formulating and Reporting Monetary Policy Decisions 3. Public Availability of Information on Monetary Policy Decisions 3. Public Availability and Assurances of Integrity by the Central Bank 5. Clarity of Roles, Responsibilities, and Objectives of Financial Agencies Responsible for Financial Policies 6 Open Process for Formulating and Financial Policies 7. Public Availability of Information on Financial Policies 8. Accountability and Assurances of Integrity by Financial Agencies Annex 10.B Methodology for Assessing Accounting and Auditing Part I: Assessment of the Accounting and Auditing Environment Part II: Assessment of National Accounting Standards with Reference to IAS Part III: Assessment of Actual Accounting Practices (Review of Compliance with Selected Local Accounting Requirements) Part IV: Assessment of Auditing Standards and Practices Due Diligence and Final Report Final Report Development and Implementation of a Country Action Plan Annex 10.C Financial Sector Governance—Selected Issues Notes References Chapter 11 Assessing Systemic Liquidity Infrastructure 11.1.1 Payment and securities settlement systems 11.1.2 Securities Settlement Systems	269
10.4.4 Key Findings from Country Assessments	271
	272
	273
10.5.2 Pillar III and Market Discipline	274
Annex 10.A Code of Good Practices on Transparency in Monetary and	
Financial Policies	276
1. Clarity of Roles, Responsibilities, and Objectives of Central Banks for	
	276
2. Open Process for Formulating and Reporting Monetary Policy Decisions	276
	276
4. Accountability and Assurances of Integrity by the Central Bank	277
Responsible for Financial Policies	277
6 Open Process for Formulating and Financial Policies	277
7. Public Availability of Information on Financial Policies	277
8. Accountability and Assurances of Integrity by Financial Agencies	278
Annex 10.B Methodology for Assessing Accounting and Auditing	278
Part I: Assessment of the Accounting and Auditing Environment	278
Part II: Assessment of National Accounting Standards with Reference to IAS	279
Part III: Assessment of Actual Accounting Practices (Review of Compliance	
with Selected Local Accounting Requirements)	279
Part IV: Assessment of Auditing Standards and Practices	280
Due Diligence and Final Report	280
Final Report	280
Development and Implementation of a Country Action Plan	281
Annex 10.C Financial Sector Governance—Selected Issues	281
Notes	283
References	285
Chapter 11	
·	289
11.1 Payment and securities settlement systems	289
11.1.1 Payment Systems	290
11.1.2 Securities Settlement Systems	297
11.2 Monetary and Foreign Exchange Operations—Instruments and Effectiveness	301
11.3 Monetary and Foreign Exchange Markets—Microstructure and Functioning	305
11.4 Public Debt Management and the Government Securities Market	306
11.5 Foreign Exchange Reserve Management	308
11.6 Microstructure of Securities Markets—Trading Systems, Price Discovery, and	
Determinants of Market Liquidity and Efficiency	310
Notes	312
References	313

Chapter 12	
Sequencing Financial Sector Reforms	317
12.1 Development with Stability: The Role of Sequencing	318
12.2 Strengthening Access to Foreign Capital	320
12.3 Principles of Sequencing	322
Notes	324
References	324
Annandix A	
Appendix A Financial Sector Assessment Program—Objectives, Procedures,	
and Overall Framework	325
A.1 History and Objectives	325
A.2 Operational Procedures for FSAP, FSAP Updates, Follow-Up Technical	
Assistance, and Relationship to Bank-Fund Operations	326
A.2.1 Country Selection Process—Selection Criteria	329
A.2.2 Publication Policies	332
A.2.3 Confidentiality and Other Distribution	332
A.2.4 Review and Clearance of FSAP Documents	333
A.3 Selectivity and Tailoring of Assessments	334
A.4 Relationship to Standards and Codes Initiative—Role of Standards	226
Assessments in FSAP	336
A.5 Selected Organizational Issues	340
A.5.1 Organization and Team-Design: Issues for the Development Assessment	340
A.5.2 Multitasking for the Sectoral Reviews	341
A.5.3 Organization and Team Design for Stability Assessments A.6 Follow-Up Issues—FSAP Updates, On-Going Surveillance, and TA	341 342
Appendix B Illustrative Data Questionnaires for Comprehensive Financial	245
Sector Assessment	345
Appendix C	
Data Sources for Financial Sector Assessments	367
C.1 Overview	367
C.2 National Data Sources	368
C.3 International Organizations	369
C.3.1 OECD Databases	369
C.3.2 European Central Bank Monetary Statistics	371
C.3.3 Bank for International Settlements (BIS)	371
C.3.4 Asia Regional Information Center	372
C.3.5 IMF	372
C.3.6 International Finance Corporation (IFC)	373
C.3.7 World Bank C.3.8 Commercial Databases	373 373
References	376
References	370
Appendix D	_
Stress Testing	379
D.1 Overview of Stress Testing	379
D.2 The Process	380
D.2.1 Identifying Vulnerabilities	381
D.2.2 Constructing Scenarios—Use of Macroeconomic Models	382

D.2.3 Balance-Sheet Implementation	384
D.2.4 Interpretation and Publication	389
D.3 Examples of Stress-Testing Calculations	390
D.3.1 Exchange Rate Risk	390
D.3.2 Interest Rate Risk	393
D.3.3 Credit Risk	396
D.3.4 Other Risks	397
D.3.5 Second Round Effects	399
D.3.6 Stress Testing of Insurance Companies	401
D.4 Summary of FSAP Experience	402
Notes	403
References	404
Appendix E	
Benchmarking and Decomposing Interest Rate Spreads and Margins	409
Notes	413
References	413
Appendix F	
Institutional Structure of Financial Regulation and Supervision	417
Overview	417
Range of Financial Supervisory Structures	418
Importance of Institutional Structure	418
Case for the Fully Unified Model	420
Case Against the Fully Unified Model	422
Types of Unified Supervision	423
Internal Structure of Unified Supervisory Agencies	426
Role of the Central Bank	426
Conclusions	429
Notes	430
References	431
Appendix G	
Banking Resolution and Insolvency—Emerging World Bank and International Monetary Fund Guidelines	433
G.1 Bank Insolvency Framework: Objectives and Scope	
· · · · · · · · · · · · · · · · · · ·	433 433
G.1.1 Objectives G.1.2 Background	433
G.1.3 Scope	434
G.1.4 Links with the Basel Core Principle	434
G.2 Key Institutional Aspects of the Bank Insolvency Regime	435
G.3 General Issues in Bank Insolvency Proceedings	435
G.3.1 Choice of Bank Insolvency Regime	435
G.3.2 Administrative or Court-Based Special Bank Insolvency Regime	435
G.3.3 Commencement of Bank Insolvency Proceedings	436
G.3.4 Licensing Implication of Bank Insolvency	437
G.3.5 Rights of Shareholders and Creditors in the Context of Bank Insolvency	438
G.4 Official Administration of Banks	439
G.4.1 Definition	439
G.4.2 Basic Principles	439
G.4.3 Basic Elements of the Official Administration Regime	440
G.5 Bank Restructuring	440
O.5 Dain Reducting	770

	G.5.1 Definition	440
	G.5.2 Key Objectives	441
	G.5.3 Basic Principles	44 1
	G.5.4 Bank Restructuring and Cases with Actual or Potential Systemic Implications	442
	G.5.5 Publicly Assisted Bank Restructuring	442
	G.5.6 Main Restructuring Techniques and Basic Applicable Principles	443
	G.6 Bank Liquidation	444
	G.7 Key Features of the Legal Framework in the Context of Systemic Crises	445
	Notes	446
	ppendix H	
Ass	sessment of Pension Schemes from a Financial Sector Perspective	449
	H.1 Assessment Framework	450
	H.2 Importance of Regulating and Supervising Pension Systems	451
	H.2.1 Income and Household Security	451
	H.2.2 Issues of Funding	451
	H.2.3 Fiscal Management	451
	H.2.4 Financial Markets	451
	H.3 Regulation and Supervision of Public and Government Pension Funds: Risks	
	Regulatory Responses	452
	H.4 Regulation and Supervision of Private Funds	454
	H.5 Regulatory Oversight	454 455
	H.6 The Regulation of Investment Regimes H.7 Government Guarantee Funds	456
	Notes	457
	References	458
	References	150
Box	kes	
	Box 1.1 Financial Sector Assessment Program (FSAP)—A Chronology	2
	Box 2.1 The Balance Sheet Approach—An Overview	29
	Box 3.1 Market-Based Indicators of Financial Soundness	40
	Box 3.2 Capital Account Liberalization and Financial Stability	56
	Box 3.3 Stability Issues in Islamic Banking	58
	Box 4.1 Quantitative Indicators for Financial Structure and Development Assessment	74
	Box 4.2 Access to Financial Services from Abroad	82
	Box 4.3 Finance of Housing	84
	Box 4.4 Role of Government-Owned Banks	85
	Box 4.5 Standards Assessments and Financial Sector Development	87
	Box 4.6 Use of Research-Based Micromodels—Liquidity Constraints in	00
	Capital Formation	89
	Box 5.1 Basel Core Principles for Effective Banking Supervision	111
	Box 5.2 Unique Risks in Islamic Banking	126
	Box 5.3 Flexibility in Assessments.	133
	Box 5.4 Key Issues in Ongoing Supervision and Prudential Requirements for Insurance	138
	Box 6.1 The Case of Financial Institutions Providing Housing Finance	177
	Box 6.2 Measures to Develop a Favorable Regulatory Environment for Leasing	180
	Box 6.3 Factoring as a Sale and Purchase Transaction Rather Than as a Loan Roy 7.1 Report mortes for Outrooch and Financial Porformance and Soundness of	181
	Box 7.1 Benchmarks for Outreach and Financial Performance and Soundness of Rural Finance and Microfinance Institutions	102
	Box 7.2 Conduct of Business Regulations for MFIs	192 197
	Box 7.3 PSBs and CFIs and the Scope of Their Regulation	198
	DON 100 TODO UNA OTRO UNA UNA OCOPE OF THEIR REGULATION	1

	Box 7.4 Critical Issues in Delegating Prudential Supervision	199
	Box 7.5 Supervision Standards, Technical Capacity, and Cost Issues	200
	Box 7.6 Findings and Recommendations on Microfinance Regulatory Issues in Selected FSAPs	201
	Box 8.1 United Nations Conventions and Security Council Resolution in Support	
	of AML-CFT Regimes	208
	Box 8.2 Core Principles and Guidelines of Financial Sector Supervision in Support	
	of AML–CFT Regimes	209
	Box 8.3 Weaknesses in AML/CFT Regimes: Results of Pilot Program Assessments	213
	Box 9.1 Legal Framework for Securitization	227
	Box 10.1 Main Weaknesses in the Transparency Practices of Central Banks	221
	and Monetary Policy	246
	· · ·	
	Box 10.2 Main Weaknesses in the Transparency Practices in Financial Policies	247
	Box 10.3 IAS 39: Financial Instruments, Recognition, and Measurement	250
	Box 10.4 IAS 32: Financial Instruments, Disclosure, and Presentation	251
	Box 10.5 IAS 30: Disclosures in the Financial Statements of Banks and	
	Similar Financial Institutions	251
	Box 10.6 IAS 1: Presentation of Financial Statements	252
	Box 10.7 International Convergence Process	253
	Box 10.8 OECD Principles of Corporate Governance: Overview of the Main	
	Areas of the OECD Principles	268
	Box 10.9 Methodology and Format of Corporate Governance Assessments	270
	Box 11.1 Summary of the CPSS Core Principles	293
	Box 11.2 Responsibilities of Central Banks in Applying the CPSS Core Principles	294
	Box 11.3 Summary of the RSSS	298
	Box 11.4 Liquidity Forecasting Frameworks	302
	Box 11.5 Monetary Policy Instruments	303
	Box 12.1 Selected Principles of Sequencing	323
	Box A.1. Assessing Observance of Financial Sector Standards When There	3 2 3
	Are Supranational Authorities	335
	Box A.2. List of Standards and Codes and Core Principles Useful for Bank	333
	and Fund Operational Work and for Which ROSCs Are Produced	337
	Box A.3. Assessing Offshore Financial Centers	338
	Box A.4. Periodic Review of Standards Assessment Process	339
Та	bles	
	Table 2.1. Sectoral Indicators of Financial Development	18
	Table 2.2. Indicators of Financial System Performance	20
	Table 2.3. The Core Set of Financial Soundness Indicators	23
	Table 2.4. The Encouraged Set of Financial Soundness Indicators	24
	Table 2.5. Insurance Financial Soundness Indicators: Core Set	27
	Table 2.6. Stylized Framework for Presenting Financial Interlinkages between	
	Sectors in an Economy	30
	Table 5.1. Observance of Basel Core Principles for Effective Banking Supervision	118
		110
	Table 6.1. Main Regulatory and Prudential Aspects of Different Groups	175
	of Financial Institutions	175
	Table 7.1. Institutional Providers of Financial Services	191
	Table 7.2. Tiered Structures and Regulatory Triggers by Type of MFI	196
	Table 10.1. Institutional Arrangements for Private Credit Registries	258
	Table A.1. Institutions Cooperating in the FSAP	327
	Table A.2. FSAP Confidentiality and Publication Policy at a Glance	331

	Table B.1. Financial System Structure	348
	Table B.2. Aggregate Balance Sheet for the Banking System	349
	Table B.3. Profit and Loss Analysis for the Banking System	351
	Table B.4. Measures of Financial System Interconnectedness	352
	Table B.5. Financial Soundness Indicators for the Banking Sector	353
	Table B.6. Data on Ownership, Exposures, Profitability, and Costs in Banking	354
	Table B.7. Stress Testing of Banking Systems: Overview of Input Data	355
	Table B.8. Statistics on Structure and Performance of Insurance Companies	356
	Table B.9. Capital Markets Overview and Their Structure and Performance Selected	357
	Table B.10. Structure and Performance of Pension and Investment Funds	359
	Table B.11. Structure and Performance of Other Financial Institutions	360
	Table B.12. Systemic Liquidity Infrastructure—Money, Exchange, and Debt Market	361
	Table B.13. Systemic Liquidity Infrastructure—Payments and Securities	
	Settlement Systems	362
	Table B.14. Legal, Governance, and Information Infrastructure	363
	Table B.15. Financial Sector Taxation	364
	Table B.16. Indicators of Access to Financial Services	365
	Table D.1. Matrix of Bank-to-Bank Exposures	400
	Table E.1. Interest Rates, Spreads, and Margins in International Comparison	410
	Table E.2. Kenya: Decomposition of Interest Spreads	410
	Table E.3. Bank Productivity in International Comparison	411
	Table E.4. Bank Productivity Across Different Kenyan Bank Groups	411
	Table E.5. Net Interest Margins and Overhead Costs in International Comparison	412
	Table F.1. Countries with a Single Supervisor, Semi-Integrated Supervisory	
	Agencies and Multiple Supervisors in 2004	424
	Table H.1. The Core Principles of Occupational Pension Regulation (OECD 2004)	453
Fiç	gures	
	Figure 5.1. Financial Standards and Their Four Main Companents	103
	Figure 5.1. Financial Standards and Their Four Main Components	319
	Figure 12.1. Financial Development: Stylized Sequencing of Reforms	330
	Figure A.1. FSAP Process: Key Steps and Outputs	
	Figure D.1. Example of Contagion Effects of a Counterparty Failure	401