



Financial Sector Assessment Program (FSAP)

What is FSAP?

The Financial Sector Assessment Program (FSAP) is a joint program initiated by the IMF and World Bank in May 1999, with the aims to (1) identify the strengths and weaknesses of a country's financial system, (2) assess a country's compliance with the international best practices, (3) promote the financial system's development as well as provide technical assistance needed, (4) specify risk management strategy and (5) help prioritize policy responses and strategic plans.

FSAP covers assessment of various issues in the financial sector, for example, banking, securities, insurance, monetary and financial policy transparency, payment and settlement systems, and anti-money laundering. The assessment comprises three main components, namely, (1) financial sector analysis, including analysis of efficiency, competitiveness, concentration, and liquidity, (2) macroprudential analysis, including stress testing, scenario analysis, and analysis of financial soundness indicators and macrofinancial linkages, and (3) assessment of observance to international standards and codes.

The assessment framework varies among countries depending on the size and risks of each country. The program assesses the quality of the supervisory guidelines and practices in each sector against relevant international standards and codes, and provides recommendations to rectify the weaknesses.

The international standards used in the FSAP program includes the Basel Core Principles for Effective Banking Supervision (BCP), the International Organization of Securities Commissions' Objectives and Principles for Securities Regulation (IOSCO), International Association of Insurance Supervisor's Insurance Supervisory Principles (IAIS), the Core Principles for Systemically Important Payment Systems (CPSIPS), the Code of Good Practices on Transparency in Monetary and Financial Policies (MFP Code), and the AML/CFT Financial Action Task Force (FATF's Recommendations 40+9).

Review of FSAP Thailand

In 2007, Thailand participated in FSAP program based on information at year-end 2006 in compliance with 6 scopes of international standard, namely, bank supervision, transparency in monetary policy, payment and settlement system, Securities Regulation, Security depositary and



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Anti Money Laundering/Combating the Financing of Terrorism. The BOT was responsible for 3 following scopes with satisfied review:

- **Banking supervision**

The Thai financial system was sound and regulatory framework was highly complied with international standards, particularly after the financial crisis in 1997, substantial improvement on regulatory and supervisory of financial institutions was witnessed. Furthermore, Risk-based Supervision has been introduced along with enhancement in the standard of On-site and Off-site supervision. Data collection process and analysis of important indicators have been developed. The assessment of Basel Core Principles for Effective Banking Supervision showed that Thailand is largely compliant (meet 24 out of 25 principles).

For a better efficiency of the Thai financial regulatory, the assessor gave 2 recommendations to Thailand: (1) to give the BOT legal powers to conduct consolidated banking supervision and financial resolutions and (2) to give the BOT full independence in regulating financial institutions. Nevertheless, the amendment of the Bank of Thailand act (B.E. 2551) together with the issuance of Financial Institution Business Act has somewhat overcome the 2 subject matters. Additionally, the result of stress tests indicated that Thai banking system is generally sound with adequate capital to withstand crises. 2 years prior undergoing FSAP program up until now, the finding of FSAP showed that the Thai commercial banks have strength in every dimension, in particular asset quality and capital adequacy.

The stress test also found that banks are vulnerable to a sharp domestic economic slowdown, primarily from credit risk. This reflects banks' large holdings of loans on their balance sheet. Nonetheless, overall banking system is stable with modest market and contagion risks

- **Monetary policy transparency**

Overall process of Monetary Policy conducted by the Bank of Thailand is transparent, policy framework and instruments are publicly disclosed. Moreover, the press conference is taken place following every MPC meeting and the inflation report is issued on quarterly basis to discuss and clarify to the public about decisions made by the MPC.



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- **Payment system**

The finding of FSAP stated that the BAHTNET is a sound and efficient payment system. The system functionality is well developed and its adequate risk measures are in place in order to mitigate liquidity risk and settlement risk. Furthermore, its governance structure is effective and transparent.

In summary, the evaluation of financial sector under FSAP is beneficial in helping country identify the strengths and weaknesses of financial stability, assess a compliance with the international best practice, promote the transparency image and promptly allow international experts to evaluate strengths and weaknesses of financial regulators. The latter one would enable country to receive useful advises in developing the soundness of financial sector to support sustainable economic growth.