# Supervisory Boards in Some Central Banks

Robert Sparve, General Counsel

Sveriges Riksbank

April, 2002

Contribution to the IMF Seminar on Current Developments in Monetary and Financial Law, Washington, D.C., May 7-17, 2002

## Introduction

Central banks in many countries are currently, or have been, in the process of transforming themselves to independence or autonomy from political bodies while performing monetary policy and related tasks. This is a development that is underpinned by a uniform view among the vast majority of renowned macroeconomists around the world that monetary policy tasks are most efficiently conducted by independent or autonomous central banks. It is based on the assumption, supported by experience and research over at least two decades, that political bodies in modern democracies often experience difficulties in resisting pressure preventing them from taking unpopular but long-term economically favourable monetary policy decisions.

This view is also widely accepted in most countries by political establishments. It entails, however, that the statutes of the central bank need to undergo fundamental amendments by

Parliament and/or Government. As the Government in many countries is considered by the general public to be politically responsible for any public sector agency, it may be difficult to gather sufficient political support for legislative amendments giving away political power over the central bank and making it independent from political bodies. The political authorities will no longer have control over the central bank but will still, in the mind of the electorate, be politically responsible for any of its actions or non-actions. Independence must be counterbalanced by accountability. One of the main issues discussed with regard to central bank independence is where to strike the proper balance between independence and accountability. Like the laws applied by the courts of justice, the central bank law should explicitly state a clear statutory objective (e.g.price stability) but also give the central bank independence to take all necessary decisions to formulate and implement the monetary policy to attain that objective. This power delegated to it must, however, be counterbalanced by accountability. The central bank must not become "a state within the state".

Central bank statutes or laws are currently under review in many countries where such a proper balance is discussed. In the following, the concept of a Supervisory Board, that exists in some countries is examined as a possible mechanism to provide for a good balance between central bank independence and accountability.

**Some Major Features of Central Bank Independence**

According to international standards and practices the major features of central bank independence are divided into four categories: institutional, personal, functional and financial. Some features of the categories are listed as follows.

(i) Institutional independence

A prohibition for the central bank from seeking or taking instructions from outside sources, complemented by a prohibition for political authorities from issuing instructions to the central bank, on main monetary policy tasks, such as: to define and implement monetary policy, to conduct foreign exhange operations, to hold and manage the foreign reserves and to promote the smooth operation of payment systems. By instructions is to be understood only binding statements. It does not prevent open discussions in Parliament or with any other bodies or individuals on monetary policy issues. On the contrary, open monetary policy discussions are welcomed. The central bank management is encouraged to take active part in such discussions, presenting arguments for its views on how the price stability objective should be attained, justifying itself and listening to the opinions of other people or groups of people in society. But it should remain autonomous and take its monetary policy decisions on how to attain its statutory price stability objective independently. Is this democratically acceptable? Of course it is. If Parliament feels that monetary policy should be guided by another statutory objective, all it has to do is to amend the central bank law strictly observing, however, proper procedures on openness, etc.

There should be no right for outside parties to approve, suspend, annul or defer decisions by the central bank.

Participation by representatives of other bodies in the decision-making bodies of the central bank is acceptable only if they have no right to vote.

There should be no statutory obligation for the central bank to consult (ex ante) with political authorities on central bank issues. This does not prevent, however, a dialogue between the central bank and political authorities, provided it does not result in interference with the independence of members of the decision-making bodies of the central bank.

(ii) Personal independence

The minimum term of office for the members of the decision-making bodies of the central bank shall exceed the term of office of Parliament between general elections and shall be at least five years.

The Governor and other members of the decision-making bodies of the central bank shall be protected against dismissal on discretionary grounds. Dismissal is only permitted if the person no longer fulfils the conditions required for the performance of his duties, laid down in law, or if the person is judged guilty of serious misconduct (criminality). The reasons for dismissal shall be published. Such a dismissed person shall have the right to have the Supreme Court examine the legality of the decision and to declare it, if required, nul and void.

Membership of a decision-making body is incompatible with the exercise of other functions which might create a conflict of interest.

(iii) Functional independence

There shall be a statutory objective to ensure or maintain price stability. If other objectives are also mentioned, price stability shall be the primary objective.

The implementation of monetary policy by application of monetary instruments available by law shall be taken independently from outside parties.

Another feature that may be put into this category, is the crucial prohibition against central bank lending to the Government, both centrally and locally. This prohibition includes both advances and credits as well as purchases by the central bank of Government securities on the primary market. This does not, however, prevent the central bank from purchasing Government securities on the secondary market at market rates for monetary policy purposes.

All central bank lending shall furthermore, as a matter of principle, be made against adequate collateral.

(iv) Financial independence

The budget of the central bank shall be adopted by the central bank itself and shall not require approval by political authorities.

The central bank shall be in a position to avail itself of appropriate economic means to fulfil its mandate properly. Rules governing the distribution of profits shall be stated in a transparent and foreseeable manner. This does not exclude that profits, or parts thereof, are appropriated to the Government budget.

**Central Bank Accountability and Transparency**

Accountability and transparency  go hand in hand with central bank independence according to international standards and practices. Broader competence to make decisions by the central bank requires increased accountability and enhanced transparency. The credibility and the legitimacy of the central bank are fundamental to the central bank´s ability to function efficiently and to preserve its position as an independent institution worthy of the independent nature delegated and entrusted to it. Some of the major features are as follows.

(i) Accountability

An annual report shall be submitted to the proper political authorities on last year´s performance and which should comprise not only the accounting of the central bank such as the balance sheet and the profit and loss account, but also include a report qualifying whether and how the statutory objectives have been attained. In addition, quarterly reports and a report on the prospects for the coming year should also be submitted. Such reporting shall be complemented by oral hearings of the Governor and other members of the decision-making body at least once or twice a year. In order to strengthen the accountability of the central bank it is further essential to make necessary arrangements for external auditing procedures according to high international standards by auditors experienced in auditing central banks.

(ii) Transparency

In order to strengthen the central bank´s credibility accounting procedures shall meet high standards and be in conformity with good international standards for central banks to ensure public availability to correct and complete data on the central bank´s financial status. Moreover, public information shall be made more readily available by publishing regular reports on the basis on which monetary policy decisions are taken and how the central bank evaluates the prevailing situation regarding financial stability. Transparency on monetary policy issues may further be enhanced by making the deliberations of the decision-making body public by publishing the minutes of its meetings after a certain delay. The central bank shall further be encouraged to publish or make available upon request to the extent possible, taking into account the central bank´s objectively legitimate interests, any documents on the activities of the central bank. The Governor and other members of the decision-making body shall be encouraged to participate in public discussions on monetary policy issues and to invite outside parties as representatives of, for example, the public sector, the business community, academia and the mass media to contribute to the discussion on monetary and financial stability policies conducted by the central bank.

**The Credibility and the Legitimacy of the Central Bank**

The credibility and the legitimacy of the central bank are perhaps its most major assets. Weak credibility or a lack of legitimacy would make it, in fact, impossible for the central bank to achieve its objectives efficiently. The use of the instruments at its disposal would not meet what would have been expected response in normal circumstances and the central bank would in fact risk becoming, to some extent, a lame duck.

The scope of the central bank´s ability to maintain price stability and to efficiently promote financial stability in the country depends upon its credibility and legitimacy. If it is considered to act professionally and with best competence, its actions will be trusted, understood and accepted by key institutions in the society such as the trade unions, employers and the business and financial community. Their reaction to its monetary policy decisions will be in line with its macroeconomic forecasts. If, on the other hand, this is not the case, the central bank has a major problem. In a situation where there are doubts regarding the ability of the central bank to conduct an anti-inflationary monetary policy, the interest rates will be higher than they would have otherwise been as investors need to require an interest rate margin to compensate them from anticipated future inflation rates. If this happens, the only real option is often for the Governor and other members of the central bank management to step down. The central bank is hampered by lack of sufficient credibility and its management would, ultimately, need to allow the political authorities to appoint other people to manage the central bank in order to restore its credibility and to make it work efficiently again. The statutory option to formally dismiss the Governor and his colleagues is therefore not expected to be frequently used in many countries.

For this reason, the accountability and the transparency of the central bank are, on the one hand, closely linked and, on the other, important both in themselves and to counterbalance the independent nature of an autonomous central bank. An open and transparent central bank will allow itself to be publicly scrutinized, its policies assessed and its credibility, as a consequence if so deserved, to be strengthened.

**A Tool to Strengthen Accountability and Transparency?**

Political establishments in most countries may accept the loss of some of their power within the area of monetary and financial policy by delegating their power over monetary policy to the central bank. If monetary policy issues are accepted by all political parties to be put out of the political arena, such issues will no longer be a useful tool in the political domestic debate.

This is also valid in most countries where the governance structure entails the Ministrer holding political responsibility for any decision by an agency under his ministry. Such a structure makes it necessary for the Minister of Finance to closely monitor the central bank, like any other agency under the Ministry of Finance, and to give his ex ante approval to major monetary policy decisions. If the central bank is transformed into an independent institution, the Minister would need to step back from his decision-making role for the central bank. He may still, in the eyes of the general public, for some time be considered politically responsible also for the decisions by an independent central bank. But over time, the general public may be expected to understand that the Government is no longer politically responsible for the decisions by the autonomous central bank. Like the courts, the central bank will make its decisions independently applying the law and within the statutory limits as specified by the Parliament. The Government is widely accepted not to be blamed for unpopular sentences by the courts, which are to apply the laws independently from the Government. Legal matters are to be decided by the courts. If the courts apply the law contrary to public sentiments, the laws should be amended, not the independence of the courts. Similarily, Governments are not to be made responsible for monetary policy decisions by independent central banks. The political tool to change the policy pursued by the central bank is identical to the legal instrument by which future decision-making by the courts is to be amended, namely by legislation. In such a process, which- shall be open and transparent, the issues are thoroughly discussed and a decision by Parliament is ultimately reached in accordance with normal democratic principles.

Any deviation from major international standards and practices for independent central banks, for example the primary price stability objective or other amendment weakening independence, might be harmful to the central bank´s credibility, domestically and abroad, implying a prohibitive cost and is therefore not a realistic option for the political authorities. What is obvious is, of course, the need to select the right people to govern the central bank who are acceptable to all main political parties. They should be selected not on political but on professional grounds only widely appreciated on the basis of their competences and personal merits. The appointment procedure is important and its efficiency as an accountability tool may be further enhanced by staggered terms of office for the Governor and the other Bank Board members, allowing for more frequent assessments of their performance. It would in addition strengthen the continuity of the management of the central bank which, is also essential.

The establishment of a Supervisory Board might be another useful mechanism in some countries to further monitor the management of the central bank and to increase its accountability.

**The Supervisory Board Option**

For the above mentioned reasons, additional tools to strengthen the accountability of the central bank may merit analysis. Supervisory Boards might serve such a purpose.

In some central banks Supervisory Boards have been established in order to increase transparency and accountability, although not necessarily with the explicit aim of counterbalancing the independence of the central bank. The reasons are more often to be found in the history of the central bank or in the governance structure of stock corporations in those jurisdictions.

Supervisory Board is to be understood in the following as a board consisting of outside representatives of the owners of the central bank, be it parliamentarians or other representatives of the "owners" of the central bank as part of the public sector agencies or legally formed as a public sector stock corporation.

The role of a Supervisory Board may differ from country to country but a common purpose is to increase the monitoring by its members of the management of the central bank and to provide the owners of the central bank with reports on its findings. This may be enhanced by empowering the Supervisory Board with authorities to, for example, appoint or nominate the Governor and other Bank Board members, determine the salaries and other employment benefits of the Bank Board members and to determine the budget, the organisation and the accountancy principles to be applied.

**Some Illustrative Examples**

As indicated above, existing Supervisory Board structures can be found in countries where historic or traditional reasons may explain this option to have been adopted.

That is the case in Northern Europe where the Swedish central bank, founded in 1668, has from its establishment been an agency directly under the Parliament and not under the Government (formerly the King). As Parliaments do not normally have at their disposal an appropriate organisation nor staff to handle and administer an agency such as the central bank - its primary task is after all to discuss law proposals and to adopt laws - the administration of the central bank has been organised in various ways over the years. At first, a Standing Bank Committee within the Parliament was responsible for the administration of the central bank, later a Governing Board consisting of parliamentarians was established, meeting normally once a week, with an Executive Board meeting more frequently where two members of the Governing Board were members together with the Governor and the Deputy Governor. A new structure is now in place since 1999 as a result of Sweden´s EU membership and ensuing from its obligations according to the Maastricht Treaty to make its central bank independent.

Supervisory Boards exist also in some other countries where a central bank has been established as a stock corporation, the shareholders of which are often the Government together with local governments, business organisations etc. and where supervisory boards are customary according to the company laws in those jurisdictions.

In the following the management structure of some of those central banks in Europe are described (in alphabetical order).

These descriptions are based on the published but often unauthorised translation into English of the law of each central bank. It should be noted that all functions of a supervisory board may not be specified by law, the degree of statutory specification may differ from one jurisdiction to another. Additional functions or competences may be regulated elsewhere, as company laws or the central bank´s rules of procedure. Moreover, certain functions may not necessarily be regulated in any statutory form. The following therefore cannot with certainty be considered a comprehensive description of the current system at each of the central banks upon which an evaluation can be made. Such an assessment would call for a thorough investigation that has not been possible in this context.

***National Bank of Belgium***

The organs of the National Bank of Belgium, which is a limited company, are the Governor, the Board of Directors, the Council of Regency and the Board of Censors.

The Board of Directors

The Board, which consists of the Governor and 5-7 Directors, is responsible for the administration and management of the Bank and shall decide on, inter alia, the direction of its policy. Its members are appointed and can be dismissed by the King.

As Belgium is a member state of the euro-area, the Board takes no monetary policy decisions; the Governor is a member of and takes part in the decision-making of the ECB Governing Council.

The Council of Regency

The Council consists of ten regents together with the Governor and the Directors. It shall "exchange views on general questions concerning the Bank, monetary policy and the economic situation of the country and the European Community" and "it shall take cognisance every month of the situation of the institution". Its other tasks include the adoption of internal regulations containing the basic rules for the operation of the Bank´s organs and the organisation of its departments, services and outside offices. Furthermore, it shall decide on the individual salaries and pensions of the members of the Board of Directors, approve the expenditure budget and the annual accounts and determine the distribution of profits proposed by the Board. The Council makes proposals for the appointment of the members of the Board of Directors, except the Governor.

The ten regents are appointed by the General Meeting of shareholders upon proposal by the Minister of Finance (5 persons),  by labour organisations (2 persons) and by organisations from industry and commerce, agriculture and small firms and traders (3 persons).

Comment

The Council of Regency is a decision-making body with supervisory tasks (Supervisory Board), the majority of its members are outside representatives of the Bank´s shareholders with certain powers to influence the organisation of the Bank, to determine the budget and the distribution of its profits etc.

***Danmarks Nationalbank (The National Bank of Denmark)***

The management of the Bank is committed to a Board of Directors, a Committee of Directors and a Board of Governors.

The Board of Governors

The Board of Governors consists of three members appointed by the Board of Directors, the chairman is nominated by the King and the two other Governors are appointed upon recommendation by the Committee of Directors.

The Board of Governors is responsible for the daily management of the Bank. As Denmark is not a member state of the euro-area, the Governor takes no part in the decision-making of the ECB Governing Council.

The Board of Directors

The Board of Directors consists of 25 members (eight members of Parliament, one economist and one lawyer and fifteen other members with a thorough knowledge of trade) and shall meet once, at least, every three months. No person in the service of the Bank may be a member of the Board.

All matters of special importance which may be considered outside the domain of daily management shall, to the greatest extent possible, be submitted to the Board of Directors. The Board shall explicitly supervise that the rules governing the functions of the Bank are observed. Its other tasks include the election of two Governors, the adoption of By-laws of the Bank, the decision to establish or close branches, the setting of the salaries of the Bank´s staff, including those of the Governors, the examination of the annual accounts and the determination of the application of the annual profit.

The Committee of Directors

The Committee of Directors is a body where seven members of the Board of Directors are members and shall meet, at least, once a month.

As the Board of Directors meets less frequently, the Committee of Directors has been established to keep itself informed as regards the more important functions of the Bank. The Committee of Directors and the Board of Governors shall mutually negotiate and deliberate on matters which are of a more general importance for the functions of the Bank. Any matter to be placed before the Board of Directors shall first be submitted to the Committee of Directors. The Committee´s other tasks include examination of the Bank´s assets and liabilities, checking that writing-offs and allocations are being rendered in accordance with proper and cautious practices and the negotiation with the Royal Bank-Commissioner concerning the application of the yearly profits of the Bank.

Comment

The Board of Directors and the Committee of Directors are bodies with supervisory tasks (Supervisory Boards) in relation to the Board of Governors and they have also been entrusted with certain decision-making power, as for example, to appoint two Governors and to determine their salaries. One of the main objectives of the Board and the Committee seems, however, to be to provide a meeting place between representatives of the owner and the Board of Governors where views on monetary policy and other functions of the Bank can be exchanged.

***Bank of Finland***

The Bank of Finland´s governing bodies are the Parliamentary Supervisory Council and the Board and the Bank operates under the supervision of Parliament.

The Board

The Board consists of the Chairman (the Governor of the Bank of Finland) and up to five other members  appointed by the President of the Republic. The Board is responsible for the administration of the Bank and for the execution of the tasks assigned to it. It shall provide the Parliamentary Supervisory Council with information on a regular basis concerning the execution of monetary policy and other activities of the Bank.

As Finland is a member state of the euro area, the Board takes no monetary policy decisions; the Governor is a member of, and takes part in the decision-making of, the ECB Governing Council.

The Parliamentary Supervisory Council

The Parliamentary Supervisory Council, which supervises the administration and the activities of the Bank of Finland, consists of nine members elected by Parliament. Some of the main tasks of the Council include:

- making proposals to the Council of State on the filling of positions as members of the Board;
- deciding on the issuance of warnings, in respect of the Bank´s administration, to members of the Board;
- deciding on the principles for determining the salaries, leaves of absence and annual leaves of Board members;
- appointing the Deputy Chairman of the Board and, upon proposal by the Board, directors of the Bank;
- confirming, upon proposal by the Board, the basic accounting principles as well as the Bank´s balance sheet and profit and loss account; and
- reporting annually and as necessary to Parliament on the Bank´s activities and administration.

The members of the Parliamentary Supervisory Council and the appropriate Committee of Parliament are entitled to receive the information needed for the supervision of the operations of the Bank. The Board members are entitled to be present and to be heard at meetings of the Council.

Comment

The Parliamentary Supervisory Committee has been entrusted a broad supervisory role in its relations with the Board (Supervisory Board). It appoints the Deputy Chairman of the Board, may issue warnings, proposes candidates as Board members and decides the principles for determining their salaries etc. It submits regular reports to Parliament which, on the basis of these, may take legislative action.

***De Nederlandsche Bank N.V. (The Dutch Central Bank)***

De Nederlandsche Bank is a limited company with a Governing Board, a Supervisory Board and a Bank Council.

The Governing Board

The Governing Board is responsible for managing the Bank and consists of the President and at least three and at most five Executive Directors, all appointed by Royal Decree.

As the Netherlands is a member state of the euro area, the Board takes no monetary policy decisions; the President is a member of and takes part in the decision-making of the ECB Governing Council.

The Supervisory Board

The Supervisory Board consists of 9-12 members, one of which is appointed by the Government and the other members by the shareholders. The Supervisory Board supervises the management of the Bank´s affairs and adopts the annual accounts to be approved by the shareholders. The member appointed by the Government may request information from the Governing  Board, that is not confidential, and communicate his findings about the manner in which the Bank performs its tasks to the Minister of Finance. The Supervisory Board, at a joint meeting with the Governing Board, nominates three persons for each vacancy to be filled on the Governing Board.

The Bank Council

The Bank Council consists of 11-13 members, two of which are members of the Supervisory Council (the Government representative and one other member) and the other members are appointed by the Bank Council. The Governing Board and the Treasurer-General shall attend the meetings of the Bank Council and may take part in the deliberations.

The President of the Governing Board shall report to the Bank Council on the general economic and financial situation and shall discuss the policy conducted by the Bank with the

Bank Council. Other matters raised by one or more of the members in connection with the Bank´s objectives, tasks and activities may also be discussed.

Comment

The management of the Bank is supervised by the Supervisory Council,  but it has not been empowered to take formal decisions such as appointment of members of the Governing Board, determination of their salaries etc. It is, however, involved in the nomination of candidates to Governing Board positions.  Its main function is to receive reports by the President and to ensure that additional non-confidential information from the Bank management is submitted to the Government representative. The Bank Council has similar functions.

***Norges Bank (The Central Bank of Norway)***

The supreme authority in the Bank is vested in an Executive Board and a Supervisory Council.  The Bank shall conduct its operations in accordance with the economic policy guidelines drawn up by the government authorities and with the country´s international commitments. Before making any decision of special importance, the Bank shall submit the matter to a ministry  designated by Government, in practice the Ministry of Finance.

The Executive Board

The Executive Board consists of seven members appointed by the King who also determines their remuneration and pension benefits. At discussions on administrative matters, two additional members elected by and from the employees supplement the Executive Board.

The Executive Board is in charge of the Bank´s operations and manages its funds. The Governor is in charge of the Bank´s administration and the implementation of the decisions.

The Supervisory Council

The Supervisory Council consists of fifteen members elected by Parliament. Members of Parliament together with Government ministers, state secretaries and other political staff in ministries are not eligible as members of the Supervisory Council. The remuneration of the Council members are laid down by the King.

The Supervisory Council ensures that the rules governing the operations of the Bank are observed. It organises the auditing of the Bank and draws up instructions for the Auditing Department. It adopts the annual accounts and, upon  proposal by the Executive Board, approves the budget. The Council may decide that the production of banknotes and coin or other commercial activity within the scope of the law shall be performed by companies wholly or partly owned by the Bank; such companies are also supervised by the Council. It shall further establish and close branches of the Bank. The Supervisory Council issues a statement on the minutes of the meetings of the Executive Board and on matters submitted to it by the Executive Board. The budget is approved by the Supervisory Council which also adopts the annual accounts. The annual report and the audited annual accounts together with a statement on the minutes of meetings of the Executive Board are sent by the Supervisory Council to the Ministry for submission to the King and communication to Parliament. The Ministry reports to Parliament concerning the activities of the Bank.

Members of the Executive Board are normally entitled, the Governor and the Deputy Governor obliged, to be present and to state their opinion at meetings of the Supervisory Council.

Comment

Norway is not a member state of the European Union and of the euro-area. Its central bank is not, at present, independent from the Government according to international standards. It has however a Supervisory Council appointed by Parliament with certain decision-making powers.

***Oesterreichische Nationalbank (The Austrian National Bank)***

The Oesterreichische Nationalbank is a stock corporation that is the central bank of Austria. Its main decision-making bodies are the General Meeting, the General Council and the Governing Board.

The Governing Board

The Governing Board, which comprises the Governor, the Vice Governor and two other members all appointed by the Federal President, is responsible for the overall running of the Bank and shall conduct the business of the Bank.

As Austria is a member state of the euro area, the Board takes no monetary policy decisions; the Governor is a member of,and takes part in the decision-making of, the ECB Governing Council.

The General Council

The General Council consists of fourteen members. The President, the Vice President and six other members are appointed by the Federal Government and the other members are elected by the General Meeting. In negotiations on personnel, social and welfare matters, two representatives of the employees are entitled to participate. The Council meets normally once a month.

The General Council is charged with the supervision of all business not falling within the remit of the European System of Central Banks. It shall advise (observing an explicit prohibition against instructions in the National Bank Act) the Governing Board in the conduct of the Bank´s business and in matters of monetary policy. Such joint meetings take place at least once each quarter.

The approval of the Council is required for, inter alia, starting and discontinuing lines of business, establishing and closing down branch offices, acquiring, selling participating interests and real property and appointing members of supervisory boards and executive bodies of companies of which the Bank is a shareholder.

The General Council decides, inter alia, on proposals to the Federal Government for appointments to the Governing Board by the Federal President, conditions of employment for the members of the Governing Board, the annual accounts for submission to the General Meeting and the approval of cost estimates for the next financial year as well as the rules of procedure for the General Council and the Governing Board.

The General Meeting

The General Meeting of shareholders receives a report from the General Council on the conduct of business during the previous financial year, approves the annual accounts and grants exoneration to the General Council and the Governing Board, decides on the allocation of profits, appoints Auditors, elects six members of the General Council, removes, if necessary, members of the General Council from office and fixes the remuneration of the President and Vice President of the General Council.

Comment

The General Council has supervisory functions over all business not falling within the remit of the European System of Central Banks (Supervisory Board). It comprises representatives of the shareholders and reports to the General Meeting. The Council has a key role in the appointment procedure of members of the Governing Board and determines the employment conditions of the Board members.

***Sveriges Riksbank (The Swedish Central Bank)***

Sveriges Riksbank (the Riksbank), which is an agency under Parliament, is managed by the Executive Board and the General Council (Supervisory Board).

The Executive Board

The Executive Board, which consists of six members appointed by the General Council, manages the Riksbank. The chairman and deputy chairman of the General Council may attend at meetings of the Executive Board but are not entitled to make proposals nor to vote.

As Sweden is not a member state of the euro area, the Governor takes no part in the decision-making of the ECB Governing Council.

The Executive Board decides on, inter alia, monetary and foreign exchange policy measures, guidelines for the management of the foreign reserves, inflation and financial stability reports, operational plan, budget and the annual report. The minutes of meetings, where monetary policy matters are discussed, are published with a delay of, normally, about two weeks.

The General Council

The General Council consists of eleven members appointed by Parliament and reflecting the strength of the main political parties at the latest general election to Parliament. Its main function is to appoint (and, if necessary, to dismiss) the members of the Executive Board and to determine their salaries and other employment benefits.

The other tasks of the General Council include adoption of the Working Order of the Bank, proposals to Parliament and to the Office of the Parliamentary Auditors on the allocation of the Riksbank´s profits, the design of banknotes and coins and the management of the operations of the Audit Unit reporting to it. Moreover, the General Council has a controlling function by, for example, monitoring operations in the Riksbank and requesting that members of the Executive Board present reports at meetings of the General Council.

The General Council normally meets once a month. Members of the Executive Board are normally present at meetings except on deliberations and decisions affecting the Board members personally.

Comment

Empowered to appoint (and dismiss) the members of the Executive Board together with its controlling function, the General Council has an important role as a body supervising the activities of the Executive Board on behalf of Parliament as the "owner" of the Riksbank (Supervisory Board).

***The Swiss National Bank***

The Swiss National Bank is a joint-stock company with a Governing Board and the following supervisory and controlling bodies: the General Meeting of Shareholders, the Bank Council, the Bank Committee, the Local Committees and the Auditing Committee.

<u>The Governing Board</u>

The Bank´s top managing and executive body is the Governing Board. It decides, in the case of matters of basic significance after consultation with the Federal Government, on monetary policy. Its three members, who are at the same time the heads of the three departments, are elected by the Federal Government on the recommendation of the Bank Council.

<u>The General Meeting</u>

The tasks of the General Meeting are those as specified in the company law but, owing to the Bank´s public mandate, the powers of the General Meeting are not as extensive as those of ordinary Swiss joint-stock companies.

<u>The Bank Council</u>

The Bank Council´s main function is the general supervision of the progress and conduct of business. Its quarterly meetings provide the Governing Board with the opportunity of elaborating and justifying its policy in detail and engaging in a valuable exchange of views. The Bank Council consists of forty members representing various sectors of the economy and the different regions. Fifteen of these forty members are elected by the General Meeting and twenty-five, including the President and Vice-President, by the Federal Government.

### The Bank Committee

The Bank Committee is responsible, as a body delegated by the Bank Council, for the close supervision and control of the Bank´s management. It discusses in advance all matters to be dealt with by the Bank Council. It is also entitled to participate in the fixing of the official discount and Lombard rates. The Bank Committee consists of the President and Vice-President of the Bank Council and eight members of the Bank Council appointed by it. It meets, as a rule, once a month.

### The Auditing Committee

The Auditing Committee inspects the annual accounts and balance sheet. It is elected by the General Meeting and consists of three members and three substitutes.

### The Local Committees

The Local Committees are assigned to the Bank´s head offices and branches and consist of three representatives of the local business community elected by the Bank Council. They discuss the regional economic situation with the Bank´s management and give advice on credit assessments.

Comments

The Bank Council is the main supervisory body but considering its size of forty members, the most important body is presumably the Bank Committee the powers of which have been delegated to it by the Bank Council and which meets more frequently. The Bank Council and the Bank Committee (Supervisory Boards) are both representatives of the shareholders reporting to the General Meeting of Shareholders.

Switzerland is not a member state of the European Union nor of the euro area. Its central bank is not, at present, independent from the Government according to international standards. It has, however, several supervisory and controlling bodies consisting of representatives of its owners.

**Merits of a Supervisory Board**

From the above description of examples of Supervisory Boards in some European central banks one conclusion that may be drawn is that the concept is not identically designed in all countries. In fact, it varies quite a lot from country to country. There is no one-size-fits-all. It does not need to be, it may be customized to the requisites of each country´s traditions and legal structure.

What it brings to the procedural structure, however, in all of those countries is a platform for an open and regular dialogue between the management of the central bank (Bank Board) and representatives of its owner (Supervisory Board).

One of the major tasks of a central bank that is rarely, if ever, explicitly mentioned in its law or statutes but which lies behind many of the international standards and practices for central bank legislation on independent central banks, is to inform its owners and the general public on, for example:

(i) what its functions are;

(ii) why price and financial stability are important to economic growth and beneficial to all groups of society, in particular the poor and those with fixed salaries or pensions;

(iii) why the central bank should operate independently from political authorities;

(iv) how it operates to ensure price stability, financial stability and an efficient and safe payment system;

(v) what the purposes are of its domestic and foreign assets;

(vi) why its operations are not conducted to maximise profit;

(vii) why high central bank profits are not necessarily a good thing, it might be a sign of poorly conducted monetary policy detrimental to the external value of the currency; and

(viii) what happens to its profits.

It should further make clear that it operates in accordance with the powers delegated and entrusted to it by the legislator. If the legislator would wish it to fulfil other goals than price and financial stability, it will do so but only after due amendment of its law.

Those are examples of issues that require explanation by the central bank to reduce the perception of an independent central bank, that may exist, as "a state within the state". As mentioned earlier, the credibility and legitimacy of the central bank are fundamental to the bank´s ability to function properly and increased credibility and legitimacy require the central bank to explain and to justify itself and the monetary policy conducted.

It is important to remember that the power to take monetary policy decisions independently is delegated to an independent central bank by the legislator and that the delegation can be withdrawn by legislation at any time. Only if its functions and deliberations are properly understood and accepted, can the central bank be trusted by the legislator to independently be responsible for monetary policy issues. It is therefore vital for the central bank to explain its activities and to gain necessary political and public support for the manner by which it handles its statutory mandate to maintain price and financial stability. Open and direct communication with the legislator is therefore essential for the management of the central bank. Supervisory Board meetings, where such issues can be explained and justified, may be an additional tool to that end.

From the perspective of the "owners" of the central bank, a Supervisory Board may offer a useful possibility to monitor the management of the central bank, in particular as a possible means to inform oneself about the performance of individual Bank Board members. If not closely monitored, how could the "owner" better keep himself informed of the individual Bank Board members? This is particularly important where the Bank Board members can be re-elected and have staggered terms of office. In such cases, the members are individually assessed at regular intervals. The criteria for dismissal of Bank Board members during their term of office are, as explained above, restricted. Poor monetary policy performance is not one of them (with the exception of the New Zealand central bank). Considering the minimum term of office, at least five years, combined with the wide mandate and the independent nature of the central bank, the appointment and, if applicable, the reappointment of the Governor and his colleagues is one of the most important tasks of the owner. He needs to monitor how the central bank functions and to inform himself of the capabilities of each member. One way of obtaining the information needed that is being used in many central banks, is to have one or two representatives present at Bank Board meetings. This is acceptable according to international standards and practices provided they are not members of the board but attend the meetings only as non-voting observers. Another or additional manner by which such a monitoring structure may be further strengthened is to establish a Supervisory Board, the members of which are representatives of the owner.

**Impediments to a Supervisory Board**

The establishment of a Supervisory Board at the central bank should not necessarily be considered the best manner in which the owner can, through his representatives, monitor and assess the activities of the Governor and his colleagues. The Supervisory Board option might, however, be worth analysing while considering the management structure of an independent central bank. Existing Supervisory Board may not look the same in all countries but, in order to comply with international standards and practices for independent central banks, certain requirements must be observed analysing the Supervisory Board option.

The most important requirement is that the Supervisory Board must understand its role properly. It must abstain from influencing the monetary policy conducted by the central bank in conflict with the prohibition against instructions. This should not prevent open discussions on monetary policy issues with the Governor and other members of the Bank Board but the integrity of the central bank and of its Board members must be respected. If that requirement cannot be expected to be fully observed, there is no room for a Supervisory Board.

Another impediment to a Supervisory Board might be confidentiality. The purpose of a Supervisory Board as an effective means to improve a useful dialogue between the management of the central bank and its owners can only be attained if confidentiality issues have first been addressed. A confidentiality policy is essential. The level of confidentiality applied by the central bank and the degree by which the members of the Supervisory Board can be expected to observe such confidentiality restrictions might be found incompatible with the purposes of a Supervisory Board.

The scope of necessary confidentiality should be assessed and, perhaps, revaluated. Routine confidentiality is detrimental to transparency and accountability and should be abandoned. A level of confidentiality that is too high may constitute an impediment not only to an open and transparent dialogue and discussion between the Bank Board and the Supervisory Board but also to accountability and transparency of the central bank in its relations with, in addition to the political establishment, the media, academia, the financial institutions and the general public at large.

More specifically, as to the Supervisory Board, confidentiality might be a problem if its members cannot be expected to fully observe confidentiality restrictions that are to some degree necessary. If such restrictions are not fully observed, considerable damage could be inflicted upon the central bank. It might be financially damaged if this were to happen, but its reputation could also be seriously hurt, which might be even more damaging and difficult to effectively repair. This may in turn seriously reduce its credibility and thereby its ability to conduct monetary policy efficiently.

**Concluding Remarks**

Considering the above, the purpose of a Supervisory Board would seem to be most efficiently served

(i) if the Supervisory Board members are committed to respecting the prohibition against instructions to the Bank Board while conducting its monitoring tasks;

(ii) if the number of Supervisory Board members were determined, on the one hand, to sufficiently reflect the owner of the central bank and, on the other, to facilitate open and transparent discussions with the Bank Board members even on issues covered by confidentiality restrictions;

(iii) if such a Board were entrusted decision-making powers to appoint or recommend for appointment the Governor and the other Bank Board members at staggered intervals;

(iv) if one or two of its members were allowed to be present at Bank Board meetings as observers reporting its observations to the Supervisory Board; and

(v) if the confidentiality regime were restricted to an absolute minimum.

There is no organisational structure for independent central banks that is "one size fits all". The structure chosen needs to take account of the traditions and of the legal and political environment in each country. But while contemplating such a structure it might be useful to look into how central banks have been structured in some other countries. The concept of Supervisory Boards that exists in some European central banks, may offer a means by which increased accountability and strengthened transparency may be achieved to properly counterbalance the independence of an autonomous central bank.

The examples of Supervisory Boards described above are not mentioned here as recommendations but to briefly indicate where further inspiration may be found while establishing a structure that is best compatible with national traditions and needs. To fully understand the functions of a specific Supervisory Board, analysis of other statutory, and also non-statutory, legal sources is necessary. The central bank law or statutes alone cannot always be expected to sufficiently give a comprehensive account of the role of the Supervisory Board.