

International examples of governance structures at central banks

Prepared by the RBNZ

Executive summary: Most central banks have some form of oversight body, similar to a Board of Directors at a company, as an institutional watchdog. These boards typically serve as an agent of the Minister of Finance or Parliament and are responsible for traditional board functions, including oversight of: strategic plans, organisational structures, budgets, audit and risk, and remuneration policy. In addition, some boards have responsibilities specific to central banks including a role in nominating senior staff (Governors) or appointing members of policy committees (e.g. Monetary Policy Committee Members). Some Boards also have responsibility for evaluating policy decisions, either by ensuring that policy decisions are reached by following the necessary processes, or by evaluating the policy decision itself (perhaps with the aid of an Independent Evaluation Office as in the UK). In some cases, the line between Boards and policy-making committees is blurred, and the Board (or members of it) also have decision-making powers for monetary and financial policy decisions (as is the case in Australia and the US).

AUSTRALIA

Structure: The Reserve Bank Board comprises nine members: three *ex officio* members (the Governor, Deputy Governor and Secretary of the Treasury) and six non-executive members. The Governor and Deputy Governor are appointed for terms up to seven years and are eligible for reappointment. Non-executive members are appointed for terms of up to five years. There is no limit on the number of terms a member may serve and all appointments are made by the Treasury. The Reserve Bank also has a separate Payment Systems Board, which is responsible for overseeing the Bank's payments systems.

Responsibilities: The Reserve Bank Board has the power to determine the policy of the Bank in relation to any matter, other than its payments system policy, and to take such action as is necessary to ensure that effect is given by the Bank to the policy so determined. It is the duty of the Reserve Bank Board, within the limits of its powers, to ensure that the monetary and banking policy of the Bank is directed to the greatest advantage of the people of Australia and that the powers of the Bank under this Act and any other Act, other than the Payment Systems (Regulation) Act 1998 and the Payment Systems and Netting Act 1998, are exercised in such a manner as, in the opinion of the Reserve Bank Board, will best contribute to: the stability of the currency of Australia; the maintenance of full employment in Australia; and the economic prosperity and welfare of the people of Australia. As well as policymaking powers, non-executive members also serve on the Bank's Audit Committee and Remuneration Committee.

CANADA

Structure: The Bank of Canada's Board of Directors comprises fifteen members: the Governor, the Senior Deputy Governor, 12 independent directors and the Deputy Minister of Finance who serves as an *ex officio* non-voting member of the Board. Independent directors are appointed to three-year renewable terms by the Canadian Cabinet. The Governor and Deputy Governor are appointed for seven-year terms by the Board of Directors with the approval of the Cabinet.

Responsibilities: The Board of Directors provides general oversight of the management and administration of the Bank with respect to strategic planning, financial and accounting matters, risk management, human resources, and other internal policies. The Board also appoints the Governor and Deputy Governors with the approval of the Governor in Council (the Cabinet) and approves their terms of employment. Through the Human Resource & Compensation Committee and the Executive Committee, the Board also has oversight of the appointment of the Chief Operating Officer, receives quarterly reports concerning promotions and other changes for senior officers of the Bank and an annual report concerning staffing and employment matters.

CZECH REPUBLIC

Structure: The supreme governing body of the Czech National Bank is the Bank Board, which consists of seven members: the CNB Governor, two Vice-Governors and four other Bank Board members. All members are appointed by the President of the Czech Republic for a maximum of two 6-year terms.

Responsibilities: The Bank Board sets monetary and macroprudential policy and the instruments for implementing these policies. It decides upon the fundamental monetary and macroprudential policy measures of the Czech National Bank and measures in the area of financial market supervision. In addition, the Bank Board approves the CNB's budget, organisational structure, remuneration of Governors, and oversees staff management.

ICELAND

Structure: The Central Bank of Iceland's Supervisory Board comprises seven members elected by Parliament by proportional ballot for the term of government.

Responsibilities: The Supervisory Board is principally responsible for: overseeing the bank's internal audit, annual accounts, wage agreements with Bank employees, determining salaries and employment conditions of the Deputy Governor and members of the Monetary Policy Committee (MPC), and overseeing the monetary policy process and rationale for decisions. The Supervisory Board also has responsibility for approving the selection of internal executives to the MPC. One member of the Supervisory Board is also chosen to sit on a three-member panel to nominate candidates to become the Governor and Deputy Governor, who is then appointed by the Minister of Finance.

ISRAEL

Structure: The Bank of Israel is overseen by a Council of seven members: the Governor, Deputy Governor and five members from the public. Members of the public are appointed by the Government on recommendation of a Candidate Search Committee. The Governor is appointed by the President of the State on recommendation of the Government, and the Deputy Governor is appointed by the Government on recommendation of the Governor. Both the Governor and Deputy Governor serve five-year terms that are renewable once. Both the Governor and Deputy Governor also serve on the Monetary Policy Committee alongside four other members (an internal Bank employee, and three members of the public).

Responsibilities: The Council is like a Board of Directors of a firm with regard to supervision of the internal administration of the Bank (as opposed to setting policy). It is responsible for overseeing: the orderly and efficient management of the Bank; discussing the Bank's annual work plan; approving the annual budget and financial statements; salary terms of Bank employees; and appointing an internal auditor.

NEW ZEALAND

Structure: The Reserve Bank of New Zealand's Board of Directors consists of 5-7 non-executive directors appointed by the Minister and the Governor. Non-executive directors are appointed for a single term of up to 5 years.

Responsibilities: The primary function of the Board of Directors is a monitoring role – to review the performance of the Governor and the Bank. The Board holds regular meetings at which it receives extensive briefings on the Bank's activities, decisions and policies. At these meetings the Board also provides advice to the Governor. The Board, through an Audit Committee, also reviews the Bank's financial statements. Each year the Board writes an assessment of the Bank's and the Governor's performance, which is provided as advice to the Minister of Finance and made public later in the Bank's Annual Report. The Board also plays an important role in appointments (and dismissals). The Board nominates candidates to be appointed Governor (which are then appointed by the Minister of Finance) and can recommend the Governor be dismissed if they are underperforming. The Board is also consulted on the Governor's conditions of employment, including remuneration, which are determined by the Minister and the Governor. The Board is also responsible for appointing the Deputy Governor(s) on the recommendation of the Governor, determining the Deputy Governor's terms of employment, and dismissing the Deputy Governor (on recommendation of the Governor).

NORWAY

Structure: Currently the Norges Bank is overseen by a Supervisory Council comprised of 15 members. All members are appointed by the Storting (Norwegian Parliament) for 4-year terms that are renewable twice. However, in the 2017 review of the Norges Bank Act, an independent commission recommended that the Supervisory Council be replaced with a seven-member Board, comprising non-executive directors appointed by the Ministry of Finance. This proposed change is largely designed to clarify the lines of responsibility if there is a failure at the Norges Bank. At present, it is unclear whether the Minister of Finance or the Storting (who appoint the Supervisory Council) are responsible for failures at the Bank.

Responsibilities: Under the current model, the Supervisory Council acts on behalf of Parliament to supervise the Norges Bank's Executive Board (the eight member group responsible for monetary policy decisions and the day-to-day running of the Bank) to ensure that the Board's management and control of the Bank's administration and operations are satisfactory and that appropriate procedures have been established to ensure that the Bank's activities are conducted in accordance with legislation, agreements, decisions and other regulatory frameworks. The Supervisory Council elects the external auditor, adopts the annual accounts, approves the budget, and submits an annual report to the Storting of its supervision of the Bank. The proposed 2017 reform to this model would largely see the oversight role of the Supervisory Council transferred to a more-traditional Board of non-executive directors.

SWEDEN

Structure: The Riksbank is overseen by a General Council of eleven individuals who are appointed by the Swedish Parliament for a 4-year period corresponding to the general election cycle.

Responsibilities: The General Council is responsible for appointing the six members of the Riksbank Executive Board including the Governor (who are responsible for the Bank's entire operation, including monetary policy, financial stability, market operations, the payment system, administration

and budget). The Chair and Vice Chair of the General Council have the right to attend Executive Board meetings but not the right to vote or make proposals. As well as appointing Executive Board members, the General Council also decides on their salaries, terms of employment and has the power to dismiss (subject to an appeals process). It also decides on the design of banknotes and coins. In consultation with the Executive Board, the General Council may also present statutory amendments to the Government and propose how Riksbank's profits should be allocated. The General Council also has its own audit unit which examines how the Executive Board members discharge their duties.

SWITZERLAND

Structure: The Swiss National Bank is overseen by a Bank Council, which comprises eleven members. Five members are elected by the SNB's shareholders (as the SNB is a joint-stock company) and six by the Federal Council (Swiss Cabinet). Members are appointed for four year terms, renewable up to twice. All have an education in economics and a comprehensive understanding of how Swiss and foreign financial markets operate. To ensure adequate representation, appointments are partly based on gender, regional/language criteria and experience – typically a third of Council members are made up of individuals from each of three areas: business, academia and politics.

Responsibilities: The function of the Bank Council is to oversee and control the conduct of business by the SNB. The Bank Council has a number of sub-committees: audit, risk, compensation, and nominations. The Council is responsible for nominating candidates to the 3-member Governing Board (the group responsible for making monetary policy decisions) as well as their three deputies. Recommendations are then decided by the Federal Council (Cabinet). The Council also decides on the employment, promotion and dismissal of directors within the SNB. And the Council is responsible for: approving the annual report and accounts; approving the distribution of profits; deciding on the design of banknotes; assessing the management of credit and market risk; determining the SNB's basic organisation structure; oversees the SNB's financial accounts and reporting.

UNITED KINGDOM

Structure: The Bank of England is overseen by a Court of twelve individuals, comprising five officials (the Governor and four Deputy Governors) and seven non-executive directors. All appointments are made by the Crown on recommendation of the Prime Minister and Chancellor. The Governor serves a single term of 8-years, Deputy Governors serve renewable terms of 5-years and non-executive directors serve renewable terms of up to 4 years.

Responsibilities: The Court oversees the Bank's strategy and is responsible for approving the Bank's budget, allocation of resources, appointment of auditors, remuneration of the most senior staff (i.e. Governors and MPC and FPC members), and pay policies throughout the Bank. All senior internal appointments are also subject to Court approval. The seven non-executive directors also appoint and serve on an audit and risk committee, remuneration committee, sealing committee (which identifies when the Bank's official seal can be used) and a nominations committee. Non-Executive Directors also sit on an Oversight Committee which is responsible for overseeing not just the process but also the performance of the Bank. To perform this oversight role, the Court recently established an Independent Evaluation Office which sits inside the Bank but is independent of it, and serves as a policy evaluation function reporting to the Court.

UNITED STATES

Structure: The US Federal Reserve system is overseen by a Board of Governors comprised of seven individuals who are each appointed for 14 year terms. Governors are nominated by the President of the United States and confirmed by the Senate.

Responsibilities: The Board of Governors oversees the operations of the 12 Regional Federal Reserve Banks, including their budgets, and shares with them the responsibility for supervising and regulating certain financial institutions and activities. The Board also provides general guidance, direction, and oversight when the Reserve Banks lend to depository institutions and when the Fed provides financial services to depository institutions and the federal government. Each Governor is also a voting member of the 12-member Federal Open Markets Committee (FOMC), which has delegated responsibility for monetary policy decisions. The Board of Governors is also responsible for approving the appointments of the twelve regional Reserve Bank Presidents, who make up the other 5 members of the FOMC (on a rotating basis).

In addition to the Board of Governors, each of the twelve regional Federal Reserve Banks has its own Board of Directors. These boards comprise six non-executive directors (three representatives of commercial banks and three representatives of the public) and are responsible for overseeing the administration and governance of each regional Fed, overseeing the Audit process and developing broad strategic goals and directions. They also have a role in nominating potential candidates to lead each regional reserve bank (in the role of president), who are then approved by the Board of Governors.

