

The Tricks of the Trade of Central Bank Governance – Report on the Central Banking Conference on the Governance of Central Banks*

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Central Banking Publications held a four-day conference on central bank governance from 28 April to 1 May 2015 in Windsor, United Kingdom. The conference, entitled “Central Bank Governance: The Role of the Board” was one of the events in an annual series organised by Central Banking Publications, and was comprised of presentations and subsequent discussions. Focussing on the governance of central banks and the responsibilities and tasks of the board, the conference discussed the changing role and functions of central banks, the operation and structure of the board and various related practices, the supervisory tasks of central banks, as well as the opportunities for and importance of improving relations with stakeholders.

In her presentation, *Grace Koshie*, former chief general manager and secretary to the board at the Reserve Bank of India, pointed out that central banks and their activities are rapidly changing, their responsibilities are growing, and there is ever greater demand for their accountability. It is evident that the governance structures of central banks must keep up with this, which entails the need for governance that places a stronger emphasis on closer consultation with all stakeholders and the transparency of the decision-making process. *Koshie* noted that the mandate of central banks has continuously evolved, as all major economic events have left their mark on it. She presented these changes through the example of the Reserve Bank of India, and concluded her presentation by stating that just like momentous events in the past, today’s crisis has affected the governance and role of central banks, and that boards need to react to this.

Neil Whoriskey, head of the general secretariat in charge of both communications and planning at the Central Bank of Ireland, talked about the factors motivating central banks in the absence of the competition characteristic of the commercial sector. *Whoriskey* presented how the crisis and the growing responsibilities of central banks led to a new governance structure and at the same time helped to

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restore the reputation of the Central Bank of Ireland. He described the process of introducing the new structure and mentioned the better alignment of the two cultures – the regulatory and the central banking culture – present at the Central Bank of Ireland.

The two talks were followed by a discussion of the experiences about the changing responsibilities and growing mandate of central banks represented by the participants. The discussion was led by *John Jussup*, the former general counsel and corporate secretary of the Bank of Canada, who was also the chairman of the conference.

The first presenter on the second day, *Kenneth C. Montgomery*, first vice president and chief operating officer of the Federal Reserve Bank of Boston (FED), talked about IT governance and the role of technology. *Montgomery* predicted that one of the biggest expense items for central banks worldwide in 2015 will be technological expenses, which will continue to grow due to new IT developments on the financial markets and ever more sophisticated cyber-attacks. Since nowadays technology permeates everything from central banks' core functions to daily workflows, the former practice that IT system requirements are exclusively determined by IT professionals is untenable. *Montgomery* talked about boards' duties linked to controlling IT investment, and introduced the Fed's executive committees and bodies in charge of IT governance.

This talk was followed by a panel discussion led by *John Jussup* with *Jeremy Farr*, general counsel and corporate secretary at the Bank of Canada, and *Grace Koshie* on the education of board members. Central banks usually do not have influence over the selection, job description and professional requirements expected of external board members. That is why it is crucial to provide external board members with orientation and ongoing education concerning the central bank's role, functions, operation and administration. The members of the panel discussed the topical issues related to this in an environment that imposes ever stricter requirements on central banks.

Atila Arda, a senior financial sector expert at the IMF, talked about governance frameworks and the types and structures of boards. He said that, unlike players in the commercial sector, central banks do not have a template for governance, which makes the structures of boards and committees in central banking much more varied. Based on central banks' established practices, he listed the advantages and disadvantages of the various structural arrangements as regards the efficiency of decision-making and potential conflicts of interest.

In his presentation on the functioning of the board, *Jeremy Farr* described the board's operating activities, governance structure, role and responsibilities through the example of the Bank of Canada. In addition, the speaker mentioned how the

Board monitors the Governor's performance, and what activities and functions, when and by whom are reported to the members of the Board.

This was followed by another presentation by *Atila Arda* on the board's responsibilities concerning legal and compliance risks. Drawing on the results of a survey of LGRC,¹ he told the audience that this area is still in its infancy in most central banks. However, incorporating it into the decision-making of central banks contributes to the performance of the essential governance function.

As the first speaker of the third day, *John Jussup* talked about the board secretary's role in facilitating information flow between the central bank's senior management and board members. After this talk, *Simon Webley*, research director of the London-based Institute of Business Ethics, addressed issues related to ethical risks. *Webley* stressed the importance of laying down basic ethical values in implementing ethical standards. He added that creating an explicit ethics policy, a code of conduct and an ethics programme were also essential for this goal.

Kenneth Sullivan, director of Sullivan Consulting and a former senior financial expert of the IMF, spoke about the role of the board in risk management. *Sullivan* argued that the board's main task as regards risk management was developing the organisation's risk management culture.

José Miguel García, associate director general in charge of internal affairs at the Bank of Spain, emphasised the importance of central banks' corporate social responsibility. As prominent public institutions, central banks are not only responsible for carrying out their mandates, but also for their influence on society and their environment. Finally, *Mirela Roman*, director of the communication department at the National Bank of Romania, talked about the significance of communication, focussing on its relationship to transparency and accountability, and the limits of transparency arising from the central banking function.

The presentations were followed by a recap of participants' reflections and experiences. It emerged from the comments that central banks are facing similar challenges all over the world in the areas of growing responsibilities, stricter requirements, and the increasing demand for transparency and accountability. However, these can be addressed in various ways in different environments and historical contexts. The responsibility of central bank governance and the board is to find and choose the best solutions for the particular central bank and its environment, and to supervise the implementation of these measures.

¹ Legal governance, risk management and compliance.