Supporting Document to the *Code of Good Practices on Transparency in Monetary and Financial Policies*

Part 2—Good Transparency Practices for Monetary Policy by Central Banks

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CONTENTS

GOOD TRANSPARENCY PRACTICES FOR MONETARY POLICY BY CENTRAL BANKS

I. CLARITY OF ROLES, RESPONSIBILITIES AND OBJECTIVES OF CENTRAL BANKS FOR MONETARY POLICY

1.1 The ultimate objective(s) and institutional framework of monetary policy should be clearly defined in relevant legislation or regulation, including, where appropriate, a central bank law.

Explanation and rationale

An ultimate objective of monetary policy is an important long-term goal that can be achieved using monetary policy, such as price stability or noninflationary growth. Central banks may have more than one ultimate objective. The institutional framework of monetary policy refers to the basic conceptual structure governing the institutions involved in the preparation and implementation of monetary policy, as well as the relationship between those institutions.

A clear statement of the ultimate objectives and institutional framework of monetary policy identifies the mandate of the central bank. Specifying these key elements in authorizing legislation (e.g., a central bank law) or a regulation (a rule or order that details the practices and procedures followed by a unit of government such as a central bank) gives them particular prominence. Doing so also avoids ad hoc and frequent changes to the fundamental priorities of a central bank. Giving monetary policy objectives a clear and firm legal basis also facilitates transparency by allowing outcomes to be compared with goals. Similarly, by defining the institutional framework in legislation or regulation, the parties responsible for achieving the objectives can be held accountable.

There are distinct advantages to establishing the objectives and institutional framework of the central bank in a separate law. Central bank law ranks high in the hierarchy of legal texts, since the central bank is one of the fundamental economic and financial policymaking institutions of an economy. A central bank law provides a common reference point that summarizes and catalogs the various duties and responsibilities of the central bank in a single document. This can enhance transparency by providing more clarity and accessibility for the public than in the case where the central bank’s fundamental roles and functions are defined in numerous laws, and hence are more difficult to find and interpret.

1.1.1 The ultimate objective(s) of monetary policy should be specified in legislation and publicly disclosed and explained.

Explanation and rationale

Specifying objectives in legislation makes the ultimate goals of monetary policy part of the framework and body of laws governing the country. The public disclosure of the objectives of monetary policy makes information readily available and accessible to all interested parties. Explaining the ultimate objectives involves giving detailed information in a format or style that is readily understood by a wide audience.

Central banks may have *qualitative* objectives, which refer to broad goals of an unspecified nature, or *quantitative* objectives, which refer to specific numerical targets for a variable that the central bank can achieve or influence. An example of a *qualitative* goal may be price stability or financial stability, whereas a *quantitative* objective may be a rate of change for a particular price index over a specified period.

Disclosing the ultimate objectives in publications and public statements and explaining them to the public raises the awareness and understanding of the monetary policymaking process. Disclosure also helps the public to form more accurate expectations about monetary policy operations, and to assess the performance of the institution in achieving its objectives.

Application

The ultimate objectives of nearly all central bank respondents are listed in the central bank law. Many countries list several broad objectives in the central bank legislation (such as stability of the currency or prices, or financial stability) without prioritizing them, while in recent years some countries list price stability as the primary objective.[1] Most countries disclose the objectives of the central bank in their annual reports, with most of them providing explanations in periodic reports, official publications, and public appearances of central bank officials. Some central banks issue a mission statement (e.g., the Eastern Caribbean Central Bank, the Hong Kong Monetary Authority, the Central Bank of Swaziland, and the National Reserve Bank of Tonga, which is highlighted in the annual report of these banks) to provide the public with a better understanding of their objectives.

For the Eurosystem,[2] the treaty establishing the European Community and the Statute of the European System of Central Banks (ESCB) and the European Central Bank (ECB) states that

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[1] For a broad overview of the objectives of central banks in OECD countries, see Robert Pringle and Neil Courtis, *Objectives, Governance and Profits of Central Banks*, (London Central Banking Publications, London), 1999.

[2] The European System of Central Banks (ESCB) is composed of the European Central Bank (ECB) and the National Central Banks (NCBs) of all 15 EU Member States. The Eurosystem

(continued…)

the primary objective of the ESCB is to maintain price stability.[3] The objective is also explained through the Monthly Bulletin, the Annual Report and the public releases to the media.

The objectives of the Bank of Japan, as specified in the Bank of Japan Law, are to "issue banknotes and to carry out currency and monetary control.... [and] ensure smooth settlement of funds among banks and other financial institutions, thereby contributing to the maintenance of an orderly financial system." The Bank of Japan Law also stipulates that "Currency and monetary control shall be aimed at, through the pursuit of price stability, contributing to the sound development of the economy."[4] Officials of the Bank of Japan make public appearances and speeches to clarify and explain the objectives. The objectives are also disseminated through a range of publications, many available on the website.

The objective of the Bank of Mexico, as specified in legislation, is "to provide the country's economy with domestic currency. In pursuing this purpose, the primary objective shall be to seek the stability of the purchasing power of said currency." [5] The Bank of Mexico discloses and explains its objectives through an annual Monetary Policy Statement, which elaborates on the main objectives of the monetary program in more specific quantitative terms. The Bank of Mexico also discloses its objectives to the public through written reports submitted to the legislature and through its publications.

The objective of the Reserve Bank of New Zealand, as specified in Article 8 of the Reserve Bank of New Zealand Act,[6] is "to formulate and implement monetary policy directed to the economic objective of achieving and maintaining stability in the general level of prices." The Reserve Bank discloses and explains its objective through various publications including fact sheets, booklets, the Annual Report, news releases, articles in the monthly bulletin, publicly disclosed "Policy Targets Agreements" between the Governor of the Reserve Bank and the Treasurer, and documents available on its website[7], as well as statements and public appearances by officials.

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comprises the ECB and the NCBs of the 11 Member States that adopted the euro as their single currency in Stage Three of Economic and Monetary Union (EMU).

[3] See Chapter 2, article 2 of the treaty, at www.ecb.int/about/statescb.htm

[4] See www.boj.or.jp/en/about/bojlaw1.htm

[5] See www.banxico.org.mx/siteBanxicoINGLES/aAcercaBanxico/RegimenJuridico/LeyBancoMexico/leyBancoMexico.html

[6] See www. rangi.knowledge-basket.co.nz/gpacts/public/text/1989/an/157.html

[7] See www.rbnz.govt.nz/pubs.htm

Implementation considerations

Defining objectives in legislation involves some tradeoff between permanence and flexibility. Since laws may be difficult to change at short notice, and the objectives of central banks may evolve over time, it may be prudent to allow the central bank some flexibility to deal with different circumstances. Changing the legislation too frequently can be counterproductive if the public's understanding of the monetary policymaking process is in a state of flux. On the other hand, periodic amendment of the legislation called for due to changes in the economic environment, and the process of altering the governing laws can promote transparency through a public discussion on the merits of the issue. Defining the objectives of monetary policy in a treaty (e.g., the European System of Central Banks) or in a constitution (e.g., Brazil) makes it more difficult to change the objectives, because of the greater degree of consensus required to amend these forms of legislation.

Some laws specify multiple objectives for the central bank. As the analytical and operating framework of the central bank evolves, the emphasis that a central bank places on the different objectives may change. In the presence of such multiple objectives, it is important for the central bank to disclose and explain each objective, so the public is aware of any potential tradeoffs between them. Transparency can be enhanced if the relative priorities of the different objectives are clarified.

1.1.2 The responsibilities of the central bank should be specified in legislation

Explanation and rationale

The responsibilities of the central bank are the specific duties and functions it may be required to perform and for which it can be held accountable. For example, a central bank may be responsible for issuing currency or managing foreign exchange reserves, in addition to its role of conducting monetary policy. The responsibilities of the central bank include the general duties it performs as part of the overall financial system. For instance, central banks are often assigned responsibility for providing a stable financial system by supervising and regulating the banks or overseeing the payment system.

Specifying the responsibilities of the central bank in legislation provides the public with an understanding of the mandate of the central bank and the scope of its operations, as well as how it relates to the rest of the monetary and financial system. A clear understanding of the role and responsibilities of the central bank is necessary for the public to be able to assess its performance, understand the limits of its powers, and hold it accountable.

Application

The responsibilities of central banks are usually specified in the legislation that establishes the central bank, although they may also be spelled-out in other laws. The responsibilities established in central bank laws are typically quite broad, and may include functions and activities that the central bank does not fulfill on a regular basis.

Nearly all central bank respondents indicate that their responsibilities are specified in the central bank law, while a significant majority of respondents publicly disclose their responsibilities in their annual reports, and a majority of respondents disclose their responsibilities in written reports submitted to the legislature.

Implementation considerations

There may be circumstances where central banks are required to assume new responsibilities outside the scope of their regular activities or beyond their mandate as specified in the central bank law. Under these circumstances, the central bank law can be amended to include the new responsibility, or separate legislation can be passed. (Also see Implementation considerations for 1.1.1). Alternatively, if the new responsibility is only temporary, does not conflict with existing laws, and does not interfere with the primary mission of the central bank, there may be no need to specify the new responsibility in legislation. Under these circumstances, however, the central bank should note the assumption of new responsibility, and the reasons for doing so, in its public reporting and publications.

1.1.3 The legislation establishing the central bank should specify that the central bank has the authority to utilize monetary policy instruments to attain the policy objective(s).

Explanation and rationale

Monetary policy instruments are the various tools that the central bank can use to influence liquidity conditions and pursue its monetary objectives. The legislation establishing the central bank (usually the central bank law) gives the central bank the authority to utilize policy instruments if it specifies the broad range of applicable instruments and makes it clear that the central bank has the power to use them.

Providing the central bank with a legislative mandate to use monetary instruments gives it the necessary jurisdiction over monetary policy and ensures that there are clear lines of responsibility for the implementation of policy. Transparency is enhanced because it is clear who has control over policy instruments, and who bears the ultimate responsibility for the implementation of policy.

Application

Almost all central banks have the authority to use monetary instruments established in their governing legislation. A significant majority of central banks disclose this authority in their annual reports, while many central banks disclose their authority to the public through an official bulletin, reports to the legislature, publication in the government gazette, or public release on their website.

The Bank of Japan Law [8] states that "the Bank of Japan's autonomy regarding currency and monetary control shall be respected." The Law specifies a wide range of operations that the Bank can conduct in order to achieve its objectives, including buying and selling bonds and bills, making loans, and accepting deposits. The Law assigns responsibility for decisions on monetary policy, including the guidelines and the framework for market operations to the Policy Board.

The Bank of Korea Act[9] details the various monetary instruments that the Bank can use to implement monetary and credit policies.

Implementation considerations

Specifying the monetary policy instruments in legislation can cause difficulties for the central bank if they are defined too narrowly or rigidly. As financial systems evolve, central banks may rely on different instruments than those in use at the time the central bank law was drafted and adopted. If the authorizing legislation defines the available instruments narrowly, the central bank may be prevented from using a more effective instrument at some later date. To provide the central bank with flexibility in using policy instruments, the legislation should be broad enough to encompass the potential range of instruments that the central bank might use.

1.1.4 Institutional responsibility for foreign exchange policy should be publicly disclosed.

Explanation and rationale

Disclosure of institutional responsibility for foreign exchange policy involves publicly identifying which institution is in charge of setting policy for the exchange rate. The policy decisions include the choice of the exchange rate regime (e.g., fixed, floating, or pegged), specific targets (if any) for the exchange rate, and decisions on the operations of the chosen exchange rate regime (e.g., intervention).

The exchange rate is a highly visible and important price signal for an economy with important implications for the conduct and effectiveness of monetary policy. Because of the interrelationship between monetary and exchange rate policies, it is important to identify clearly which institution is responsible for foreign exchange policy, so that markets and the public can appreciate how decisions are made and who is accountable for those decisions.

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[8] See www.boj.or.jp/en/about/bojlaw1.htm

[9] See www.bok.or.kr/bokis/bokis/html_view?i_current=00000483

Application

Institutional responsibility for foreign exchange policy is specified in the central bank law for nearly all central bank respondents. A significant majority of respondents disclose responsibility for foreign exchange policy in their annual report, while many central banks disclose their responsibility through written reports to the legislature, publication in an official bulletin, or publication in an official government journal or gazette.

The Czech National Bank Act[10] states that the Bank has the power to proclaim the exchange rate of the currency vis-à-vis foreign currencies and manage gold and foreign exchange reserves.

For the Eurosystem, the EC Treaty and the Statute of the ESCB assign the Eurosystem the basic task of conducting foreign exchange operations, consistent with the provisions of Article 111.[11] Article 111.1 of the Treaty stipulates that the Council of Ministers, acting unanimously on a recommendation from the ECB or from the European Commission, and after consulting the ECB in an endeavor to reach a consensus consistent with the objective of price stability, and after consulting the European Parliament, may conclude formal agreements on an exchange rate system for the euro in relation to non-Community currencies.

The Bank of Korea Act[12] states that the Bank of Korea shall "exercise an advisory function concerning the Government's policies on exchange rates, the foreign currency loans and deposits of banking institutions, and the setting of foreign exchange overbought and oversold position limits on them."

The Bank of Uganda is empowered by statute to prescribe the framework for determining the external value of the Uganda shilling, in consultation with the Minister of Finance. The Bank's stated exchange rate policy is announced as part of the annual monetary program in the budget speech.

In the United States, exchange rate policy is established by the Secretary of the Treasury within the framework of the Federal Reserve Act, the Gold Reserve Act of 1934, and the Bretton Woods Agreements Act, with the Federal Reserve being an active participant in formulating and implementing that policy. These arrangements are discussed in the Federal Reserve Publication *Purposes and Functions* and the quarterly reports on *Treasury and*

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[10] See www.cnb.cz/en/_legislativa/zakony/cnb_act_rev.pdf

[11] See www.ecb.int/pub/pdf/legalcomp99en.pdf

[12] See www.bok.or.kr/bokis/bokis/html_view?i_current=00000483

Federal Reserve Foreign Exchange Operations, submitted to the Congress, as well as the *Federal Reserve Bulletin* and Annual Report.[13]

Implementation considerations

Some central banks do not have formal authority for foreign exchange policy (such as a legislative mandate), but carry out this responsibility by tradition (e.g., South Africa). Under these circumstances, public disclosure of institutional responsibility may be complicated by the informal nature of the authority. However, where the central bank carries out this responsibility by tradition, the central bank should find occasion in its public reporting and publications to disclose this role.

1.1.5 The broad modalities of accountability for the conduct of monetary policy and for any other responsibilities assigned to the central bank should be specified in legislation.

Explanation and rationale

Modalities of accountability refer to the means, methods, and procedures used by a central bank to account for its actions and report on its activities. Specifying the modalities in legislation means that the central bank is required by law to provide information to the public on its monetary policy activities and other responsibilities.[14]

Publicly disclosing the modalities of accountability in legislation establishes a standard of disclosure that the central bank must meet on an ongoing basis. Having a legal requirement ensures that the public reporting by the central bank is done on a regular and consistent basis, establishes the principle of public accountability, and initiates a tradition of reporting that can foster an ongoing practice of transparent policymaking.

Application

Nearly all central bank respondents have the broad modalities of accountability specified in the central bank law. These modalities of accountability include published reports in the annual report, and written reports submitted to the legislature, published reports in an official bulletin, or public appearances by officials before the legislature.

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[13] For text of *Purposes and Functions* see www.bog.frb.fed.us/pf/pf.htm
For text of the Annual Report see www.bog.frb.fed.us/boarddocs/RptCongress
For text of *Bulletin* articles see www.bog.frb.fed.us/pubs/bulletin/default.htm

[14] See the relevant entries in Section IV of this document for further treatment of transparency practices related to accountability of central banks.

The Law on the Bulgarian National Bank (Articles 49–51)[15] requires the Bank to submit a report to the National Assembly twice a year, reviewing and assessing the Bank's activities during the period, in addition to submitting its financial statements for publication in the official gazette.

The Czech National Bank Act[16] requires the Bank "to submit to the Parliament a report on monetary development at least two times a year... [and] inform the general public on monetary developments at least once every three months."

For the Eurosystem, the Statute of the ESCB[17] requires the ECB to publish reports on the activities of the Eurosystem at least quarterly. The Statute also requires the publication of a weekly-consolidated financial statement of the Eurosystem, and an annual report on the activities addressed to the European Parliament, the Council and the Commission, and the European Council. The Statute requires that all reports and statements mentioned under the Statute be provided to interested parties free of charge.

The Full Employment and Balanced Growth Act of 1978,[18] directs the U.S. Federal Reserve to transmit independent written reports to both Houses of Congress twice a year. The Act also provides that the Board "shall consult with the appropriate Congressional committees on these reports and that each committee shall report its views and recommendations to Congress."

1.1.6 If, in exceptional circumstances, the government has the authority to override central bank policy decisions, the conditions under which this authority may be invoked and the manner in which it is publicly disclosed should be specified in legislation.

Explanation and rationale

The authority to override refers to the case where a government has the power to overrule or change a decision of the central bank. If the government has this power, the way in which it is used (such as which exceptional circumstances justify its use) and how the public is informed of its use should be specified in the law.

[15] See 62.200.195.13/bnb.nsf/pages/Legalframework-summary

[16] See www.cnb.cz/en/_legislativa/zakony/cnb_act_rev.pdf

[17] See www.ecb.int/about/statescb.htm

[18] See thomas.loc.gov/cgi-bin/bdquery/z?d095:HR00050:@@@L

Central banks are often given a high degree of institutional autonomy from the government to isolate the process of setting monetary policy from short-term political pressures. However, monetary policy is rarely conducted in isolation. The macroeconomic policies of the government are usually taken into account in the formulation of monetary policy in order to achieve a coherent and consistent macroeconomic policy. In exceptional circumstances, when there is a disagreement between the government and the central bank, the government may wish to override a particular monetary policy decision. The transparency of this process is enhanced if there are clear and publicly disclosed rules governing the conditions and manner in which this override occurs. This can improve the accountability of both the government and the central bank. Legislation provides an effective means of specifying the rules and procedures that govern these situations and how the public is informed when such a situation arises. Public disclosure of the conditions under which the authority to override may be invoked, and the manner in which it is publicly disclosed, also provide the public with reassurance that there are procedures in place for what is likely to be a rare event.

Application

Only about a third of the central bank respondents have some form of override provision. Legislation in some countries explicitly forbids the government from interfering with the policymaking process of the central bank. For instance, Article 3 of the Central Bank of Argentina Law[19] states that "the Central Bank shall not be subject to any order, suggestion, or instruction given by the National Executive as regards the design and implementation of the monetary and financial policy."

Of those countries that do have the provision, a significant majority specify the conditions under which this authority can be invoked in the central bank law. Most of the central bank respondents that have the provision also have the manner of disclosure specified in legislation.

The Bank of Canada Act contains the Government Directive, which outlines the conditions under which the Minister of Finance can issue a directive requiring the central bank to adopt a particular policy. The Act states that the Minister of Finance may "after consultation with the Governor and with the approval of the Governor in Council, give to the Governor a written directive concerning monetary policy, in specific terms and applicable for a specific period." The Minister is required to publish any such directive in the government gazette and present it to Parliament "within fifteen days after giving thereof, or, if Parliament is not then sitting, on any of the first fifteen days the next thereafter that either House of Parliament is sitting."[20] There have been no instances in which the directive has been invoked.

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[19] See www.bcra.gov.ar/pdfs/marco/icarta.PDF

[20] See section 14 of the Act: www.canada.justice.gc.ca/FTP/EN/Laws/Chap/B/B-2.txt

In Norway, the Central Bank Act[21] states "The Council of State may adopt resolutions regarding the operations of the Bank. Such resolutions may take the form of general rules or instructions in individual cases. The Bank shall be given the opportunity to state its opinion before such resolutions are passed. The Storting (parliament) shall be notified of resolutions as soon as possible." There have been no instances in which such resolutions have been invoked.

In the event of divergence of views between the government and the Bank of Uganda, the Economic Planning Minister may, with the approval of the cabinet, and by a directive in writing, determine the specific policy to be adopted by the Bank of Uganda, and submit the directive to parliament within a specified time frame.

Implementation considerations

When a government does not have the power to override the decisions of the central bank, it may have the power to dismiss the governor or the policymaking board. See 1.1.7 for further discussion. In some countries, a finance ministry official is a member of the central bank decision-making body by virtue of the office that the official holds. For instance, the finance minister or his deputy may be a member of the board of the central bank. Thus, the government may be able to influence policy at the level of the central bank without an override provision. To meet the transparency objective of this practice, there should be public disclosure of the fact that the government has the power to dismiss the governor on the policymaking board, as well as the role of the finance ministry on the policymaking board of the central bank.

1.1.7 The procedures for appointment, terms of office, and any general criteria for removal of the heads and members of the governing body of the central bank should be specified in legislation.

Explanation and rationale

Procedures for appointment refer to the processes used to select and appoint a person for a position, such as the attributes or requirements of the office holder. For example, the procedures for appointment include the steps required before a person selected for a position is appointed, such as confirmation hearings. The terms of office relate to the tenure of the position, such as whether the term is fixed or determined at the discretion of some other office holder, and any restrictions on appointment and re-appointment. The criteria for removal cover possible grounds for dismissal from the position. The phrase "heads and members of the governing body of the central bank" refers to the executive positions within the central bank such as the governor and other appointed members of the central bank board

[21] See www.norges-bank.no/english/nb/act.html

or the body that oversees the operations of the central bank. These aspects of the appointment process should be specified in legislation.

Specifying the details of appointment, tenure, and dismissal in legislation provides the public with a clear understanding of the process governing appointments of the key decisionmakers of the central bank. Knowledge of the constraints and incentives facing these policymakers can deepen public understanding of how decisions on monetary policy matters are made, improving the transparency of the policymaking process. Disclosure of the procedures of appointment through legislation can also enhance awareness of who are the key policymakers. Public understanding of the criteria for dismissal of appointed heads and members of the governing board also allows the public and markets to make better judgments of the finality of monetary policy decisions, if there is a disagreement between the central bank and other units of government.

Legislative requirements can enhance the transparency of the appointment process, since they usually involve a set of specific and observable actions by senior government officials. For instance, many appointments that have specific legislative requirements require a minister or cabinet member to notify parliament of appointment decisions and publish details of the appointment in the government gazette or official journal. Some appointments require the legislature to confirm the appointment. Specifying the procedures in legislation thus triggers other forms and traditions of public disclosure.

Application

Nearly all countries have some form of legislative requirements for appointment to the governing body of the central bank. Many countries require appointees to be citizens of the country and have appropriate qualifications and experience. Some countries also forbid members of the governing board from holding outside employment or political affiliations. Nearly all central bank respondents have some requirements for appointment and dismissal specified in the central bank law. Many countries specify a maximum term of appointment for officials, and indicate whether reappointment is permitted and the maximum number of terms possible. A significant majority of central bank respondents have maximum terms of office specified in the central bank law.

In many countries, members of the governing board of the central bank can be removed from office (or are ineligible for office) if they are found guilty of misconduct or are convicted of a serious crime, if they are declared bankrupt, if they become incapacitated or unable to perform the duties of the office, if they are absent from several board meetings in a row, or if they accept employment or become a member of parliament. These criteria are typically specified in the legislation establishing the central bank. In addition to these grounds for dismissal, some legislation provides for the possibility of removing the governor from office for other reasons. The Governor of the National Bank of Moldova[22] can only be removed from office by the Parliament with the vote of two-thirds of the total number of deputies. In New Zealand,[23] the Finance Minister can recommend to the Governor-General that the Governor of the Reserve Bank of New Zealand be removed from office under a number of circumstances, including if he or she is satisfied that the Bank is not adequately carrying out its functions; that the Governor has not adequately discharged the responsibilities of office; that the Governor has obstructed, hindered, or prevented the Board from discharging its responsibilities under the Act; or that the performance of the Governor in ensuring that the Bank achieves the policy targets has been inadequate.

Implementation considerations

There are two types of approaches to setting criteria for removal from office of heads or members of the governing body: specific or general. The more specific the criteria for removal, the less possibility for misinterpretation or judgment in the application of the criteria.[24] However, listing specific criteria may risk excluding valid grounds for dismissal. Excessive discretion in decisions is not consistent with transparency. On the other hand, confirmation of any removal decision by other bodies involved in the nomination process promotes transparency.

[22] See www.bnm.org/english/2_Page/Sublevel/law_nbm_index.htm

[23] See www.rangi.knowledge-basket.co.nz/gpacts/public/text/1989/an/157.html

[24] An example of relatively specific criteria is the Reserve Bank of Australia's removal criteria of board members. If a member of the Reserve Bank Board: becomes permanently incapable of performing his or her duties; becomes bankrupt, applies to take the benefit of any law for the relief of bankrupt or insolvent debtors, compounds with his or her creditors or makes an assignment of his or her remuneration for their benefit; resigns his or her office by writing under his or her hand addressed to the Governor-General; is absent, except on leave granted by the Reserve Bank Board, from all meetings of the Board held during two consecutive months or during any three months in any period of 12 months; or fails to comply with his or her obligations under the Commonwealth Authorities and Companies Act 1997, the Governor-General shall terminate his appointment.

1.2 The institutional relationship between monetary and fiscal operations should be clearly defined.[25]

Explanation and rationale

Monetary operations are actions taken by the central bank to implement monetary policy, such as influencing overall credit conditions in the economy. Fiscal operations are actions taken by the government to implement budgetary policies, such as revenue and expenditure measures, as well as issuance of public debt instruments and public debt management. The institutional relationship refers to the demarcation of roles between agencies responsible for monetary and fiscal operations. The institutional relationship is clearly defined if the public has a good understanding of the distinction between monetary and fiscal operations, and the responsibilities of the fiscal and monetary authorities.

There is often a substantial overlap between monetary and fiscal operations. For instance, government debt issuance or the monetization of budget deficits can have a significant impact on overall credit conditions in the economy. Similarly, absorbing large amounts of liquidity can have important budgetary costs for the government. Thus, fiscal operations can have substantial monetary consequences, and vice versa.

Most laws assign monetary policy functions to a central bank to benefit from the accumulation of specialized expertise and to remove monetary policy deliberations from political and budgetary considerations. However, governments often rely on the specialized financial expertise of the central bank to assist in the performance of various fiscal operations. Such fiscal operations may be beyond the narrow monetary policy mandate of the central bank. In order to ensure the clarity of the role and objectives of the central bank, it is important that a clear distinction is made between monetary and fiscal operations. This ensures that the appropriate institution is accountable for its actions and that policies are implemented most effectively.

1.2.1 If credits, advances, or overdrafts to the government by the central bank are permitted, the conditions when they are permitted, and any limits thereof, should be publicly disclosed.

Explanation and rationale

Credits, advances, and overdrafts to the government by the central bank are all forms of loans from the central bank to the government. The government or the central bank may have predefined rules or limitations on the extent of public borrowing from the central bank. The

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[25] The transparency practices concerning fiscal operations should be consistent with the International Monetary Fund's *Code of Good Practices on Fiscal Transparency*. See www.imf.org/external/np/fad/trans/index.htm

conditions and limits on these loans may include restrictions on the circumstances, size, amount, or duration of such loans.

Specifying the conditions for central bank loans to the government in legislation gives a clearly defined set of rules to guide monetary and fiscal operations. This ensures that the framework for monetary and fiscal operations is not subject to frequent and ad hoc changes that may make it more difficult for the public to understand the respective roles of these two units of government.

The central bank may lend money to the government in the course of performing fiscal operations for the government, or as a result of central bank financing of the public deficit. To ensure clear lines of responsibility and accountability, the central bank should disclose to the public any restrictions on such lending. This enables the public to assess whether the resources of the central bank are being used appropriately, and understand the extent of any restrictions on the use of those resources.

Application

Many countries prohibit any central bank lending to the government. A significant majority of those central bank respondents that are permitted to lend to the government have the conditions specified in legislation. Some countries (e.g. Lebanon, Malaysia, Mexico, Slovenia, Turkey, and West African Union) permit central bank lending up to a pre-specified limit, based on average government revenue or the capital of the central bank. This limit is publicly disclosed in legislation and in central bank publications.

The Law on the National Bank of Moldova[26] states that "for each loan there must be a written loan agreement executed between the Government represented by the Ministry of Finance and the National Bank. The agreement shall clearly state the principal amount of the loan, its maturity, and the applicable rates of interest and other charges."

1.2.2	**The amounts and terms of credits, advances, or overdrafts to the government by the central bank and those of deposits of the government with the central bank should be publicly disclosed.**

Explanation and rationale

The amounts and terms of credits, advances, or overdrafts refer to the details of central bank loans to the government. These details include, for example, the total amounts outstanding, the interest rates being charged, and the repayment period or maturity of the loans. The amounts and terms of deposits include the amount of government money held on deposit by the central bank, the interest rate being paid, and the duration or term.

[26] See www.bnm.org/english/2_Page/Sublevel/law_nbm_index.htm

The terms and conditions of loans and deposits are important factors that govern the relations between the government and the central bank. These conditions are important details that are necessary for the public to understand how the resources of the government and the central bank are being used to perform fiscal and monetary operations. The central bank and government are both more accountable if the public has a good understanding of the details of their financial relations.

Application

In some countries, the central bank law specifies some of the terms and conditions of central bank loans to the government, as well as deposits (see the example of Moldova in 1.2.1). A majority of central bank respondents that permit credit, advances or overdrafts to the government disclose details of government loans and deposits in the annual report, while many central banks publish reports in an official bulletin. Most countries reveal the amount of central bank loans to the government and the amount of government deposits at the central bank through their balance sheet statements. Some countries (e.g., Brazil, Morocco, and Zimbabwe) provide additional information in the balance sheet statement detailing the interest rates and maturities that apply. Some countries (e.g., Colombia, Georgia, and Nigeria) also provide public statements and more extensive information to the public on their lending arrangements to the government through statistical releases, the annual report, and appearances by officials before the legislature.

The Swiss National Bank does not provide credit to the government, but it discloses details of the interest rate that it pays on government deposits in its Annual Report.[27]

Implementation considerations

Disclosure of central bank credit to the government or government deposits with the central bank can occur through the balance sheet statement of the central bank. However, balance sheets may not provide a full and meaningful picture of the financial relations between the central bank and the government if they do not adequately disclose all of the terms and conditions, or if they are not published in a timely manner. Full disclosure requires more detailed information than is usually presented in a central bank balance sheet.

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[27] See www.snb.ch/e/publikationen/publi.html

1.2.3 The procedures for direct central bank participation in the primary markets for government securities, where permitted, and in the secondary markets, should be publicly disclosed.

Explanation and rationale

If the central bank is allowed to purchase government debt instruments when they are issued (i.e., in the primary market), or purchase and sell government debt from other parties after they have been issued (i.e., in the secondary market), the rules or procedures governing these transactions should be disclosed to the public. Such procedures may include the way in which the price is determined, the amounts of debt that the central bank is allowed to receive or sell, and any other restrictions that govern central bank sales and purchases.

Central banks often play a role in issuing or managing government debt, and may use government debt or securities for monetary operations. In order to ensure a clear demarcation of these different roles, it is important that the central bank and the government inform the public about the rules and procedures that govern debt operations. It is also important that market participants understand the degree of government involvement in debt markets to be able to price government securities efficiently.

Application

A majority of central bank respondents are prohibited from participating in primary issues of government debt, but many are allowed to participate in secondary markets. Some central banks have detailed regulations or internal rules governing central bank activity in government debt markets, and make these rules publicly available to market participants through circulars and bulletin articles, as well as press releases and public statements.

The rules and procedures governing auctions of government securities by the Bank of Canada are described in published documents available on the Bank of Canada's website. [28]

1.2.4 Central bank involvement in the rest of the economy (e.g., through equity ownership, membership on governing boards, procurement, or provision of services for fee) should be conducted in an open and public manner on the basis of clear principles and procedures.

Explanation and rationale

In the course of conducting their operations, central banks interact with numerous private firms and companies, as well as other government institutions. Central banks may hire private companies to print paper currency, and central bank officials in some countries may

[28] See www.bank-banque-canada.ca/english/auct.htm

be members of the governing bodies of other institutions. In order to assure the public that central bank involvement in the rest of the economy does not conflict with the central bank's primary responsibilities and distract it from pursuing its objectives, the involvement of the central bank with other companies and institutions in most cases is limited to its primary mandate of implementing monetary policy. Central banks establish their own rules and procedures to guide their actions. Such rules and procedures should include provisions for public disclosure of the extent of the central bank's involvement.

Application

Most central bank respondents follow principles and procedures for central bank involvement in the rest of the economy that are incorporated in legislation or regulations. Some central bank laws prohibit the central bank from holding equity in private companies. Other central banks have public tender processes where contracts to provide services to the central bank are decided on the basis of an open bidding process. Many central banks reveal the extent of their involvement in private companies in their annual reports, in addition to publicly disclosing the policies they have in place to ensure that such transactions are appropriate.

In some countries, central bank officials hold senior positions in other institutions. Many countries publicly require public disclosure of these arrangements in their statements to the public. The Governor of the Reserve Bank of Australia is also the chairman of the Payments System Board and is on the Board of the Australian Prudential Regulation Authority. Members of the Board of the Reserve Bank also serve on the boards of private companies. These arrangements are publicly disclosed in the central bank law,[29] in the Annual Report,[30] in press releases, and on the Bank's website.[31] The Reserve Bank of Australia also owns a printing company that produces the currency, the operations of which are detailed in the Annual Report.

1.2.5 The manner in which central bank profits are allocated and how capital is maintained should be publicly disclosed.

Explanation and rationale

The profits of the central bank are the revenues generated in excess of expenses and other deductions. Central banks allocate their profits either by transferring funds to the government (after covering operating expenses and adding to reserves, if necessary), or by adding to their

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[29] See the Reserve Bank of Australia Act, which specifies that the Governor is also on the Payments System Board: www.scaleplus.law.gov.au/html/pasteact/0/310/top.htm

[30] See www.rba.gov.au/report/annual_report_99.html

[31] See www.rba.gov.au/media/mr_other.html

reserves. The capital of the central bank is the amount of funds directly invested by its shareholders (usually the government) plus accumulated retained earnings minus losses.[32] The manner in which capital is maintained refers to the procedures or rules that the central bank follows to ensure that it has sufficient capital or reserves to meet its obligations and pursue its objectives. For instance, some central banks retain part of their profits to maintain a fixed level of capital, and transfer the residual to the government.

The central bank is a public institution that is endowed with a high degree of autonomy. The profits that the central bank earns arise because of the privileged position it occupies in the financial system. These profits usually arise from its monopoly over the issuance of currency, from open market operations, or from foreign exchange transactions. Since the assets and earnings of the central bank are part of the assets of the country, it is important that the central bank is accountable for how it allocates its profits and maintains its capital.

Sometimes the capital position of a central bank is impaired because of losses. If the central bank has insufficient capital, its ability to conduct monetary policy may be diminished. Public disclosure of the level of profits and capital and their allocation is necessary to ensure public confidence in the viability of the operations of the central bank. In the event of losses, public disclosure of the details of profit allocations also permits the public to gain a better understanding of the underlying reasons for the lack of profitability.

Application

Legislation in most countries requires that all profits of the central bank be transferred to the national treasury, after appropriate deductions for reserves and provisions to ensure the maintenance of a fixed level of capital. For a significant majority of central bank respondents, the manner in which central bank profits are allocated is specified in legislation. Public disclosure usually takes the form of publication in the annual report or government register, or submission of the financial statements of the central bank to parliament or legislature. Additional forms of disclosure include publication of the accounts in an annual report, press releases, or posting on a website.

The Bank of Japan Law[33] stipulates how profits are to be allocated, and requires the Bank to submit a profit and loss statement for the approval of the Minister of Finance every six months, within two months of the end of each six-month period. The Bank is required by the

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[32] For a discussion of the importance of central bank capital, see Peter Stella, "Do central banks need capital?" IMF Working Paper WP/97/83, (Washington: International Monetary Fund), www.imf.org/external/pubs/ft/wp/wp9783.pdf, 1997.

[33] See www.boj.or.jp/en/about/bojlaw1.htm

Law to keep the financial statements available for public perusal at its head office and branches. The bank also publishes its accounts on its website and in its Annual Report.[34]

In Sweden, the Riksbank Act[35] states that the Bank's profit and loss account and balance sheet are to be approved by the Parliament, which also determines the allocation of profit. The Bank publishes details of profit allocations in its Annual Report.

The Swiss National Bank and the Swiss Government have publicly disclosed a memorandum of understanding concerning the profits of the Bank. The memorandum specifies the mode of computing the profit, the use of the profit, and the size of the annual transfer to the government. The memorandum is renewed on a regular basis, usually every five years.

1.3 Agency roles performed by the central bank on behalf of the government should be clearly defined.

Explanation and rationale[36]

Agency roles refer to the various tasks performed by the central bank on behalf of the government that do not relate directly to its monetary policy role. In performing agency roles, the central bank acts as a representative of the government and does not make independent policy decisions. Instead, the central bank carries out the decisions and directives of the government and confines itself to the practical details of implementation. Examples of agency roles include acting as the manager of external reserves or public debt, or providing banking functions for the government. Agency roles are clearly defined if the non-monetary policy responsibilities of the central bank are distinctly specified in an accessible document and there is a clear understanding that the central bank is merely implementing decisions taken by the government.

Defining agency roles clearly is necessary for the public to understand the extent of the policymaking responsibilities of the central bank and to hold the central bank and government accountable for their actions. The government may delegate some activities to the central bank, but the government is ultimately responsible for those activities. Clearly specifying agency roles ensures that there is no confusion over who has ultimate responsibility for setting and implementing policy. Clearly defining the non-monetary

[34] See www.boj.or.jp/en/siryo/siryo_f.htm

[35] See www.riksbank.com/SinglePage/SinglePage.asp?ItemID=3148

[36] The transparency practices of this and the following two practices concerning the agency role for a central bank and for responsibilities by the central bank in debt management should be consistent with the International Monetary Fund's *Code of Good Practices on Fiscal Transparency*. See www.imf.org/external/np/fad/trans/index.htm

responsibilities of the central bank in this role as an agent of the government also enables the public to assess whether these responsibilities are interfering with the monetary policy duties of the central bank.

1.3.1 Responsibilities, if any, of the central bank in (i) the management of domestic and external public debt and foreign exchange reserves, (ii) as banker to the government, (iii) as fiscal agent of the government, and (iv) as advisor on economic and financial policies and in the field of international cooperation, should be publicly disclosed.

Explanation and rationale

Central banks may perform several functions for the government related to its expertise in monetary management. Central banks often act as manager of domestic and/or external debt or foreign currency reserves, and may act as a fiscal agent by receiving money and making payments on behalf of the government. Central banks may also provide policy advice to the government, and handle relations with international organizations such as the IMF and World Bank.

When the central bank performs agency roles such as managing debt and reserves, or acting as an advisor or fiscal agent, the extent of these roles should be publicly disclosed. Public disclosure of agency roles may also include information on the reimbursement arrangements for the recovery of costs incurred by the central bank in fulfilling its agency roles on behalf of the government. This enables the public to understand how the resources of the government are being managed and by whom. Public disclosure of these roles also gives the public an appreciation of the responsibilities of the central bank.

Application

Many central banks provide the public with information on the agency roles that they play on behalf of the government. This information takes the form of press releases, publications written for a nontechnical audience, bulletin articles and annual reports, as well as appearances and public statements by officials.

The Reserve Bank of New Zealand publishes details of its agency functions in periodic bulletin articles[37] and in its Annual Report.[38] The Reserve Bank also provides brief fact

[37] See www.rbnz.govt.nz/bulletin/contents.htm

[38] See www.rbnz.govt.nz/annrepor/title.htm

sheets that describe the role of the Bank in managing debt and foreign exchange reserves in simple language that is accessible to a wide audience.[39]

1.3.2 The allocation of responsibilities among the central bank, the ministry of finance, or a separate public agency, for the primary debt issues, secondary market arrangements, depository facilities, and clearing and settlement arrangements for trade in government securities, should be publicly disclosed.

Explanation and rationale

Primary debt issues are the initial placement of government debt with the public. Secondary market arrangements are the rules and procedures that govern subsequent sales and purchases of government debt. Depository facilities are the procedures for holding the title to government debt, in either paper or electronic form. Clearing and settlement arrangements are the procedures and practices involved in recording and finalizing the purchase or sale of government debt and the transfer of the title of ownership.

The financing of government expenditure has an impact on private sector liquidity and hence the effectiveness of monetary policy. Monetary conditions also affect the cost of issuing and servicing government debt. Poor coordination of debt management policies can lead to financial instability and increased uncertainty, and may retard the development of liquid debt markets and raise the cost of funding for the government. Thus, the coordination of policies, instruments, and information between the central bank and the agency responsible for issuing public debt is essential for stable macroeconomic management.

Government securities markets are often the most developed and liquid of all debt markets, and are used by a wide range of institutions to manage their liquidity. Many central banks use government debt instruments to implement monetary policy. Thus, the operational framework governing government securities markets is of critical importance to the smooth functioning of the financial system.

Public disclosure of the allocation of responsibilities between the central bank and the ministry of finance with regard to debt management issues reinforces the accountability of the responsible agency, and permits a clear demarcation of the different roles of the central bank and the government. A clear delineation of the responsibilities can help to facilitate the coordination of policies between the central bank and the debt management agency. It also provides the public with a better understanding and greater degree of confidence in the operation of debt markets, which may lead to greater depth, increased competition, and more efficient government securities markets.

[39] See www.rbnz.govt.nz/pamphlet/thisis.htm

Application

The Bank of Canada describes its debt management responsibilities in documents available on its website,[40] and in its Annual Report.[41] These documents describe the services the Bank provides to the Canadian government, including advising on borrowings, managing new debt offerings, and servicing outstanding debt.

The Danish National Bank publishes an annual report on debt management[42] that provides detailed information on the allocation of responsibilities between the Bank and the government, describes the principles behind the administration of debt, and summarizes developments in government borrowing and debt over the past year.

The Bank of Korea Act assigns responsibility for the issuance and depositary facilities of government debt markets to the Bank of Korea.[43] The Bank of Korea makes information about its agency function in government debt markets available on its website[44] and in its Annual Report,[45] describing the procedures it follows for the issue, sale or redemption of securities and giving data on the extent of its operations in government securities markets.

The allocation of responsibilities between the Treasury and the U.S. Federal Reserve System for government securities operations are periodically described in detailed *Federal Reserve Bulletin* articles and in the document *Purposes and Functions*.[46]

Implementation considerations

The degree of coordination of policies between the central bank and the agency responsible for management of the public debt varies across countries and according to the level of

[40] See www.bank-banque-canada.ca/english/debtmang.htm

[41] See www.bank-banque-canada.ca/english/annual/ar98.htm

[42] See www.nationalbanken.dk/nb/nb.nsf/alldocs/Fdebt_management___A

[43] See www.bok.or.kr/bokis/bokis/html_view?i_current=00000483

[44] See www.bok.or.kr/bokis/bokis/html_view?i_current=00000176#4

[45] See www.bok.or.kr/bokis/bokis/bbs_list?i_current=00000179

[46] See www.bog.frb.fed.us/pubs/bulletin/1999/1299lead.pdf and chapter 7 of *Purposes and Functions*, available at www.bog.frb.fed.us/pf/pf.htm

financial development.[47] The need for public disclosure of responsibilities is equally important at all levels of financial development. In the early stages of financial development, close coordination of policies is necessary for stabilization and market development. Public disclosure of responsibilities is necessary to promote confidence in the operations of the markets and to promote public understanding. For more advanced financial systems, the coordination of policies can be better achieved through market forces, since there is greater scope for independent implementation of monetary, fiscal, and debt management policies.

[47] For more discussion on the coordination of public debt management and monetary policy, see V. Sundararajan; Peter Dattels, and Hans J. Blommestein, eds., *Coordinating Public Debt and Monetary Management*, (Washington: International Monetary Fund), 1997.

II. OPEN PROCESS FOR FORMULATING AND REPORTING MONETARY POLICY DECISIONS

2.1 The framework, instruments, and any targets that are used to pursue the objectives of monetary policy should be described, explained, and publicly disclosed.

Explanation and rationale

The framework used to pursue monetary policy relates to the conceptual and institutional structure involved in the preparation and implementation of monetary policy. The instruments of monetary policy are the tools that the monetary authority uses to implement policy decisions, such as open market operations. Since the connection between the use of instruments and the ultimate objective(s) of monetary policy (such as price stability) is not direct, monetary authorities often select Atarget variables," such as short-term interest rates, aggregate bank reserves, money aggregates, or the exchange rate. The central bank and its officials should describe and explain to the public the framework, instruments and any targets used to pursue the objectives of monetary policy.

This provision is key for transparency because it explains how monetary policy is conducted and the principles on which it is based. Public disclosure provides the background necessary to follow and understand developments in monetary policy. The effectiveness of monetary policies can be strengthened if the framework of policy and the policy instruments are known and understood by the public. Public explanation of the policy framework also can strengthen incentives for central banks to pursue their announced goals.

Application

In most countries, the framework, instruments and any targets of monetary policy are specified in legislation or regulations, and promulgated and discussed in reports to legislatures, appearances of public officials before legislatures, and releases to the media. A significant majority of responding central banks disclose the monetary framework through legislation, supplemented by statements in their annual reports.

For some central banks, the primary (and in some instances, the singular) means of public disclosure of their framework and instruments is through having those aspects of monetary policy noted in legislation, which is part of the public record. Those central banks that pursue specific monetary targets, and particularly those that follow an inflation target, have a tendency to issue a variety of public statements as a means of establishing their credibility (see Box 1). These central banks typically describe and explain the targets in considerable detail in their publications and public statements, including speeches, and in special inflation reports issued on a scheduled basis (quarterly, semi-annually or annually). In addition to issuing a public declaration of a numerical goal for inflation over a specified time frame, some of these declarations contain a description of the target—whether in a range or whether for more than one year, which price index is used, the underlying models used to determine the target, and whether there is any flexibility ("escape clause") available in response to economic shocks.[48]

Box 2-1. Inflation Targeting Regime and Transparency

The number of countries that have adopted, or are considering adopting, inflation targeting as a framework for monetary policy has increased considerably in recent years. Inflation targeting involves a public announcement of numerical targets for inflation and a commitment by the central bank to achieve these targets. It provides a yardstick of accountability for central banks and helps focus inflation expectations. Transparency is at the heart of inflation targeting because it is key to facilitating accountability and shaping inflation expectations. Because of the lags between policy actions and inflation and the range of other factors that influence inflation, the effects of policy actions are often difficult to perceive. Transparency of the central bank, therefore, is a precondition for monitoring inflation targeting.

Adherence to particular provisions in the *MFP Transparency Code* are especially important for inflation targeting:

- It would be essential that the central bank's responsibility for inflation targeting and its operational independence in pursuing the inflation objective be clearly defined in relevant legislation or regulation (1.1).
- A central bank may need to intensify its efforts in communicating and clarifying to the public its monetary policy objective and framework (2.1).
- Decisions to change the target should be clearly announced and explained publicly in a timely manner (2.3). Similarly, a central bank's decision to allow breaches of the target without compensating policy action needs to be clearly explained in a timely manner.
- Most central banks pursuing inflation targeting follow 2.4 by issuing periodic public statements on progress toward achieving its monetary objectives and prospects for achieving them in the form of regular monetary policy reports, or "inflation reports." Some of these reports include, in addition to inflation projections, the central bank's macroeconomic forecast (2.4.1 and 2.4.2).
- Presentations and releases of central bank data and an information service help enhance transparency (3.1 and 3.3) and help make inflation targeting effective.
- Inflation targeting benefits from officials of the central bank being available to appear before designated public authorities to report on monetary policy and provide explanations (4.1). For effective communication with the public, authorities may wish to include a measure of formality and structure to this reporting.

In Australia, the framework and instruments of monetary policy are specified in legislation and the targets used to pursue the objectives of monetary policy are specified in written reports submitted to the legislature and in public appearances by central bank officials before the legislature. The framework and the targets are promulgated in the Semi-Annual

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[48] Mr. Eduardo Aninat, Deputy Managing Director of the IMF, recently observed that "…improving the transparency and accountability of central bank activities to the public is at the heart of inflation targeting." See his closing remarks, IMF Seminar on "Implementing Inflation Targets," Washington, D.C., March 21, 2000. See www.imf.org/external/np/speeches/2000/032100.htm

Statement on the Conduct of Monetary Policy issued jointly by the Governor of the Reserve Bank of Australia and the Treasurer (Finance Minister). The objective of monetary policy as expressed in the Statement on the Conduct of Monetary Policy is to maintain inflation at a rate of between 2 and 3 percent, on average, over the economic cycle.[49]

The currency board rules that constitute the framework for Bulgaria's monetary policy are clearly and strictly defined in the central bank law. The reserve requirement is defined in the Bulgarian National Bank's Regulation No. 21; and the lender-of-last-resort facility, including the rules for using it, are contained in its Regulation No. 6.[50]

The Bank of Canada Act (section 18) establishes the authority to grant advances and make interest payments and to set the rate for these. The Bank of Canada's Discussion Paper I (November 23, 1995)[51] explains the way in which the Bank's overnight rate is used as an instrument of monetary policy. Canada's inflation target is announced jointly by the Bank of Canada and the Department of Finance. A press release on the announcement of the target and explanatory comments on the target is issued as well. The Bank issues a biannual Monetary Policy Report (Inflation Report), which is updated quarterly in the *Bank of Canada Review*. The Bank 's view on the transmission mechanism for monetary policy (the channels through which Bank's use of monetary instruments, in the pursuit of the ultimate objectives of monetary policy, affect economic outcomes) is explained to the general public in the publication, "The Transmission of Monetary Policy in Canada," available on the Bank's website.[52]

The framework and instruments of monetary policy of the Bank of Lebanon are specified and publicly disclosed in legislation; and monetary objectives, which include exchange rate stability and low inflation, are publicly disclosed and explained in published reports, an official bulletin and the Annual Report, and public releases to the media and posting on the web site.

The framework used by the Bank of Mexico to pursue the objectives of monetary policy, instruments and objectives are disclosed and explained in legislation, mission statement, written reports to the legislature, in the Bank's Review and Annual Report, to the media and on the Bank's website. In addition, it publishes a daily path for the monetary base consistent with the projected macroeconomic framework. It also publishes quarterly targets of the

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[49] See www.rba.gov.au/about/ab_scmp.html

[50] See 62.200.195.13/bnb.nsf/pages/Legalframework-summary for the Law on the Bulgarian National Bank and Regulation No. 6 and Regulation No. 21.

[51] See www.bank-banque-canada.ca/english/dp1.htm

[52] See www.bank-banque-canada.ca/english/pdf/hermes.pdf

minimum accumulation of net foreign assets and the maximum growth of net domestic credit.

In New Zealand, the framework used to pursue the objectives of monetary policy is publicly disclosed and explained in a publicly released memorandum of understanding between the Minister of Finance and the Governor of the Reserve Bank of New Zealand, explained in official government publications, including a quarterly Monetary Policy Statement (Inflation Report),[53] the official central bank bulletin, [54] the Annual Report,[55] and in press releases to the media and on its website. The inflation target is disclosed in a publicly released memorandum of understanding[56] between the Minister of Finance and the Governor of the Reserve Bank, and explained in written reports to the legislature, public appearances by officials before the legislature, published reports in the Review (the official central bank bulletin), the Annual Report, and through release to the media and on the website.

Poland recently introduced a new framework for the operations of the National Bank of Poland (NBP), which was clearly laid out and featured in its Annual Report 1998.[57] The basis for the new framework was established in a new Act on the NBP[58] and a New Act on Banking, both adopted in August 1997. The Act on the NBP stipulates that the basic objective of the NBP is to maintain price stability, and it is at the same time to support Government economic policies, insofar as this does not constrain the pursuit of the basic objective.

In the United Kingdom, the framework, instruments, and targets used for monetary policy are publicly disclosed in a number of ways. They are explained by legislation, through written reports, appearances before the legislature, publication in the official bulletin and Annual Report,[59] and releases to the media and on the website, as well as official speeches by the authorities. In particular, the Bank of England (BOE) publishes a quarterly Inflation Report.[60] The Chancellor, who plays a key role in publicly presenting the rationale for the policy

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[53] See www.rbnz.govt.nz/monetary/mar00.pdf

[54] See www.rbnz.govt.nz/bulletin/title.htm

[55] See www.rbnz.govt.nz/annrepor/99ar.pdf

[56] See www.rbnz.govt.nz/pta.htm

[57] See www.nbp.pl/publikacje/pdf/rocz_ang98.pdf (especially pages 13–17).

[58] See www.nbp.pl/en/aktyprawne/dwn/ustawaa.doc

[59] See www.bankofengland.co.uk/annualreport/2000report.pdf

[60] See www.bankofengland.co.uk/inflationreport/ir00may.pdf

objective, sets the monetary policy. The monetary policy objective is communicated to the Monetary Policy Committee of the BOE in the Annual Remit for the Monetary Policy Committee. The objective is also discussed in the Annual Remit and in the Bank's quarterly Inflation Report.

2.1.1 The procedures and practices governing monetary policy instruments and operations should be publicly disclosed and explained.

Explanation and rationale

Procedures and practices governing monetary policy instruments refer to how the various monetary policy instruments are defined and made operational. Examples include procedures for access to the discount window or requirements for eligible collateral. These procedures should be explained to the public. Similarly, institutions responsible for foreign exchange policy, including institutions other than central banks, should define and explain procedures and practices governing foreign exchange policy instruments and operations.

Application

Most central bank respondents publicly disclose and explain the procedures and practices governing monetary policy instruments and operations. About half do so through legislation and by regulation. A majority publishes this information in the annual report and official central bank bulletin, as well as through public releases to the media.

2.1.2 The rules and procedures for the central bank=s relationships and transactions with counterparties in its monetary operations and in the markets where it operates should be publicly disclosed.

Explanation and rationale

The monetary authority should disclose the rules and procedures that govern its dealings with counterparties, such as primary dealers or commercial banks, as it goes about the process of implementing monetary and exchange policy or executing its fiscal agency role. The rules and procedures in this regard include the criteria for being a counterparty for monetary operations and the respective responsibilities for the central bank and the counterparties governing their relationships and transactions. Central bank dealings with counterparties in the foreign exchange market would also be included. In addition, there may be confidentiality requirements for counterparties and the central bank that are specified in rules and procedures.

This information is particularly helpful to firms that deal with the monetary authority, such as a buyer or seller of treasury bills in open market operations or as counterparties in foreign exchange market operations. In addition, it helps to assure the public and competing firms that these dealings are based on objective criteria, and therefore are fair and impartial.

Application

Most central bank respondents reported that the rules and procedures for the relationships with counterparties are publicly disclosed, typically in legislation and regulations. Common ways of disclosing this information included annual reports (about half) and the media (also about half). If publicly available, codes of conduct for dealers and such documents relating to dealings with the central bank can clarify eligible counterparties and help to ensure arms-length transactions in markets.

Many central banks disclose the names of their primary dealers with whom they engage in open market operations. For example, the Federal Reserve Bank of New York updates its list of primary dealers in government securities on its website whenever there is a change in the list.[61] Similarly, the Bank of Canada maintains a list of primary dealers and government securities distributors on its website,[62] as does the Bank of Norway.[63] The Bank of Japan publishes on its website (in Japanese) the criteria that a potential primary dealer must meet. The Bank of Brazil publicly discloses the rules and procedures for its relationships and transactions with counterparties mainly through its Circulars and Letter-Circulars, as well as through its information system (SISBACEN).

2.2 Where a permanent monetary policymaking body meets to assess underlying economic developments, monitor progress toward achieving its monetary policy objective(s), and formulate policy for the period ahead, information on the composition, structure, and functions of that body should be publicly disclosed.

Explanation and rationale

In the majority of countries, a central bank policymaking group plays an important role in formulating monetary policy. In some countries, the policymaking group is a formal board or committee made up of members who are appointed and have voting arrangements. For those countries that have such a policymaking group, there are certain attributes of the group that for transparency should be made part of the public record; in particular, who its members are, how they are selected, how it operates, and what role it plays in setting monetary policy. This

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[61] See www.ny.frb.org/pihome/news/announce/1999/an990923.html
Qualification for a primary dealer is based on the achievement and maintenance of the standards outlined in the Federal Reserve Bank of New York's memorandum of January 22, 1992. See www.ny.frb.org/bankinginfo/regrept/primary.html

[62] See www.bank-banque-canada.ca/english/auct.htm

[63] See www.norges-bank.no/english/marketinformation/index.html#Primarydealers Norwegian government bonds

is in contrast to a more informal policymaking group that is internal to the central bank, and functions as a deliberative body that decides monetary policy as a group or assists the Governor in making monetary policy decisions, but where the Governor has the ultimate authority to decide on monetary policy.

Disclosure of information about the policymaking body helps the public, and especially the financial community, to understand how this policymaking group functions and who its members are. Information on whether the ministry of finance or other government unit is represented on such a policymaking body—and whether such representatives have voting power or observer status—is useful to determine the influence of non-central bank appointees. Such information serves to make the policymaking body accountable for its policies. For the internal policymaking group, public disclosure of its composition and functions would provide the public with information about who is involved in policymaking and how policies are made. However, since the Governor is the ultimate decisionmaker, public disclosure about this internal group is less essential for transparency and accountability than for the formal policymaking group.

Application

Nearly all central bank respondents have some kind of policymaking body; however, in some cases, the group is internal to the central bank, and assists the Governor and participates in policymaking. Among those central banks that have a formal policymaking body (e.g., Algeria, Australia, Brazil, Chile, European Central Bank, Japan, Lebanon, Mexico, Poland, Switzerland, United Kingdom, and the United States), information on the composition and functions of the body is usually disclosed in legislation and supplemented by coverage in the annual report. The composition and responsibilities of Poland's Monetary Policy Council, which began operations in 1998, are described in the National Bank of Poland's Annual Report 1998 (p. 14). Among those that have an informal policymaking body (e.g., Botswana, Canada, and Israel), information on the composition and functions of the informal policymaking body may be less readily available to the public, although it may be discussed in the annual report.

2.2.1 If the policymaking body has regularly scheduled meetings to assess underlying economic developments, monitor progress toward achieving its monetary policy objective(s), and formulate policy for the period ahead, the advance meeting schedule should be publicly disclosed.

Explanation and rationale

Advanced knowledge of the meeting schedule for the policymaking group alerts interested parties on a uniform basis when there may be significant developments in monetary policy. This knowledge could be taken into consideration in making financial market decisions, and could thus contribute to gradual market adjustments.

Application

Of the countries with monetary policymaking bodies, a significant majority does not announce in advance the schedule of meetings, although most have regularly scheduled meetings. Of those that do announce the schedule of meetings, a significant majority does so by public release to the media, and fewer through the use of the website.

The monetary policymaking body of the Reserve Bank of Australia has regularly scheduled meetings, and an advanced meeting schedule is publicly disclosed in the Reserve Bank's Annual Report. It is widely known that the Reserve Bank Board has for many years met on the first Tuesday of every month (except January).

The policymaking body of the Central Bank of Brazil has regularly scheduled meetings, and an advanced meeting schedule is publicly made available to the media. The schedule of meetings has been announced through November 2000.

The European Central Bank's highest decision-making body (the Governing Council) has regularly scheduled meetings, scheduled one year in advance, and the schedule is made known to the public via the media and website.[64]

According to the Articles of Incorporation of the Bank of Korea, the Monetary Policy Committee is required to meet on the first and third Thursdays of each month.

The Board of Governors of the Bank of Mexico holds regularly scheduled meetings, which are publicly disclosed in advance. The Board also meets daily to assess the behavior of domestic and foreign financial markets, and it may decide to change the monetary policy stance on a daily basis. The public is aware that the Board meets daily.

The State Bank of Pakistan announces the schedule of meetings for its monetary policy body in its official bulletin and to the media, approximately two weeks in advance.

In the United Kingdom, the Bank of England announces at the end of each year the meeting schedule of the Monetary Policy Committee for the upcoming year via public release to the media and through its website.[65]

At the end of each year, a schedule for meetings of the U.S. Federal Reserve's Federal Open Market Committee to be held in the upcoming year is issued; it is released to the general

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[64] See www.ecb.int/about/schedules.htm

[65] See www.bankofengland.co.uk/pr99078.htm

media, available on the Federal Reserve's website,[66] and is also published in the Federal Register.

Implementation considerations

There are times, likely to be infrequent, when it is inappropriate or not feasible for a policymaking group to give the public advance notice for a meeting—for example, when a meeting is held to deal with an emergency situation.

2.3 Changes in the setting of monetary policy instruments (other than fine-tuning measures) should be publicly announced and explained in a timely manner.

Explanation and rationale

When the monetary authority changes monetary policy, these changes should be announced and explained at the time, or soon after they occur. For example, if there is a change in the operating target for a particular short-term interest rate, this change should be announced and explained in a timely manner.

The effectiveness of monetary policies can be strengthened if the changes in policy instruments are publicly announced and explained in a timely manner. Such disclosure ensures equal access to information about monetary policy decisions. Explaining policy changes helps to shape expectations and thus makes policy more effective, and it also promotes public accountability for policy choices.

Application

Most central banks publicly announce and explain decisions to change monetary policy. Of those that do, a significant majority provide explanations immediately after the decisions. Most central banks do so by public release to the media, followed by further explanations in public statements by officials and in publications, such as the central bank's bulletin and annual report.

Changes in the setting of monetary policy instruments by the Reserve Bank of Australia are publicly announced and explained immediately after the decisions by media release (published instantly on screen services) and by posting on the website. Policy changes are announced on the day that the change is to be effective, generally at 9:30 a.m.—the same time that the Reserve Bank announces its dealing intentions for the day. Further subsequent explanation and discussion are contained in other forms such as in the Bank's *Bulletin* and Annual Report.

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[66] See www.bog.frb.fed.us/fomc/#2000

Changes in monetary policy by the Central Bank of Brazil are announced and explained immediately after the decision by public release to the media and publication in an official bulletin, as well as through SISBACEN—the main information system and data base of the Central Bank of Brazil.

Changes in the setting of monetary policy instruments by the Bank of Estonia are publicly announced and explained soon after the decision. Usually, the media is given notice of such a change on the following banking day. According to the Law on the Bank of Estonia, all decisions made by the Board of the Bank of Estonia resulting in the establishment of norms are required to be published in Riigi Teataja (the official publication of the Parliament). Decrees and regulations of a normative nature issued by the Governor and decisions of the Board are also published in Riigi Teataja.

The European Central Bank (ECB), after each meeting of the Governing Council, issues a press statement. In addition, a regular press conference is held after the first meeting of each month, including a question-and-answer session with the press. If a monetary policy decision is taken, the President of the ECB announces and explains the decision at the press conference. When an interest rate decision is taken at a meeting, other than the first meeting of the month, it is announced in a press release.

Monetary policy changes by the Bank of Mexico are announced and explained immediately after the decision by announcements to the press, on the website, and then in the Annual Report. In particular, the Bank of Mexico announces the daily target for the total balance in the current accounts of credit institutions, and the public is advised at the time a policy decision is made of any change in the target.

In the United Kingdom, the Bank of England announces and explains changes in the setting of monetary policy instruments immediately after the decision by public release to the media and on the website. These changes are also discussed when officials appear before Parliament, and are published in the quarterly Inflation Report and the Annual Report. The requirement to publish statements about monetary policy decisions is covered in Section 14 (1)–(5) of the Bank of England Act 1998.

Changes in monetary policy are announced and explained immediately after the decision by the U.S. Federal Reserve Board or the Federal Open Market Committee (FOMC) by release of a public press release to the media and on the website, usually with some explanatory comments, and by publication in the *Federal Reserve Bulletin* and the Annual Report.[67]

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[67] The U.S. Federal Open Market Committee recently announced several modifications to its disclosure procedures (see January 19, 2000 Press Release, (www.bog.frb.fed.us/BoardDocs/Press/General/2000/20000119/default.htm). First, the FOMC will issue a statement to the public immediately after every FOMC meeting. Previously, the procedure was to release a statement only in the event of a policy action or a major shift in the Committee's view about prospective developments. Second, the FOMC

(continued…)

Minutes of the FOMC meeting, which provide background and reasoning behind the decisions, are released to the public, and are available on the Federal Reserve's website shortly after the following meeting of the FOMC; they are also published in the *Federal Reserve Bulletin* and in the Annual Report.

Implementation considerations

Key issues are what constitutes a timely manner, how much detail should be disclosed, and at what point. In addition, the manner of announcing is also important to ensure that the information is available to all on an impartial and uniform basis. If some obtain the information before others, they may be able to achieve a financial gain.

Another issue is whether a statement should be made at the conclusion of a scheduled meeting that no policy change has been made if there has been no change in monetary policy. For example, the Czech National Bank and the National Bank of Poland follow this practice by informing the public that no monetary policy action has been taken.

2.3.1 The central bank should publicly disclose, with a pre-announced maximum delay, the main considerations underlying its monetary policy decisions.

Explanation

The main considerations underlying changes in monetary policy may be more or less detailed, depending on the tradition and context. The timing of such explanations should be specified in advance, so that the monetary authority meets the time requirement and the public can be watchful and confident that the information will be forthcoming on a regular basis. Also, timeliness of such information is of key importance. Under some circumstances—e.g., if there are successive changes in the same direction and for the same reasons—such explanations or assessments might be relatively brief or summary in nature.

Application

The majority of the respondent central banks disclose the main considerations underlying their policy decisions within a preannounced maximum delay. Of those that do make such disclosures, many do so within two weeks, or provide the information prior to the next scheduled meeting of the central bank's policymaking committee. Common ways of

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changed its language describing its assessment of future developments. The new language will describe the FOMC's consensus about the balance of risks to the attainment of its long-run goals, and will be used in the announcement made after each meeting. Previously, the FOMC's view about the period ahead (referred to as the "policy tilt" or "policy bias") was couched in terms of the relative chances of an increase or decrease in the intended federal funds rate.

disclosure include providing a statement of the main considerations underlying the central bank's monetary policy decisions to the media and published in the official bulletin. A significant majority of those disclosing the main considerations underlying policy decisions provide a summary. Others offer more elaboration via press release of minutes or a policy record of the policymaking committee.

The Central Bank of Brazil discloses the main considerations underlying its monetary policy decisions within two weeks or less following a decision. A summary of these considerations of the policymaking meetings is disclosed to the media and through SISBACEN (the information system and database maintained by the central bank and made available to the market). As of January 2000, minutes of the meetings of the Monetary Policy Committee (COPOM) have been released to the public with a lag of seven days. Prior to June 1999, the minutes of the COPOM meetings were released with a lag of four to five months (the minutes of a given meeting were released after the three subsequent meetings had taken place); and between June 1999 and January 2000, the minutes were released with a lag of 15 days.

Key features of the European Central Bank's communication policy relating to its monetary policy decisions are the monthly press conferences given by the President and the Vice-President, and the Monthly Bulletins. During the press conferences, the President makes an introductory statement summarizing the Governing Council's discussions and conclusions before answering questions from journalists. Against this background, monetary policy decisions and the main underlying considerations are disclosed immediately after a decision is taken. In addition, members of the Governing Council of the ECB give interviews in order to explain monetary policy decisions, which are made from a euro area-wide perspective, in both the euro area and national context.

The Bank of Japan publicly discloses the main considerations underlying its monetary policy changes by a press release that is also posted on the website on the day of such policy changes. As required by Article 20 of the Bank of Japan Law, the Chairman of the Policy Board shall publish a document that outlines the discussion of each Policy Board meeting on monetary policy matters, which include dissenting votes, as well as the transcript of such meetings[68]. Minutes of policymaking meetings on monetary policy matters are published three business days after the following two policy Board meetings, while the transcript of the policymaking meeting is published with a ten-year lag.

The Bank of Korea holds a Governor's press conference immediately after the monthly monetary policy decisionmaking meeting by the Monetary Policy Committee where the main considerations underlying its monetary policy decisions are disclosed. Further explanations are made in written reports to and appearances before the National Assembly. The disclosure takes the form of summary statements and minutes of the policymaking meeting.

[68] See www.boj.or.jp/en/seisaku/00/seisak_f.htm

The Central Bank of Libya releases a summary of considerations of its policymaking meeting prior to the next scheduled meeting. It is submitted to the legislature, and published in official central bank publications and in the Annual Report.

The Bank of Mexico publicly discloses a summary of the main considerations underlying its monetary policy decisions prior to the next scheduled meeting of the policymaking committee by releases to the media and on the website; the decisions are further explained in the official bulletin and the Annual Report.

The State Bank of Pakistan discloses the main considerations underlying its monetary policy decisions, usually through circulars and published reports in the official bulletin and in releases to the media. Generally, the explanations are included in the circulars announcing the policy decisions, which are released immediately after the policy decisions are made.

In the United Kingdom, the Bank of England issues a press release/market notice immediately after the Monetary Policy Committee (MPC) makes an interest rate decision, giving details of the decision and sometimes giving the main reasons for the decision. The main considerations underlying MPC monetary decisions are disclosed within two weeks after an MPC meeting. The principal channel for disclosure is the publication of the minutes of the MPC. The Bank of England Act 1998 (Part II, Clause 15) states that the minutes of MPC meetings must be published within six weeks of the MPC meeting, and dissenting votes must be noted. The lag in publishing the minutes was reduced from six weeks to two weeks as of October 1998. Disclosure is further enhanced by public appearances by MPC members before Parliamentary Committees and the publication of the quarterly Inflation Report.

In the United States, the main considerations underlying the U.S. Federal Reserve's Federal Open Market Committee (FOMC) monetary policy changes are disclosed in a press release and posted on the Federal Reserve's website on the day of the meeting at which the policy decisions are made—see 2.3. This information is supplemented by release of the minutes of the FOMC's meeting several days after the conclusion of the subsequent FOMC meeting, including a record of any vote on policy issues, with the dissenting votes identified with their rationale. Further discussion and explanation is provided by Federal Reserve officials before Congress and in public speeches. Transcripts of FOMC meetings are released with a five-year lag.

Implementation considerations

One practical consideration concerns how much detail to provide in the main considerations. Three central banks—the Bank of England, the Bank of Japan, and the U.S. Federal Reserve's Federal Open Market Committee—indicate dissenting votes, as well as the explanations offered by those casting dissenting votes. Some central banks, such as those in Japan and the United States, publish a transcript after a number of years. The degree of disclosure concerning the discussion is a critical issue because if there is too much disclosure, including the identification of individual policy board member's views and positions, members may be reluctant to speak frankly.[69] For countries such as the United Kingdom that require individual accountability for each of the members of the Bank of England's Monetary Policy Committee, full disclosure is an essential feature to achieve such accountability.

If the main considerations are provided with a long lag, they are of limited use. Also, if there are leaks, the result may yield unfair advantage for those privy to these leaks. If there is too much detail, it may be difficult for the public to "see the forest for the trees." Moreover, market-sensitive information arising in the course of the proceedings of a policy meeting (if released when it is still market sensitive) may cause excessive or unnecessary volatility in financial markets.[70]

In addition, there is the issue of how much transparency is appropriate concerning policymakers' views on the transmission mechanism for monetary policy. Given the current state of macroeconomics, policymakers in general do not disclose the reasons that a particular magnitude of change was made rather than a larger or smaller change.

2.4 The central bank should issue periodic public statements on progress toward achieving its monetary policy objective(s) as well as prospects for achieving them. The arrangements could differ depending on the monetary policy framework, including the exchange rate regime.

Explanation and rationale

The monetary authority should provide some longer-term assessment of monetary policy, in particular, the extent to which the main objectives or goals of monetary policy are being achieved. In addition, this kind of assessment is most useful if it includes a forward-looking focus, indicating the prospects for achieving the monetary policy objectives. The kind and frequency of the monetary policy assessment may depend on the monetary policy framework. For example, inflation-targeting countries commonly issue comprehensive "inflation reports" (see 2.1), while for countries with fixed exchange rate regimes such assessments may be shorter and less frequent.

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[69] See Alan Greenspan's comments in F. Capie, C. Goodhart, S. Fischer and N. Schnadt (eds.), *The Future of Central Banking: The Tercentenary Symposium of the Bank of England* (Cambridge: Cambridge University Press), 1994, p. 253.

[70] For a more detailed discussion, see the exchange involving Willem Buiter and Otmar Issing: Willem Buiter, "Alice in Euroland," *Journal of Common Market Studies* (Volume 37, Issue 2), June 1999, pp. 181-209; and Otmar Issing, "The Eurosystem: Transparent and Accountable or 'Willem in Euroland'," *Journal of Common Market Studies* (Volume 37, Issue 3), September 1999, pp.503-519.

It is important for public understanding of monetary policy to have an authoritative assessment of progress, challenges, and prospects with regard to the main objectives of monetary policy. Moreover, such an assessment helps the public to form a judgment about the performance of the policymakers, as well as establishing the central bank's accountability.

Application

Most central banks issue periodic public statements on progress toward achieving their monetary policy objectives and the prospects for achieving them. A majority of those do so either quarterly or annually. Reports to the media and annual reports are popular methods of providing such reports.

The Reserve Bank of Australia publishes quarterly reports on its assessment of the Australian economy and progress toward achieving its monetary policy objectives. Since 1997, two reports a year have taken the form of the Semi-Annual Statement on Monetary Policy (Inflation Reports), which are released to coincide with the Governor's testimony before a parliamentary committee. These documents, which are required by the Statement on the Conduct of Monetary Policy to include information on the outlook for inflation, are first published as a "stand alone" document and subsequently in the Reserve Bank Bulletin, as well as posted on the Bank's website.

The Central Bank of Chile issues periodic public statements on progress toward meeting its monetary policy objectives. As provided in sections 78-80 of the central bank law, commonly referred to as "The Act," the Bank of Chile submits two annual reports, one to the Ministry of Finance and the other to the Senate. The first of these, which contains information about programs and policies executed the previous year, must be sent (and available for public consultation) no later than April. The second report must be submitted no later than September, and contains information on the performance of policies and programs and the economic outlook for the rest of the current calendar year and the following year. The latter report is presented in an open meeting in the Senate, including a speech by the President of the Central Bank. Both reports are released to the media and include a reference to the legal requirement of their release.

The European Central Bank (ECB) releases an introductory statement on its website on behalf of the President following the monthly press conferences, and issues periodic assessments in its Monthly Bulletin. After the first meeting each month the President of the ECB holds a press conference and describes the Governing Council's assessment of the monetary, financial and other economic situation as well as the outlook for price developments and the risks to price stability.

The Bank of Israel publishes status reports on monetary policy objectives twice a year in its Review and releases them to the media. Since 1998, the Bank has published an *Inflation Report* twice a year explaining monetary developments and the required policies to achieve the inflation target, which is the ultimate target for its monetary policy.

The Bank of Korea submits a Monetary Policy Report to the National Assembly biannually.

The Reserve Bank of New Zealand Act of 1989 requires the Reserve Bank of New Zealand to publicly issue a comprehensive report at least every six months explaining its monetary policy decisions, discussing conditions affecting monetary policy and analyzing the performance and effectiveness of monetary policy. In practice, the Reserve Bank issues these reports on a quarterly basis.

The National Bank of Poland issues periodic public statements on progress toward achieving its monetary policy objectives, by issuing press releases after its Monetary Policy Council meetings, and through its quarterly Inflation Reports, and its Annual Report.

In the United Kingdom, the Bank of England issues public statements (the "Inflation Report") on progress toward achieving its monetary objectives each quarter. In particular, the Bank has a televised press conference on the day the quarterly Inflation Report is published. Furthermore, members of the Monetary Policy Committee regularly appear before Parliamentary Committees, and speeches and reports are contained in the official bulletin and Annual Report, in public release to the media, and on the website.

The U.S. Federal Reserve System is required by legislation to report semiannually on its monetary policy objectives to the public by means of written reports submitted to, and public appearances by officials before, the Congress. The reports are also published in the *Federal Reserve Bulletin* and posted on the website.

Implementation considerations

The appropriateness of central bank public comments on the prospects for achieving some economic policy objectives is under discussion in some central banks. In some areas, central banks are reviewing how transparency can best contribute to the conduct of monetary policy, particularly regarding the expression of views to the public about the future path of monetary conditions. Transparency about policies is complicated by the fact that public comments on policy may be conditional and addressed to two distinct audiences—the market and the public at large—and the same statement at times carries different meanings for these audiences.

2.4.1	**The central bank should periodically present its monetary policy objectives to the public, specifying, inter alia, their rationale, quantitative targets and instruments where applicable, and the key underlying assumptions.**

Explanation and rationale

This provision specifies some key elements to be covered in the periodic assessment of monetary policy. The central bank's presentation should include the reasons behind the policy stance as well as key assumptions, and, where applicable, quantitative targets.

The effectiveness of monetary policies can be strengthened if the objectives of policy and their rationale are known and if the authorities make a credible commitment to meeting them. Where applicable, quantitative information is useful to the public and the legislature in assessing the performance of monetary policy and in holding the central bank accountable for its actions. In addition, disclosure of key assumptions is useful in assessing the feasibility of monetary targets and goals.

Application

Most respondent central banks periodically present their monetary policy objectives to the public, including the rationale and key underlying assumptions. About two-thirds report this type of information annually, while about one-third do so quarterly.

The Reserve Bank of New Zealand has made considerable efforts since inflation targeting was introduced to promote public understanding of monetary policy, inflation targeting, the importance of price stability, and related issues. It has done this on a focused basis, designing and disseminating information according to the particular needs of different audiences. Communication initiatives include: speeches, bulletin articles, pamphlets, information releases, school information packages, annual reports, newspaper articles, news media interviews, and media briefings.

In the United Kingdom, the Chancellor of the Exchequer, who presents the rationale for the policy objective, sets the monetary policy. The objective is communicated to the Bank of England's Monetary Policy Committee via an Annual Remit, which is made available to the media and the public.

Implementation considerations

A key issue concerns how much detail to disclose, including whether to disclose the central bank's forecast, and the main assumptions behind it.[71] In addition, central banks may decide to adopt an active stance in promoting public understanding of monetary policy objectives and related issues, including the need for information to be targeted to different audiences, based on their level of understanding, familiarity with economic issues and likely sphere of interest. In this regard, transparency may not be effective unless it is accompanied by measures to strengthen public understanding of the issues involved, which in turn may require considerable effort on the part of the central bank in terms of the determining audience needs, the design of information, and the techniques for the dissemination of information.

2.4.2 The central bank should present to the public on a specified schedule a report on the evolving macroeconomic situation, and their implications for its monetary policy objective(s).

Explanation and rationale

Key aspects of the macroeconomic situation include, inter alia, measures of inflation, indicators of future inflation, balance of payments, fiscal deficits, unemployment and other aggregate measures of economic potential or output, including GDP.

Changes in the macroeconomic situation have implications for the conduct of monetary policy and may indicate the extent to which the objectives of monetary policy can be met. At times, monetary policy objectives cannot be met if the macroeconomic situation is significantly out of balance. Information on the macroeconomy provides the basis for the public to understand the economic context in which monetary policy decisions are made, helping to make monetary policy more comprehensible. Thus, a public assessment by the central bank on the macroeconomy and its implications for monetary policy is important in the accountability of the monetary authorities.

Application

Most central banks present to the public reports on the evolving macroeconomic situation on a specified schedule. This is commonly done in quarterly or annual reports. Reports to the media and use of the website are also often used for this purpose.

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[71] See Juha Tarkka and David Mayes, "The Value of Publishing Official Central Bank Forecasts," Bank of Finland Discussion Papers, 22/99 (December 31, 1999), www.bof.fi/env/fin/ju/dp1999/dp22_99e.stm

Implementation considerations

One of the implementation issues concerns how much detail to include and how specific or quantitative to be with regard to the national and international economic outlook. In this regard, some central banks, such as the Reserve Bank of New Zealand and the Bank of Norway disclose their internal staff forecasts with considerable quantification. The Swedish Riksbank and the Bank of England publish forecasts sanctioned by their respective policymaking bodies, not just by the staff, which further aids transparency.[72] Other central banks are more general in their statements about future economic conditions.

2.5 For proposed substantive technical changes to the structure of monetary regulations, there should be a presumption in favor of public consultations, within an appropriate period.

Explanation and rationale

Substantive technical changes to the structure of monetary regulations include significant changes in the structure of the rules that the central bank uses to conduct its policies. These might include reserve requirements, procedures in the auctions for treasury or central bank bills, qualifications and rules and procedures for counterparties with whom the central bank conducts open market operations, or eligibility of collateral for discount. For technical changes of this sort, there should be a presumption in favor of public consultations. Such consultations could range from public hearings (with or without an opportunity for public intervention), an open period for submission of written comments, posting on website, or meetings with parties most directly affected by the changes.[73] To be meaningful, there should be adequate advance notice for such consultations.

Public consultations for proposed substantive technical changes in the structure of monetary regulations within an appropriate period give financial institutions and other market participants in financial markets that are most directly affected by such changes notice of pending modifications in the environment in which they conduct business, thereby minimizing the costs for financial institutions of having to change operations and procedures in a short period of time. Public consultations also give the public the opportunity to propose changes, including providing an opportunity to present reservations and expected problems in advance. Public consultations also help to promote public support for such changes. In addition, public consultations on substantive technical changes to the structure of monetary

[72] The four central banks publish their forecasts as follows: Reserve Bank of New Zealand, four times a year, included in Monetary Policy Statements; the Bank of Norway, the Riksbank, and the Bank of England, four times a year, included in Inflation Reports.

[73] See Box 3-7 in 6.4 in Part 3 of the *Supporting Document* for forms of public consultation.

regulations contribute to good governance since consultations with the public, and particularly affected parties, may lead to additional input, and therefore, to better policies.

Application

A majority of central bank respondents indicate a presumption in favor of public consultations for substantive technical changes to the structure of monetary regulations. Written submissions and consultations with relevant organizations are commonly used methods.

Proposed modifications to the structure of monetary regulations by the Central Bank of Brazil are submitted to public evaluation, following agreement of the Board of Directors of the Central Bank. The proposal is then announced through (1) the issue of an edict in the official diary of the Union, (2) the SISBACEN (the Central Bank's information and data system), and (3) on the website.[74] Public consultations are held by means of written submissions, consultations with relevant organizations and associations, and open meetings with the public.

There is a presumption in favor of public consultations for proposed changes by the Bank of Lebanon in the structure of monetary regulations. The consultation period is variable, depending on the nature of the change. The means of consultation include written submissions and consultations with relevant organizations. Consulted bodies include the Bankers' Association, technical experts, and other governmental policymaking bodies. The Governor meets monthly with the Bankers' Association, and issues discussed are usually published in the media.

For the United States, in general, the Administrative Procedures Act, applicable to all government agencies, calls for a consultation period of no less than 30 days, and no less than 30 days before new regulations take effect. Federal Reserve Board regulations follow that Act.

Implementation considerations

If a regulation is adopted to deal with emergency situations, it may not be feasible or appropriate to have public consultations. In many instances, limits to those consulted may be necessary to have efficient and meaningful public consultations. While it may be more efficient to limit consultations to "interested parties," it could run the risk of insiders unduly influencing the monetary regulatory framework, and could place potential entrants into the credit or financial markets at a disadvantage.

[74] See www.bcb.gov.br/

2.6 The regulations on data reporting by financial institutions to the central bank for monetary policy purposes should be publicly disclosed.

Explanation and rationale

Regulations define the kind of monetary data and the timing of such reporting required of financial institutions.

Disclosure of data-reporting requirements by financial institutions helps the public to form more accurate judgments about monetary policy, by informing the public about the type and extent of information available to the central bank. Awareness by the public of what the central bank knows about financial institutions can allow the public to assess whether the central bank is "on top of things," and thus, is capable of fulfilling its duties. Disclosure of the regulations on data reporting helps to achieve uniformity of treatment (although allowing room for differentiating among classes or categories of financial institutions). In addition, it provides useful information for potential entrants into financial markets, and allows the public and affected parties to assess the extent of regulatory reporting burdens.

Application

A majority of respondent central banks disclose data-reporting requirements. About half of those making these disclosures use publication in official government publications, the official government gazette, or the register.

In Brazil, regulations on data reporting by financial institutions to the central bank for monetary policy purposes are publicly disclosed by publication in an official government publication, and public release to the media, and through SISBACEN (the central bank's information and data system).

In Estonia, requirements on data reporting are established by Decrees of the Governor, which are published in the annex to Riigi Teataja (official publication of the Parliament) as well as on the Bank of Estonia's website.[75]

The regulations of the European Central Bank (ECB) imposing statistical reporting requirements directly on the reporting institutions are published in the *Official Journal of the European Communities* and on the ECB's website.[76]

In the United States, requirements on data reporting by financial institutions are publicly disclosed in written reports submitted to Congress and on the Federal Reserve Board's

[75] See www.ee/epbe/norm/index.html.en

[76] See www.ecb.int/pub/pdf/legalcomp99en.pdf

website, as well as being available from the Federal Reserve Board's Freedom of Information Office. Reporting forms are shown on the Federal Reserve website.[77] In order to monitor new reporting requirements and contain reporting burdens on the public, new reporting requirements are reported to the Federal Government's Office of Management and Budget, which in turn submits them to Congress for information but not for approval.

[77] See www.federalreserve.gov/boarddocs/reportforms/default.cfm

III. Public Availability of Information on Monetary Policy

3.1	**Presentations and releases of central bank data should meet the standards related to coverage, periodicity, timeliness of data and access by the public that are consistent with the International Monetary Fund's data dissemination standards.**

Explanation and rationale

Public disclosure of economic and financial data by a central bank should be guided by the IMF's data dissemination standards. The standards consist of the Special Data Dissemination Standard (SDDS) and the General Data Dissemination System (GDDS) developed by the IMF. [78] The SDDS and the GDDS enhance the availability of timely and comprehensive data, as well as assist countries in improving the quality and integrity of data. The SDDS covers data relating to the real, fiscal, monetary, financial and external sectors of national economies. The GDDS includes the above as well socio-demographic data and focuses primarily on improving data quality. Box 2-2 and Box 2-3 provide background on the development and experience of the SDDS and the GDDS.

Observance of the IMF standards implies the pursuit of good statistical practices and facilitates dissemination of comprehensive and more reliable information to financial markets, the general public, and economic and financial policymakers. Availability of information based on the IMF data dissemination standards allows market participants to compare information against agreed-upon and internationally accepted benchmarks, leading to a better appreciation of policy actions, and informed lending and investment decisions. Policymakers also benefit from such publicly available data for pursuing sound and consistent macroeconomic policies. Both the SDDS and the GDDS are thus expected to enhance the availability of timely and comprehensive statistics and therefore contribute to the pursuit of sound macroeconomic policies. The SDDS is also expected to contribute to the improved functioning of financial markets.

[78] See dsbb.imf.org. The SDDS and GDDS have different objectives, with the SDDS setting minimum standards whereas the GDDS serves primarily as a developmental tool.

Box 2-2. Background on SDDS Development and Experience

- The SDDS was an early undertaking by the IMF in standard-setting activities. The origins of the Special Data Dissemination Standard (SDDS) are rooted in events in 1994/95 that underscored the role that information deficiencies could play in contributing to market turmoil. After wide-ranging consultations by the IMF with users and producers of data and feedback, the SDDS was established in March 1996, encompassing four key dimensions of statistical practice: data (within which coverage, periodicity and timeliness), access, integrity, and quality.

- The SDDS was envisaged as providing on a voluntary basis a set of data dissemination standards, representing an effort to codify existing good practice, to which countries participating in international capital markets, or aspiring to do so, could subscribe. Subscription to the SDDS is voluntary; however, observance of the Standard by subscribers is mandatory. Under the SDDS, subscribing countries would provide to the public more comprehensive, reliable, accessible, and timely economic and financial information. The SDDS was not expected to prevent economic crises. The disturbances that began in Asia in 1997 have further underscored the role that information deficiencies can play and have indicated the need for SDDS refinements. In particular, enhancements concerning the specifications for international reserves and external debt were seen as essential.

- The SDDS has stimulated a large volume of data dissemination activity over the four years since its inception. By end-June, 2000, 47 countries were subscribers, including major industrial countries and many emerging market economies. Given the target audience—countries participating in international capital markets or aspiring to do so—this represents a high subscription rate, consistent with expectations when the SDDS was first established. Encouraged by the SDDS, subscribers have introduced wide-ranging improvements in statistical practices, to the benefit of the countries and the international community. In September 1996, the IMF opened the Dissemination Standards Bulletin Board (DSBB) on its public website (dsbb.imf.org). This electronic bulletin board provides easily accessible information about the statistical practices, or "metadata," of subscribers. As part of the evolving SDDS process, the IMF has undertaken wide-ranging consultations with countries and other international agencies, as well as its first experiments with public discussion papers of IMF policy proposals and the use of an Internet web site to communicate information on data standards.

- It was clear that users of the DSBB would find it more useful if there were a direct link to actual economic and financial data, in addition to the information it provided about data practices. To that end, hyperlinks from the DSBB to country websites—with the data on the country site to correspond to the data described on the DSBB—were introduced. By May 2000, hyperlinks to country data sites were in place for 26 subscribers and were under review by IMF staff for another 16 subscribers. Five subscribers have websites on which some or all SDDS data categories are disseminated, but progress on the development of the National Summary Data Page has been limited. The goal for the period ahead is the further enhancement of the DSBB as a user-friendly way to access information concerning the SDDS, the statistical practices of subscribers, and actual economic and financial data for subscribers.

Box 2-3. GDDS: Its Role and Experience

- **The General Data Dissemination System (GDDS), established in 1997, fosters sound statistical practices with respect to the compilation and dissemination of economic, financial, and socio-demographic statistics.** The GDDS aims at addressing the statistical requirements that have emerged from the intensifying demand for a wide range of economic and social data to underpin the task of macroeconomic management and poverty reduction. Through the GDDS, Fund member countries commit voluntarily to improving the quality of the data produced and disseminated by their statistical systems over the long run to meet the data requirements of analysis and policymaking. Countries determine the priorities they will pursue in a set of statistical development plans that reflect the move toward full realization of the objectives of the GDDS. The GDDS recognizes that participating member countries differ in their stages of statistical development and in their capacity to improve statistical systems over time. Therefore, reflecting its emphasis on long-run development of statistical systems, the GDDS is not prescriptive but provides for flexibility in the rates of implementation within and across countries. The IMF supports these efforts, by providing technical assistance and by catalyzing assistance from other sources, including in areas where it does not itself engage in technical assistance. The recommendations and objectives of the GDDS are consistent with the UN's Fundamental Principles of Official Statistics.

- **The GDDS addresses three key areas:** ***the coverage of the data to be compiled, including issues of quality of data; development plans for statistical systems; and dissemination of data.*** Together these priority areas constitute a solid basis on which to formulate long-run policies. The primary objective of the ***quality dimension of the GDDS*** is to ensure that statistical systems are developed and maintained in ways that permit statistical data to be produced and disseminated in accordance with principles and practices that ensure high standards of excellence. The GDDS encourages the application of sound methodological principles, the adoption of rigorous compilation practices, and the observance of procedures that ensure professionalism and objectivity. For the GDDS, timeliness is not the first priority: rather it focuses on building the capacity to provide data of the highest standard. ***Development plans*** **in the GDDS focus on viewing the statistical system as a whole.** There are three aspects of development plans: (a) a diagnosis of the current situation and the formulation of a strategic vision of future directions; (b) the elaboration of a detailed action plan that identifies all the resources that are required to achieve the desired objectives; and (c) the tracking of progress under these plans. ***Dissemination of data*** **is the ultimate objective of any statistical system**. Accordingly, the GDDS attaches special importance to the procedures used to disseminate data. A major area of emphasis is the choice of efficient and impartial methods of dissemination.

- During Phase I of the implementation of the GDDS (1998-99 and 1999-2000) focus was placed on education and training through regional seminars and work with pilot countries. The impact of Phase I has been significant. 62 countries have notified the IMF that they have nominated a GDDS coordinator to act as the main interlocutor with the IMF staff on GDDS. 13 agreed to be pilot countries and 22 additional countries have formally advised the IMF that they want to participate in the GDDS.

Application

While the subscription to the SDDS is voluntary, 47 countries (including all the G-10 countries and 26 emerging market economies) have subscribed to the SDDS and have undertaken to fully subscribe to the standard.

The countries that subscribe to the SDDS have made public their plans through the Dissemination Standard Bulletin Board (DSBB) set up by the IMF (available on the IMF website) to ensure full observance of the data standards. The DSBB also provides public information relating to the advance release calendar for data required under the SDDS. Several countries use the GDDS as a framework for statistical development and are preparing metadata to be made publicly available through the IMF website.

Implementation considerations

The IMF has allowed a temporary flexibility option to all subscribers to smooth the transition to full observance of the SDDS without diluting the standards. Some countries are making intensive attempts at building statistical systems that will enable them to start observing the standards. In practice, strict observance of the SDDS under all data categories involves adhering to the periodicity (frequency) and timeliness (lag), which have been prescribed for the various data categories. Implementation of the GDDS requires an assessment of current compilation and dissemination practices, and the development of plans for improvement in these practices.

3.2 The central bank should publicly disclose its balance sheet on a preannounced schedule and, after a predetermined interval, publicly disclose selected information on its aggregate market transactions.

Explanation and rationale

The central bank should provide a financial statement of assets and liabilities, reflecting its financial position, on a regular and time-specified basis. Based on selective criteria and with a suitable lag, information on the central bank's market operations, comprising open market transactions in domestic money and foreign exchange, emergency financial assistance, and foreign exchange reserve management operations, should also be made available to the general public. For policy, strategic and confidentiality considerations, disclosure should be on an aggregated or consolidated basis at the minimum.

Public disclosure of the central bank's balance sheet on a preannounced schedule together with information on its aggregate market transactions, assists in promoting accountability, supporting good governance and transparency, and builds the credibility of central bank market operations. It also explains the use of central bank resources. Disclosure of aggregate market transactions helps to reduce market uncertainty relating to central bank operations, and allows market participants to determine the consistency of central bank operations over time.

Application

Nearly all central banks provide the public with information on their aggregate market transactions by publication either in the official bulletin or the annual report. The interval between the central bank's aggregate market transactions and the release of information varies between releasing the information the same day to fortnightly to monthly. A significant majority of central banks release the information through the media and also post it on their website. Some central banks provide the information through written reports to the legislature (e.g., National Bank of Georgia, Bank of Israel, Bank of Mauritius, and Reserve Bank of New Zealand).

The Reserve Bank of Australia publishes its balance sheet weekly with a two-day lag. While the Reserve Bank does not provide information on the volume of transactions, it provides information on a daily basis on the market liquidity position and its intention to buy and sell securities and the market-determined cash rate.

The Bank of Canada uses its weekly balance sheet to make a note to its accounts indicating the loans made to the Canadian Payments Association as well as securities held under purchase and resale agreement, which is the means by which the Bank establishes the band for the overnight interest rate. Information about the purchase and resale agreements is published daily on the relevant web page.[79]

The Eurosystem's market operations are selectively disclosed through the ECB's weekly commentary on the consolidated balance sheet of the Eurosystem.

The Bank of Korea posts information of its market transactions on its website about ten weeks after the end of the reference month. In its monthly publication on money and banking statistics, it provides information on its transactions twelve weeks after the end of the reference month.

The U.S. Federal Reserve Board releases data relating to its market transactions on an aggregate basis with a one-week lag after its market operations. Data on the volume of open market operations are released to wire services and detailed statistics are provided every month. Foreign exchange intervention during a three-month calendar are reported to the media during the following quarter, and posted on the Board's website, and published quarterly in the *Federal Reserve Bulletin.*

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[79]See www.bank-banque-canada.ca/english/bankrate.htm

3.2.1 Summary central bank balance sheets should be publicly disclosed on a frequent and preannounced schedule. Detailed central bank balance sheets prepared according to appropriate and publicly documented accounting standards should be publicly disclosed at least annually by the central bank.

Explanation and rationale

Financial disclosure by a central bank should also consist of providing a summary statement of its assets and liabilities. The information should be made available periodically and at short intervals. In addition, a systematic and detailed report on the central bank's financial condition and activities should be made available by disclosing its balance sheet. The statement must, at the minimum, be prepared on an annual basis and adhere to high quality internationally acceptable accounting standards. This applies to policies that are consistent with international accounting standards (IAS), as formulated by the International Accounting Standards Committee or where no IAS exists, practices generally adopted by the central banks that are consistent with the underlying principles of IAS. Box 2-4 outlines basic accounting and auditing practices relevant to transparency.

Box 2-4. Principles for Central Bank Accounting

Transparency and disclosure of financial information by central banks requires adherence to appropriate accounting standards. Central bank financial statements should be usable for diverse persons and entities, inside and outside of government: the central bank itself, the government, central banks of other countries, international financial institutions, and financial market participants.

Some key conditions to achieve these objectives:

- Based on a general legislative framework, a formal set of accounting policies and auditing standards as well as manuals should be in place;
- Central bank accountants and auditors would apply more detailed rules, consistent with recognized accounting, internal control and auditing standards, aimed at producing a true and fair view of the central bank's financial condition;
- The accounting rules applied to the central bank should be based on a number of underlying principles: the materiality principle, i.e., to reflect all items that have an impact on the statements, the prudence principle, i.e., the need to value at lower of cost or market value; the substance over form principle; i.e., economic reality over legal form, accrual rather than cash treatment of income and expenditures, the going concern assumption rather than liquidation values;
- Minimally, financial statements would encompass a commentary and/or chairman's report, highlighting major outcomes of the year's operations, a consolidated balance sheet and income and expenditure statements with information on profit and loss appropriations, and retained earnings movements;
- Critical areas to include in central bank accounting and auditing are foreign currency operations, investment of reserves, fixed assets, loans to domestic banks, government securities, provisions for impaired assets, retained profits, agency operations, inventory;
- Detailed notes would be provided explaining accounting policies and major profit and loss balance sheet items; central bank support operations to commercial banks would need to be shown in the statements.
- The central bank's financial statements would be audited by an independent external auditor, who needs to provide a statement that the financial statements provide a true and fair view of the central bank's financial condition; if a government agency is appointed as external auditor, care needs to be taken to assure that this service is truly independent from undue political and other influence;
- Periodic rotation of central bank auditors would assure the freshness of the financial assessments.

Application

Most central banks are required by legislation to publish detailed and audited balance sheets on an annual basis. Several central banks issue a summary statement of accounts on a weekly or a monthly basis (Bank of Canada, Bank of Korea, Reserve Bank of New Zealand, and Bank of Thailand). These reports are published in the official gazette, official bulletin, and annual report, and also released through the media, as well as being posted on the website. Most central banks provide detailed balance sheets in their annual reports. For some central banks, this is carried out as a requirement under the central bank law and a written report is submitted to the legislature (National Bank of Georgia and Bank of Mauritius).

The accounting standards used in preparation of the annual financial statements vary from the application of International Accounting Standards, U.S. General Accepted Accounting Principles (GAAP), European GAAP, to prescribed national accounting standards. The national central banks of the Eurosystem use ECB-prescribed accounting rules, which are in line with the European Central Bank's accounting and reporting rules.

The Reserve Bank of Australia's balance sheet is published via a press release each Friday, with a balance sheet date of the preceding Wednesday. The balance sheet is also publicly available as a hard copy and electronically. More details are provided each month through the bulletin. The Annual Report provides a detailed balance sheet as well as other financial statements. It is published in the month of August or early September each year with a balance sheet date of the previous June 30. These accounts are independently audited and comply with the accounting standards applicable to financial institutions in Australia, including the standards governing disclosure.

The Bank of Israel is required under its law to publish its summary balance sheet on a monthly basis, which in practice is published with a lag of two to three weeks from the end of each reporting calendar month. The annual balance sheet of the Bank and a profit and loss account are required to be published no later than five months from the expiration of the business year of the Bank.

A statement of financial condition of each of the twelve U.S. Federal Reserve Banks is published every Thursday and made publicly available through the respective websites. These statements are also published in the monthly bulletin and the annual reports of the twelve regional Federal Reserve Banks. The balance sheet of the Federal Reserve System is published in the annual report of the Federal Reserve Board. Regarding accounting standards, for many private sector-like transactions, the Federal Reserve adheres to the U.S. GAAP. Separate accounting principles, approved by the Federal Reserve Board and documented in the Board's financial accounting manual for the Reserve Banks, apply for transactions that are unique to a central bank.

3.2.2 Information on the central bank's monetary operations, including aggregate amounts and terms of refinance or other facilities (subject to the maintenance of commercial confidentiality) should be publicly disclosed on a preannounced schedule.

Explanation and rationale

In pursuit of its monetary policy objectives, central banks typically undertake a variety of market-based transactions for influencing money market conditions, or, in some cases, to provide refinance facilities. Transactions could consist of repurchases and reverse repurchases, foreign currency swaps, purchase and sales of treasury bills, outright sales and purchases of securities, cash reserve requirements and marginal lending facilities. Information pertaining to such types of market operations should be made accessible and available to the general public in a proper form, such as a statement published in the official bulletin, gazette or a market report. The disclosure should be made on a regular and publicly known time schedule. Since detailed information on the counterparts may lead to concerns of confidentiality and could be deemed to be market sensitive, the disclosure could cover those aspects that protect confidentiality, for example, the aggregate amounts involved and the terms relating to the rates or pricing, maturity and access to the facility.

Such disclosure helps inform the market of monetary policy operations by the central bank. If released throughout the year or on a pre-announced and regular schedule, it also could act as a signaling device, which would help to improve the monetary policy transmission mechanism. Disclosure of the terms of refinance and other facilities serves to inform the public of any subsidy element of such forms of financing.

Application

Central banks, such as the Bank of England, Bank of Israel, Bank of Korea, Bank of Mauritius, Reserve Bank of New Zealand, and Swiss National Bank, provide publicly available information on the aggregate amounts and terms of refinance of the central bank's monetary operations. The frequency of disclosure varies from intra-day (Bank of England), daily (Reserve Bank of New Zealand), weekly (Eurosystem and Central Bank of Kazakhstan), to monthly (Bank of Korea). Central banks that disclose the aggregate amounts do not normally provide information on the terms of refinance and terms of other facilities provided. The form of disclosure ranges from written reports to the legislature, official bulletins, monthly reviews, annual reports, and the web page.

The Bank of Israel provides information on the loans or deposits offered by the central bank to the commercial banks through an auction process, once a month, through the publicly released monetary plan for the following period.

The Bank Negara, Malaysia makes a daily announcement of the total forecasted cash flow of the banking system through the central bank's announcement page on Reuters and

Bloomberg. The central bank conducts its market operations through money market tenders, the results of which are announced simultaneously through the announcement page.

The U.S. Federal Reserve Board provides data on the volume of its open market operations to the wire services while providing detailed information in the monthly bulletin. Wednesday levels and weekly averages of adjustment, seasonal and extended credit (discount window borrowings) are published in the monthly bulletin. Open market transactions by type, maturity and month are published in the Annual Report along with a review of discount rate charges.

3.2.3 Consistent with confidentiality and privacy of information on individual firms, aggregate information on emergency financial support by the central bank should be publicly disclosed through an appropriate central bank statement when such disclosure will not be disruptive to financial stability.

Explanation and rationale

Emergency financial support, mainly intended to provide funding to problem banks, but also in cases where there is threat of severe liquidity pressures, are carried out on exceptional basis and generally tend to differ from the normal short-and medium-term accommodation to the liquidity needs of banks via refinance and other discount facilities. While giving due recognition to concerns relating to stability of the financial markets, confidentiality and moral hazard, the central bank should disclose aggregate information on the emergency credit facilities, exercising judgment on the timing and on the nature of the information disclosed.

Such disclosure enhances policy efficiency and accountability of the use of public funds. Properly documented disclosure of emergency lending could provide market participants assurance of the capacity and intent of the central bank to deal with financial emergencies of a systemic nature that could have an impact on the stability of the financial system as a whole. Information reported could include amounts, terms, follow-up developments, amount outstanding and repayments made. Ex post disclosure provides the opportunity to enhance credibility of the central bank, as markets are assured that the central bank is willing and able to perform its role in emergency situations and does so in an accountable manner. Since emergency financial support is provided from public resources, good governance practices require the disclosure of the use of public funds. Public disclosure of emergency financial support could also reduce the likelihood of favoritism, and perception of such, to particular institutions.

Application

With regard to providing aggregate information on emergency financial support, there are broadly three types of central banks. A number of central banks, as a matter of policy, do not provide emergency financial support. A government ministry, such as the ministry of finance, performs this role.[80] A large number of central banks have a policy of not disclosing any information on emergency financial support that they do provide. The third category consists of a number of central banks that disclose their emergency financial support operations in a variety of ways and disclose different aspects of such operations. Fairly limited information on such support first appears in the central bank's balance sheet and subsequently with more detail in the central bank's annual report. There are a few central banks that are required by law to report such transactions to the legislature (National Bank of Georgia, Bank of Korea, Central Bank of Nigeria, and Central Bank of Trinidad and Tobago). Disclosure of emergency financial support provided by the central banks is in several cases reported within a three-month interval between the time when financial support was provided and when such support was disclosed (National Bank of Georgia, Bank of Korea, Bank of Mauritius, and Central Bank of Nigeria), to an interval of anywhere between six months and one year. The form of disclosure varies, but in most cases the disclosure is made through the official bulletin, releases through the media, on the website, and publication in the annual reports.

At the Bank of Canada, emergency financial support is made in the form of loans that would appear in the aggregate numbers on the balance sheet, which is published weekly. The borrowing commercial bank is obligated to publish its end-of-month balance sheet and if the loan were still outstanding at that time, the particulars of the support would be evident.

In the case of the Bank of Estonia, due to the currency board-based monetary system, emergency credit that can potentially be given to commercial banks is limited to the amount of excess foreign exchange reserves exceeding the currency board cover. Emergency credit is only given in the case of a threat to systemic instability and is tied with special agreement between the respective bank and the Bank of Estonia. The cases where such support has been given have been very rare and mostly date back to the first half of 1990s. In most cases the support has been either in the form of capital investment or guarantees. However, the central bank pursues the goal of minimising its ownership in the banking system. In such situations, a press release appears right after the event giving the rationale and amounts. The amounts and a short explanation of such loans as well as the shareholdings of the Bank of Estonia and guarantees given are published in the Annual Report as explanatory notes to the financial statements.[81] The total amount of such loans is also published in the monthly balance sheet but with no further explanations.

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[80] In Poland, the Ministry of Finance can contribute to emergency support by rescheduling or writing off tax obligations. The Minister is obliged to disclose the names of companies that have been granted significant support in this way. The amounts involved are mentioned in the budget. Also see 1.1.2 and 1.1.3 of the International Monetary Fund's *Code of Good Practice on Fiscal Transparency* (www.imf.org/external/np/fad/trans/code.htm).

[81] See www.ee/epbe/1998/eng/notes.html

Details of a loan granted by the Central Bank of Iceland to a state-owned National Bank were published shortly after the support was provided. The collateralized loan was granted for five years at a market rate. The authorities published a press release, providing details of the transaction, shortly after the support was provided.

The Bank of Japan discloses the total amount of "special loans" (including uncollateralized loans; the Bank does not use the term "emergency support loans") pursuant to Article 38 of the Bank of Japan Law in the "Schedule for Financial Statements" (a disclosure document to complement Financial Statements). On a monthly basis, the Bank announces the total amount of special loans as of the end of the previous month. The Bank also discloses its provisions against special loans to banks. When special loans are provided, the Bank announces, on a timely basis, the name of the institution, as well as terms and conditions of such loans, through a press release. The Bank also announces repayment of special loans when such loans are repaid in full. The Annual Report discloses detailed information on special loans, including the amount, terms and conditions, name of institution, and repayment.

In the case of the Swedish Riksbank, although no specific rules exist for disclosure of emergency financial support, such disclosure falls under the general provisions of the Swedish Act on Public Access to Official Records, subject to limitations laid down in the Secrecy Act. There is thus a general presumption for disclosure, consistent with confidentiality and privacy of information on individual firms and with due regard to the effects of disclosure on overall financial stability. When emergency financial support is granted, it is motivated by considerations other than the provision of liquidity for the conduct of monetary policy. Emergency financial support is by definition given in exceptional circumstances and can take a variety of forms. Press releases are normally issued, but few details are provided regarding the terms and the amount. The main channel of ex post communication of more detailed information is the Annual Report, supplemented by articles in the *Riksbank Quarterly Review* and speeches and testimony by Riksbank officials. The time lag would typically depend on when the support is given during the year.[82]

[82] See www.riksbank.se The Riksbank was last involved in extending emergency financial support in September 1992. It then supplied liquidity on a relatively large scale at interest rates below the exceptionally high marginal lending rate that time, on normal repayment terms, but not to banks deemed to have insolvency problems. The banking system was free to obtain unlimited liquidity by drawing on its accounts with the central bank. Collateral was not required. In order to offset the loss of foreign credit lines, the Riksbank temporarily deposited large amounts of foreign currency in Swedish banks on market terms. The measures adopted were widely publicized through press releases. Further measures were adopted, and later the government issued a general guarantee covering all bank liabilities. The Annual Report of 1992 provided a general overview of the emergency assistance, while the press releases covered the specific measures. Information was disclosed on the aggregated amount of support actually provided. Information was also provided on the terms and conditions and the repayment of the financial support. Individual institutions receiving the emergency assistance were, however, not named.

The Swiss National Bank is empowered to provide emergency financial assistance to individual banks in exceptional circumstances. Only once, in 1977, has the Bank offered emergency assistance on a significant scale to a bank. It disclosed the amount, name of the bank and the terms of the standby letter of credit that had been arranged. (No funds were provided as the mere announcement of the emergency support package sufficed to prevent a run on the bank.)[83]

In the United Kingdom, although the Bank of England reserves the right not to disclose emergency lending, it discloses the existence of emergency lending when the need for confidentiality has ceased. This policy is explained in the accounting policies section of the notes to the Banking Department financial statement. The "subsidiaries in liquidation" section of the Annual Report of the Bank of England discloses the condition of banks in financial difficulties that it has acquired, their names and the total amount invested in them. The Bank also discloses the total provisions for bad loans to banks, which in effect provide partial public knowledge of the Bank's financial support operations.

Implementation considerations

Central banks may prefer to maintain some constructive ambiguity surrounding the likelihood of providing emergency financial support, especially where the support is being provided to a particular financial institution. Such a stance can mitigate the moral hazard problem, since financial institutions will assume less risk if they are uncertain about receiving emergency support. However, undue considerations of systemic stability concerns leading to untimely and incomplete disclosure could itself fuel market speculation and endanger market stability.

3.2.4 Information about the country's foreign exchange reserve assets, liabilities and commitments by the monetary authorities should be publicly disclosed on a preannounced schedule, consistent with the International Monetary Fund's Data Dissemination Standards.

Explanation and rationale

An account should be provided of the countries' foreign currency assets and demands on such resources arising from various foreign currency liabilities and commitments of the authorities. The reporting of such data should be on specified dates to the general public and interested institutions and should conform to the IMF's specifications for dissemination of data on international reserves under its SDDS Template (sample form).[84] The SDDS Template on International Reserves and Foreign Currency Liquidity provides information on

[83] See www.snb.ch

[84] See dsbb.imf.org/guide.htm

the amount and composition of reserve assets, other foreign assets held by the central bank and the government, short-term foreign liabilities and related activities that can lead to demand for reserves.

Public disclosure of a country's international reserve position and foreign exchange liquidity on a timely and accurate basis helps promote informed decision making in the public and private sectors, thereby improving the functioning of global financial markets. Non-disclosure of contingent liabilities and inadequate information on actual and potential liabilities of the monetary authorities and central government can result in overstating the unencumbered reserve assets and hamper the monitoring of demands for foreign currency resources. When facts relating to the actual reserve position are revealed, this disclosure could result in a sharp overreaction by lenders and other market participants, contributing to financial market instability. Timely disclosure of such information allows for a more gradual market adjustment. It also strengthens the accountability of the authorities by better apprising the public of the authorities' policy actions and risk exposure in foreign currency. It allows market participants to form a more accurate view of the condition of individual countries, thereby limiting uncertainty and associated volatility in financial markets.

Application

Many central banks publicly disclose information about the country's foreign exchange reserve assets, liabilities and commitments in foreign exchange through published reports in the central bank bulletins and annual reports. As called for by the strengthened Special Data Dissemination Standard (SDDS), as of June 23, 2000, 41 of the 47 SDDS-subscribing countries have begun disseminating data on the template on international reserves and foreign currency liquidity.[85] A preliminary review of disseminated templates suggests that most countries have provided comprehensive data on their international reserves and related items. As called for in the data template, most countries are disseminating data covering both the monetary authorities and the central government. These data show the authorities' liquid foreign currency resources (encompassing official reserve assets and other foreign currency assets), their net short-term foreign currency obligations (including those arising from foreign currency liabilities, financial derivative positions, and other obligations), and short-term contingent foreign currency liabilities. Detailed supplementary information also appears in most countries' templates. All of the countries have chosen the Internet as the medium of dissemination, with the template data posted on the websites of their central banks or their finance ministries and hyperlinked to the Fund's Dissemination Standards Bulletin Board (DSBB), which is accessible to the general public.[86] Some central banks also provide the information through written reports to the legislature (Reserve Bank of Australia, National Bank of Georgia, and Central Bank of Trinidad and Tobago).

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[85] See dsbb.imf.org/ediscird.htm

[86] See dsbb.imf.org

Some central banks only disclose information on gross foreign exchange reserve assets (Central Bank of Brazil, Central Bank of Costa Rica, and Bank of Korea), while some publish information relating only to gross foreign exchange assets and liabilities (Bank of the Republic of Haiti and Reserve Bank of New Zealand).

The schedule of release of such information varies from reporting foreign exchange assets on a daily basis (Central Bank of Argentina and Central Reserve Bank of Peru) with a one-day lag to twice a month (Central Bank of Chile and Central Bank of Korea); to reporting foreign exchange assets and liabilities on a monthly basis (Bank of England). The European Central Bank has moved to monthly reporting of the Eurosystem's foreign exchange liabilities and commitments.[87] The Bank of Canada publishes information on the foreign exchange reserves and commitments four times a month on its website. In addition, the Canadian Department of Finance issues monthly press releases indicating foreign exchange assets, commitments and liabilities.

The Reserve Bank of Australia publishes information on foreign exchange transactions in the monthly bulletin. In addition, the Reserve Bank is compliant with the IMF's reserve data disclosure standards. Reasons for foreign exchange intervention are explained in the Semi-Annual Statement on the Conduct of Monetary Policy, reports, speeches and in the Annual Report. The central bank separately reports transactions undertaken for the government. It also publishes a breakdown of contributions for the change in reserves, distinguishing market transactions and valuation changes on a monthly basis with a lag of a fortnight.

Implementation considerations

Six SDDS-subscribing countries have not yet disseminated the template data. They cite technical problems or resource constraints as having temporarily delayed their plans to comply.

3.3 The central bank should establish and maintain public information services.

Explanation and rationale

A public information system acts as a center for the dissemination of information on central bank policies and operations and on monetary and financial matters and serves to explain and

[87] The Eurosystem's weekly financial statement shows holdings of gold, foreign currency (non-euro) assets and liabilities outside the euro area expressed in euro. A table in the ECB's monthly bulletin shows monthly reserves and related assets of the Eurosystem. A qualification is noted that the data are not fully compatible with the weekly financial statement because of differences in coverage and valuation.

disseminate to the public the role, functions, policy framework and performance of the central bank.

A public information system improves the access to and dissemination of timely and reliable information and data that helps to build public understanding of, and support for, the central bank's operations and policies. It also serves to provide information to the general public via the media, including central bank's views and perspectives on issues that concern or involve the central bank, and offers an effective mechanism for market and institutional responses to news that concern or involve the central bank. A public information service could interact with the press, parliamentarians, non-governmental organizations, and the public in general, using a variety of means to disseminate information among the key audiences, including the internet, written and broadcast media, and speaking engagements by senior central bank officials and staff. The system also could play a public education role by arranging visits to the central bank by the general public and visits by central bank officials and staff to public institutions, including schools and community gatherings; organizing conferences on issues of relevance to monetary policy and central banking for professional and occasionally diverse public audiences; and preserving the heritage of currency and coinage by establishing museums dealing with numismatics and the evolution and conduct of central banking.

Application

Most central banks have an external, or a public affairs unit, which maintains a relationship with the nonpress public (in a few cases it also interacts with the press and other media). It answers public queries about central bank operations and provides information relating to the monetary and financial sectors that are relevant to the central bank. In some countries, it maintains liaisons with industry representatives, labor unions, consumer and other types of advocacy groups, schools, and village communities.

The public information service mainly performs the following functions at most central banks: disseminates monetary policy decisions, policy announcements, information on operating targets and objectives, data, and research. Most central banks limit the role of public information services to making available to the general public data, speeches, research by staff, personnel and career opportunities, relevant legislation and regulations, organizational chart, weblinks to related sites, and information on currency and coinage. Through such a service, the central bank also maintains contact with media representatives.

More than 100 central banks currently have websites in operation that are actively used for providing the public with ready access to information on diverse matters such as central bank law or mandate, descriptions of operating framework, targets and instruments, data, text of speeches, financial statements, text of regulations on consumer affairs, listing of available publications (including research carried out at the central bank), personnel information and career opportunities.[88]

The public information services at the Reserve Bank of Australia make available to the general public a schedule of expected release dates of information published by the central bank, which details the forthcoming publications and releases over the following three months. The Reserve Bank also provides educational material to high school students and teachers through its website.

At the Bank of Israel, there is a special unit responsible for providing information to the media and the public on Bank activities and policies. In addition, the unit conducts the public relations of the central bank. The unit is responsible for issuing press releases, conducting press meetings, organizing press interviews, providing information to the general public about the Bank's activities and advising the Governor and senior staff on public relations issues.

The Bank of Lebanon maintains contact with media representatives and disseminates texts of speeches by senior officials. The Statistics and Economic Research Department disseminates economic and financial data and issues monthly, quarterly and annual bulletins, as well as research by staff; the Governorate Office disseminates the circulars issued by the central bank that explain monetary policy decisions and the operating framework. All of the Bank's departments contribute to the development of the central bank's website and respond to inquiries through e-mail.[89]

The Bank of Lithuania has a division that is directly involved in the public information services—the Public Relations Division (PRD). The PRD, in cooperation with other departments, prepares official statements for the public, supplies information to the mass media related to the activities of the Bank, answers queries from the public, makes comments for newspapers, magazines, TV, radio and the other media, organizes press conferences and interviews with the officials of the Bank. The PRD organizes various public education projects (e.g., special telecasts and broadcasts popularizing events at the museum of the Bank of Lithuania).[90]

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[88] There are several websites that contain listings and links to central bank websites. See Bank for International Settlements, www.bis.org/cbanks.htm and Governments on the WWW, gksoft.com/govt/en/currency.html

[89] See www.bdl.gov.lb and www.bdliban.com

[90] See www.lbank.lt

Implementation considerations

Public demand for information is growing rapidly and is expected to be met promptly. A specific public affairs office could be created, staffed by designated officials, accessible in person and by toll-free telephone, fax and e-mail. The contact numbers and names of this office need to be clearly publicized. Information on websites needs to be kept current, and sites need to be user friendly. Where the central bank also has responsibility for financial policies, the mechanisms for disseminating public information should recognize the different aspects of information that may be disclosed on a timely basis. Consideration may be given to have separate websites for each area of responsibility or clearly identified sub-sites for individual sectors. Issuance of information in a foreign language can be considered if foreign financial institutions are active in the country or queries from abroad are expected. A reading room could be established, with general research material. Information specifically tailored for educational purposes could be made available.

3.3.1 The central bank should have a publications program, including an Annual Report.

Explanation and rationale

A publications program consists of preparation and dissemination of reports, studies, pamphlets, and papers that report and explain to a broad audience the policies and workings of the central bank, as well as the central bank’s views on current economic and financial topics. An annual report could provide an account of the working and operations of the central bank and could include a statement of its financial affairs. Annual reports also could provide details relating to the internal organization, including the activities of the governing body, and where applicable, operations of the central bank in relation to the government and the external sector.

A central bank’s publication program allows it to make available to a wider audience and general public, papers, commentaries, research work and opinions of the institution on its activities and its staff. The public at large should have access to the analysis and research work performed at these central banks. A publications program acts as a locus for the collection and exchange of information on central banking issues and on monetary and financial policies and problems. Publication of nontechnical descriptions of economic indicators and central bank operations helps to generate better public understanding and support of central bank policies and activities. The annual report is a principal accountability document. It facilitates performance monitoring by the general public and allows the central bank to report on its operations in the context of the overall economy and over a relevant time period and provides information and assessments that help to place monetary policy in perspective.

A defined program for production and dissemination of a publications program allows the public a structured overview of sources of information, resulting in a better-informed public. Ready access to information on central bank activities promotes a better public understanding of the central bank's policies and regulations as well as the accountability of the central bank, its policies and practices.

Application

A sizeable number of central banks make available to the general public (free or at a nominal fee) research papers, speeches, working papers, monthly/quarterly bulletins, reviews and updates, as part of their regular publications. As regards pricing and sale, a common approach is to price the publications at a level that reflects the costs of publication, distribution and promotion (Reserve Bank of Australia, Central Bank of Bolivia, and Central Bank of Brazil). Some central banks (Bank of England and U.S. Federal Reserve Board) also publish information brochures relating to consumer affairs, and in the case of the Federal Reserve, a series of comic books (by the Federal Reserve Bank of New York) provides nontechnical description of the role and functions of the central bank, monetary policy, and banking. Some central banks make some of these publications available through their website.

Almost all respondent central banks issue an annual report that typically includes a brief report on developments in the economy and on the activities of the institution along with financial statements. The requirement for central banks to publish an annual report is specified in most cases in legislation. Several annual reports review the central bank's statement on monetary policy performance with an assessment of the policies over the past period, and also provide an indication of the policies likely to be pursued over the next period.

The contents of the annual reports vary among central banks, and cover information on economic and monetary policy developments, the bank's mission statement, relevant legislative changes, key regulations and circulars issued, where applicable, payment system and banking sector and bank supervisory developments, internal structure and statistical information on monetary aggregates, government debt, interest rates, foreign exchange and interest rates. Some annual reports (Bank Indonesia and U. S. Federal Reserve Board) contain a chronology or record of main monetary and credit policy measures. A recent trend is to provide separate data and a report on the payments system (Central Bank of Armenia, Bank of England, European Central Bank, and Bank of Slovenia). (Also see 5.3 and 5.3.1).

In the recent years, some central banks have published separately a monetary policy and an inflation report (Bank of Canada, Bank of England, Bank of Israel, and Bank of Korea; also see 2.4 and 2.4.1) As a consequence, the annual reports of these banks contain less coverage of monetary policy and macroeconomic developments. The Reserve Bank of Australia publishes such monetary policy reports on a quarterly basis, two of which take the form of a Semi-Annual Statement on Monetary Policy that accompany the Governor's appearance before the parliament. Since the introduction of inflation targeting in 1998, the Czech National Bank submits a quarterly inflation report to the Parliament, in addition to an annual report.

Central bank annual reports are published at differing times, after the end of the reporting period, ranging from two months after the end of the financial year (Reserve Bank of Australia, Reserve Bank of India, and Bank of Canada) to a quarter (Danish National Bank, European Central Bank, and Bank of Israel). Several central banks are required to first submit the report to the Ministry of Finance and then to the legislature (Bank of Canada, National Bank of Georgia, Bank of Israel, and Central Bank of Trinidad and Tobago). Most central banks provide easy public access to the annual report by publishing it on the website and distributing it to the media. Most central banks also mail copies of the annual report to interested parties and sell them through bookstores.

The Bank of Canada publishes "backgrounders," which are short articles explaining various topics related to the central bank's main functions, such as monetary policy, inflation, the bank rate, monetary conditions, inflation-control targets, benefits of low inflation and the consumer price index and the measurement bias. The Bank's Annual Report has many characteristics of a private sector annual report, including the composition of the Board and its management and reports on major operations other than monetary policy operations.

The Reserve Bank of New Zealand maintains a comprehensive range of publications with information targeted to specific audiences. Publications include a quarterly bulletin, speeches released in hard copy and on the Reserve Bank website, explanatory pamphlets and information releases, and an Annual Report. The Annual Report includes a comprehensive range of information on the Reserve Bank's key activities during the year, corporate structure, budget and expenditure information, performance–related information, and financial statements.

In the United Kingdom, the Bank of England's Annual Report publishes the decisions of the Monetary Policy Committee and other bank operations including its financial position. The Bank of England Act 1998 requires a sub-committee of Non-Executive Directors of the Bank to keep under review the Bank's performance in relation to its monetary policy and financial stability objectives and strategies; this review is published in the Annual Report.

The U.S. Federal Reserve Board's Annual Report covers monetary policy and the U.S. economy, record of policy actions of the Board, minutes of the Federal Open Market Committee, consumer and community affairs, laws enacted, banking supervision and regulation, regulatory simplifications, activities undertaken by the Federal Reserve Banks, financial statements and statistical tables.

Implementation considerations

A publications program could encompass a written guideline on the types and frequency of publications. The program could describe the range of publications, including at least an annual report and a statistical annex, but also in many cases quarterly bulletins and ad hoc reports relating to specific events, press releases, public statements, books, articles, and brochures. The program could provide a description of the methods of making material available, and the central bank's pricing policy. The public could also be made aware of the issue of new publications, and occasionally, the central bank can publicize its public information services, for instance, by means of an advertisement in a widely read newspaper, providing information on accessing the website, highlighting a selection of publications, and listing new issues.

3.3.2 Senior central bank officials should be ready to explain their institution's objective(s) and performance to the public, and have a presumption in favor of releasing the text of their statements to the public.

Explanation and rationale

Public appearances by senior central bank officials responsible for central bank policies and operations to a variety of audiences provide an opportunity to explain the role, functions, purpose and performance of the central bank's policies and operations. A better-informed public is able to make more rational financial decisions, with the result that it often forms a constituency in support of central bank policies, thus improving the bank's credibility. Market participants are also able to confirm their own assessments with those of the official statements and also identify the gaps in central bank actions and the possible lack of consistency. Public statements by central bank officials also help to provide an indication of the medium- to long-term view the market could adopt, thus removing some of the uncertainties relating to the policy process. Periodic public discussion of the conduct of the central banks' policies and operations relative to its goals and targets promote greater transparency and accountability of central bank operations. The release of such explanations makes the information available to the public at large on a uniform basis and broadens the audience base.

Application

Most central banks explain their objectives and performance by senior officials involved in the policymaking process, through the medium of public speeches, media interviews and participation in meetings organized by various social, business and community groups. Many central banks publish the written statements of such public appearances in the central bank's bulletin and reviews and also in other noncentral bank publications such as newspapers, business and academic journals and community newsletters. In many cases such statements are also made available through the website of the central bank or the agency that organized the public event. Another common form comprises public appearances before the legislature or special parliamentary committees on economic and financial affairs. (See 4.1.)

The senior staff of the Reserve Bank of Australia makes public appearances on a range of activities undertaken by the central bank, on average about once a month.

The Governor of the Bank of Canada gives approximately a dozen speeches a year (and appears three times a year before committees of parliament as well). The Deputy Governors also make ten to twenty speeches a year on topics related to the objectives and performance of the central bank.

3.4 Texts of regulations issued by the central bank should be readily available to the public.

Explanation and rationale

Regulation, sometimes referred to as subsidiary legislation or secondary legislation, is a rule or an order having a legal status, usually issued by an executive authority (central bank) established by legislation. The public should have easy and prompt access to texts of such regulations.

Availability and easy access to regulations improves transparency and imposes accountability on both the issuing authority as well as the financial institutions affected by the regulation. It also demonstrates consistency in approach and improves the knowledge and understanding of the general public on monetary policy. Wide accessibility also helps to make transparent the operating and policy framework of monetary policy for financial institutions, consumers and investors, reduces "ad hocism" and arbitrary application of procedures and practices. Moreover, access to texts of regulations by central banks provides potential entrants into credit markets with information about the regulatory requirements to be met to qualify for various facilities.[91]

Application

Most central banks provide easy access to the texts of the regulations issued to the general public. In most cases, the regulations are published in official government publications, gazette or register and also published in the periodic bulletins/reviews of the central bank. In several cases the regulations are listed or published in full in the annual report (Central Bank of Bolivia, Central Bank of Costa Rica, Danish National Bank, Bank of Israel, and Central Bank of Nigeria). In several cases, texts of regulations are disseminated to the public through the media and the web page of the central bank (Hong Kong Monetary Authority, Bank of Korea, and Central Bank of Trinidad and Tobago). Texts of regulations typically are provided at no charge or at a charge to recover the cost of publication.

Regulations of the Central Bank of Chile are published as organic compendia, such as compendia of financial and foreign exchange regulations. The updated version of the compendia and the corresponding central bank's management decisions amending the regulations are published in the website of the central bank[92]. Circular letters addressed to the banks and other financial institutions are also published.

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[91] See Box 3-2 in 7.5 in Part 3 of the *Supporting Document* for some characteristics of transparent regulations.

[92] See www.bcentral.cl

Implementation considerations

The coordinates of the sources of texts of regulations, applicable directives and guidelines should be well publicized, and could be routinely identified in central bank publications and posted on central bank websites. Timeliness and reliability are key considerations. Websites should, therefore, be updated on a regular basis. The central bank can periodically issue articles to explain its rules and regulations. Consideration could also be given to have summaries of regulations available in non-technical language.

IV. Accountability and Assurances of Integrity by the Central Bank

4.1 Officials of the central bank should be available to appear before a designated public authority to report on the conduct of monetary policy, explain the policy objective(s) of their institution, describe their performance in achieving their objective(s), and, as appropriate, exchange views on the state of the economy and the financial system.

Explanation and rationale

Appearances by central bank officials before a designated public authority, typically elected government bodies (parliaments or parliamentary committees), promote the accountability of the central bank, especially when the central bank is granted a high degree of autonomy. Central bank officials can also use such appearances to clarify the central bank's policy intentions and thus help guide market expectation.

Application

Most central bank respondents report that their officials are required by law to appear before a designated public authority. However, officials of nearly all central bank respondents that do not have such a legal requirement are available to appear before such an authority. Many respondents report that their officials appear before a designated public authority annually, and some of them report that their officials make these appearances quarterly.

Article 113.3 of the EC Treaty requires officials of the European Central Bank (ECB) to appear regularly before the European Parliament. The President of the ECB and the other members of the Executive Board may, at request or on their own initiative, be heard by the competent Committees of the European Parliament (four times a year on a voluntary basis). The President of the ECB is also required to present an annual report on the activities of the ECB to the European Council and to the European Parliament which, in turn, hold general discussions on that basis. Several member states have also worked out this element of accountability at the national level. The governors of the central banks of Belgium, France, Ireland, the Netherlands, Portugal, and Spain can be asked to appear before their national parliaments to explain the monetary policy pursued by the Eurosystem.

Officials of the U.S. Federal Reserve Board (FRB) are required by the Full Employment and Balanced Growth Act of 1978 to appear before the U.S. Congress. This requirement is fulfilled by semi-annual appearances by the Chairman of the FRB before committees of each of the Houses of Congress to present the Monetary Policy Report. The Chairman, other Board Members and senior staff officials are also available to testify before the Congress on particular matters. In 1999, the Chairman of the FRB testified before the Congress 13 times, while the Board Members and staff, and officials from Federal Reserve Banks did so 20 times. Their testimonies covered a wide range of economic and financial issues.

Implementation considerations

It is desirable for central bank officials to appear before a designated public authority at least once a year, and more often should there be major new developments affecting the conduct of monetary policy. The purpose of these appearances is to focus on broader economic and financial developments and policy issues rather than on the day-to-day conduct of monetary policy. To appraise the market about these appearances, there should be a pre-specified regular schedule (e.g., a particular month of the year) rather than the appearances being called whenever the public authority feels it necessary.

4.2 The central bank should publicly disclose audited financial statements of its operations on a preannounced schedule

Explanation and rationale

Regular disclosure of the central bank's audited financial statements of its operations (covering its open market operations, foreign exchange operations, and any other market activities) promotes ex post accountability of the central bank with regards to its operations. A preannounced schedule calls for specific dates known to the public in advance of when these financial statements are issued. A preannounced schedule assures that disclosure is on a set and predictable basis, and thus not subject to a timing of disclosure that is convenient or favorable to the central bank.

Application

A significant majority of central bank respondents are required by law to publicly disclose audited financial statements of their operations. Nearly all of them do so annually, and most issue their statements within three months following the end of their financial year. A significant majority of the respondents that disclose their audited financial statements do so in their annual reports. In addition, some also do so through statements submitted to legislature and on their websites.

The Bank of Korea is obliged by the Bank of Korea Act to publish within the first twenty days of each month a general balance sheet as of the last working day of the preceding month. Where the general balance sheet is as of the last working day of the fiscal year, the Bank is required to publish it within two months after the close of the fiscal year. Those balance sheets are signed by, or bear the seal impression of the Governor, the auditor[93] and the person responsible for their preparation.

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[93] The President, on the recommendation of the Minister of Finance and Economy, appoints the auditor. The auditor's duties are to audit the operations of the BOK on an ongoing basis, report the results of the audit to the Monetary Policy Committee (MPC), prepare a comprehensive audit report, and submit it to the Government and the MPC each year.

4.2.1 The financial statements should be audited by an independent auditor. Information on accounting policies and any qualification to the statements should be an integral part of the publicly disclosed financial statements.

Explanation and rationale

An independent auditor is someone from either a private accounting firm or an auditor designated by the government. Disclosed financial statements should be prepared using high quality, internationally acceptable accounting standards. The financial statements should include an indication of which accounting standard was used for their preparation. Qualification to financial statements includes indications of questionable or one-time transactions, missing information, or accounting irregularities.[94]

Public access to information about the independent auditor and the public disclosure of accounting policies and qualification of the financial statements by the auditor provide the public with a means to ascertain the quality of the central bank's financial statements. Such public disclosure discourages irregularities and concealment of information and thus gives more credibility to the central bank's financial statements and enhances its accountability.

Application

Independent auditors audit the financial statements of nearly all central bank respondents. A significant majority of the respondents report that their auditors are private sector accounting firms, and some report that their auditors are employed by government ministries or official agencies. A significant majority of the respondents indicate that information on accounting policies and any qualification to the statements is an integral part of their publicly disclosed financial statements. Some of the respondents report that their accounting policies are prescribed by a government ministry or official agency and many report that their accounting policies are prescribed by an independent advisory body (e.g., an association of auditors or accounts). The accounting policies of many respondents follow international accounting standards (IAS) or a modification of them.

The Bank of Canada is required by the Bank of Canada Act to disclose publicly audited financial statements of its operations. It does so annually within three months of the end of the fiscal year. Two private accounting firms audit the financial statements of the Bank. The Bank has adopted accounting policies that follow the Generally Accepted Accounting Practices for Canadian Institutions. The Bank provides public access to these statements through statements submitted to the Parliament, official government publications, hard copies available at central bank headquarters and in its annual reports.

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[94] See Box 2-4 in 3.2.1 above.

The Bank of Mexico is required to select its external auditor from among a list of three accounting firms proposed by an accountant collegiate organization or institute widely representative of the profession. The Ministry of Finance selects the auditors, with the concurrence of the Federal Chamber of Deputies' Finance Accounting Vigilance Commission. The external auditor cannot be hired for a period of more than five years. Article 50 of the Law of the Bank of Mexico states that the auditor is fully empowered to examine and express his or her opinion on the Bank's financial statements, and to review the Bank's accounting and all related documentation. Once the independent auditor has audited the financial statements, the Board of Governors approves the accounts pursuant to Article 46-X of the Bank of Mexico Law and Article 40 of its bylaws. The accounting practices of the Bank follow the Generally Accepted Accounting Principles prescribed by the Mexican Institute of Public Accountants. Article 38 of the Bank of Mexico bylaws sets specific items that must be included in the balance sheet and in the monthly-consolidated statements. It also establishes the guidelines that such balance sheets and statements must meet.

Implementation consideration

To ensure the integrity of the auditing process, setting a term limit for the auditor may be an important consideration.

4.2.2 Internal governance procedures necessary to ensure the integrity of operations, including internal audit arrangements, should be publicly disclosed.

Explanation and Rationale

Internal governance implies mechanisms in place to control activities in an organization, and relationships within the organizational structure (between the various departments and units with the management and its board) that encompass the way the organizational objectives are set, decisions are made and accountability for actions maintained.[95] Integrity of operations consists of adherence to the established procedures for internal operations, consistent with the objectives of the organization and compliant with the applicable laws and regulations. Internal audit involves an internal appraisal activity that includes examining, evaluating and monitoring the adequacy and effectiveness of the accounting and internal control systems and compliance with internal governance procedures.[96] Box 2-5 summarizes the main elements of central bank internal governance procedure and audit arrangements.

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[95] See American Institute of CPAs, 1998, *Framework for Internal Control*; for banking supervisory agencies: Basel Committee on Banking Supervision, September 1998, *Framework for Internal Control Systems in Banking Organizations* (www.aicpa.org).

[96] See International Federation of Accountants, 1997, *Codification of International Standards on Auditing and International Auditing Practices Statements*; Institute of Internal Auditors, 1998, *Statements on Internal Auditing Standards* (www.ifac.org).

Public disclosure of the internal governance procedures of a central bank provides the basis for consistency, reliability and completeness of information, such as on operational results and policy actions. Such disclosure serves as a mechanism to ensure that the quality of operations maintains the integrity of a central bank's internal processes and strengthens the overall institutional credibility of the central bank. Political authorities, market participants and the general public are thus able to have confidence in the care with which the central bank performs its functions, especially if it handles public funds. Disclosure of internal governance procedures enhances a central bank's accountability.

Application

Some central banks either do not have explicit internal governance procedures or do not publish and disclose them. Where the document and guidelines on internal governance and control and are publicly disclosed, central banks publish them in the official gazette or register or in other publications, as well as the central bank's website, and provide them to the media. Some central banks have an "inspector general" or an equivalent office whose principal responsibility is to monitor internal governance procedures. The role of such officials is typically disclosed in the central bank's annual report. Some inspector generals or offices of internal control issue periodic reports on their activities and findings (for example, the Federal Reserve Board). Those central banks that publish their internal governance procedures also publish periodic reports on the outcome of internal audit reports in their annual reports on compliance with procedures relating to internal governance and internal control and the corrective actions undertaken. Senior officials of several central banks also make references in official statements and public speeches to the role of internal audit, internal control and internal governance procedures in maintaining integrity of operations.

The Law on the Bank of Estonia[97] and the Statute of the Bank of Estonia include specific internal governance procedures. These texts describe the responsibilities and tasks of the internal audit department of the Bank, the procedures for appointment and dismissal of internal auditors, required qualifications, their independence, access to information, the right to engage additional experts, and reporting requirements to the President and the Board of the Bank.

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[97] See www.ee./epbe

Box 2-5. Central Bank Internal Governance and Audit: Summary of Main Elements

1 Key elements of an internal control system

- *internal governance procedures*, to control operations both quantitatively (e.g., financial limits) and qualitatively (e.g., separation of duties);
- *adequate accounting and information systems*, for accurate and timely reporting;
- *internal audit review*, conducted by a separate and independent department; this includes financial audits; organizational or functional audits; and electronic data processing (EDP) audits.

2 Essential controls

- governing board commitment to a control environment;
- management responsibility for operation of control systems;
- formal authorizations to undertake activities and to control access to information and assets;
- separation of duties and application of the “four eyes” principle: staff conducting transactions should be different from staff controlling transactions;
- complete and timely maintenance of transaction records;
- financial and budgetary controls to limit exposures;
- regular review of operating performance and reporting to senior management;
- a clear policy and timetable for release of financial information;
- a commitment to transparency in reporting, including adoption of the MFP Transparency Code.

3 Internal audit operations

- an internal audit charter establishing the powers and responsibilities of internal auditing, covering: financial, operational, and EDP auditing; collection and documentation of audit evidence through inquiry, observation, and analysis of records; audit reporting and follow-up to management that identifies and classifies internal systems in terms of potential harmful implications, including agreed corrective actions;
- regular communication and coordination with the external auditor.

4 Control of central bank market operations

- maintenance of confidentiality for all transactions associated with policy actions;
- a formal system of financial limits on transactions, instruments, and parties to transactions;
- senior management authorization of (new) financial instruments, including off balance sheet financial instruments, and of trading partners, incorporating a clear strategy for managing risks, detailed operational instructions, and consultation with the internal audit function;
- key operational controls that include: recording of deals by tape, immediate data entry, the “four eyes” principle of supervision, regular reconciliation, clear documentation of dealing rules, and dispute resolution procedures;
- strict separation of duties, in particular, between the dealing room, back office, settlement department, and the accounting function;
- a written code of conduct for dealers regarding, e.g., ethics, rules on acceptance of gifts, and private account/insider trading;
- foreign portfolio investment strategies that are consistent with exchange arrangements and monetary policy requirements, in particular in terms of liquidity;
- assessment of foreign portfolio performance against recognized benchmark measures;
- appropriate training of central bank staff involved in various dealing, investing, processing, and control activities.

continued on next page

Box 2-5. Central Bank Internal Governance and Audit: Summary of Main Elements (continued)

5 Currency, banking, and payment system controls

- physical security measures to protect financial, human, and information assets;
- daily balancing of customer accounts and cash holdings, and dual control of bulk cash holdings;
- secure communication facilities and computer operations with controls over access by internal and external parties;
- established plans and regular testing of facilities to guarantee system operation and prompt business resumption in the event of a catastrophe or serious disruption.

6 Information and accounting system controls

- responsibility for central bank-wide accounting policies assigned to the Accounting Department, along with responsibility for monitoring daily balancing and performance of the systems;
- regular review by information users of accounting system output and format;
- daily back up, separate storage of files, and regular testing of back up systems;
- regular communication between the Accounting Department and the internal auditor;
- advance planning for implications of major structural changes or challenges;
- accurate and timely recording of all transactions.

7 Controls on effective and efficient utilization of central bank resources

- a strategic planning process linked to the annual budget planning cycle to control expenditures;
- formal delegation of authority to incur expenses, and procedures for authorizing non-budgeted expenditures;
- monthly monitoring and reporting of actual outcomes against budget forecasts, and annual review of full year outcomes;
- accounting systems capable of allocating costs and revenues across specific central bank functions, departments and projects;
- regular monitoring and analysis of the cost of providing key central bank services, including benchmarking costs with other institutions.

The Reserve Bank of India discloses internal governance procedures through a chapter in the Annual Report, "Organizational Matters." These arrangements are also discussed in a publication "Functions and Workings of the Reserve Bank of India." Internal audit arrangements are not publicly disclosed but can be obtained from the relevant department of the Bank.

The U.S. Federal Reserve Board's Office of the Inspector General (OIG) produces audit reports and other products that are summarized in a public, semi-annual report to Congress. OIG audit reports on Board programs and operations are also available to Congress and the public.

Implementation considerations

Periodic reports issued by the central bank could mention where documents related to internal governance could be located. The central bank could also periodically publish articles on its functions and issues related to governance, internal control, and the integrity of its operations.

4.3	**Information on the operating expenses and revenues of central banks should be publicly disclosed annually.**

Explanation and rationale

Information on operating expenses and revenues pertaining to central bank operations should be publicly disclosed. These could be disclosed separately or through periodic reports on its financial operations consisting of the audited financial statements, including a balance sheet, an income statement and notes to the accounts. The income statement should group income and expenses and disclose the amounts of the principal types of income and expenses, including salaries, premises and office expenses, and the notes to the accounts.[98]

Disclosure of information by central banks on their operating expenses and services on a periodic basis has an important role in achieving financial transparency, good governance and accountability. Availability of such financial information promotes accountability and comparability of operations with previous performance, including providing a measurement of the proper assignment of human and financial resources. Publication of the details of the operating expenses and revenues could also improve accountability of central bank operations, contribute to the market's and public confidence in the integrity of the central bank, and its ability to discharge its functions effectively. A breakdown of operating expenses and revenues would help to dispel doubts in the minds of the public as to the openness of the central bank with regard to the use of funds entrusted to it and the sources of its revenues.

Application

In a significant majority of cases, central banks disclose information on operating expenses and revenues on an annual basis, nearly in all cases through the annual reports. In a few cases, for instance Albania, Angola, Japan, and the Slovak Republic, quarterly or semi-annual disclosure takes place. Many respondents disclose such information directly to the legislature and/or the media, or post it on the website. Also, hard-copy statements can be made available at the headquarters of the central bank.

Some central banks provide explicit information that break down the expenses (and revenue sources where applicable) of certain financial sector functions, such as banking supervision or payment systems oversight (Reserve Bank of Australia, Bank of England, and Reserve Bank of New Zealand).

[98] See International Federation of Accountants www.ifac.org
International Accounting Standards Committee (IASC) www.iasc.org.uk

The Bank of Canada's[99] financial statements, published in its Annual Report, provide a summary expense breakdown, where direct and indirect costs have been allocated to one of the four functions in order to show the relative contribution of each function to total Bank expenses. Notes to the financial statements provide more data on line-item expenses such as salaries, benefits and other staff expenses, currency costs, premises maintenance net of rental income, services and supplies, depreciation, retail debt recoveries (negative), work force adjustment and miscellaneous or extraordinary expenses.

The Bank of Estonia publishes its expenses and revenues in the Annual Report, together with the annual balance sheet. Publication also takes place in the official publication of Parliament. Expenses and revenues are broken down into: revenues and expenses on foreign assets and liabilities, revenues and expenses on domestic assets and liabilities, as well as operating costs, by major categories (staff, bank note printing, general administration, premises renovation and depreciation, provisions and guarantees, and exceptional items).

As part of its Annual Report, the U.S. Federal Reserve Board publishes a *Budget Review* (available on the Federal Reserve's website[100]) containing detailed explanations to the budgets of the Federal Reserve System as a whole, and separately of the budgets for the Board of Governors and the 12 Federal Reserve Banks. Appendices describe in detail special categories of system expense, sources and uses of funds, audits of the Federal Reserve System, and expenses and employment at the Board and the twelve Federal Reserve Banks.

Implementation considerations

The income statement should disclose the amounts of the principal types of income and expenses, including salaries, premises and office expenses, and the notes to the accounts.[101] For the publication of the statement itself and any explanatory notes, in addition to making this information available on the central bank's website and having it included in the central bank's annual report, newspaper advertisements could be used. The management of the central bank can use news conferences at the time of issue of the annual report to disclose details on the expenses and revenues of the institution. The presentation of the income statement could be structured to allow a reasonable comparison with the expense levels of other government agencies.

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[99] See www.bank-banque-canada.ca

[100] See www.federalreserve.gov/boarddocs/RptCongress/br99.pdf

[101] See International Federation of Accountants, www.ifac.org
International Accounting Standards Committee (IASC), www.iasc.org.uk

4.4 Standards for the conduct of personal financial affairs of officials and staff of central banks and rules to prevent exploitation of conflicts of interest, including any general fiduciary obligation, should be publicly disclosed.

Explanation and rationale

Guidelines, rules and regulations setting out the principles for the conduct of personal financial affairs and reporting of financial and business interest of officials and staff of central banks should be made available to the general public. Exploitation of general fiduciary obligations implies taking advantage of the actions taken on behalf of the public or dealing with matters of public "trust" in a manner that benefit officials and the staff of a central bank. The standards for the conduct of personal affairs of officials and staff of central banks often include provisions on what constitutes conflict of interest, how the central bank monitors possible conflicts of interests of officials and staff, and specifies sanctions in case of violations of these rules and the procedures for recourse. Box 2-6 summarizes the United Nations' *International Code of Conduct for Public Officials*.

Officials and selected staff of central banks have access to privileged/confidential financial-related information that could be used for their personal financial gain. By providing public access to the standards for the conduct of personal financial affairs, the general public is informed that officials and staff of central banks are subject to rules relating to their personal finances. Disclosure of such standards implies that the central bank has made clear the required standards of financial conduct for its officials and staff and has defined the ethical implications of their actions. Disclosure of such standards strengthens the credibility of the central bank since it provides the public with information about the standards under which the officials and staff are bound to conduct their personal financial affairs. Public access and knowledge of the rules of conduct for officials of central banks are also ways of making central banks accountable. Without trust in the financial probity and freedom from conflict of interest of the officials and staff of the central bank, the authority and ability of a central bank to perform its functions would be severely hindered. It would affect its effectiveness to interact with the financial institutions under its jurisdiction, and the general public would not trust the impartiality of its operations. The legislation that establishes the central bank or its bylaws can contain specific provisions on avoidance of conflict of interest, including obligations to report on a regular basis any relations, including personal investments, between officials and staff of the central bank and entities under its supervision or with which it interacts. These provisions oblige officials and staff to abstain from policymaking and operational activities relating to entities in which the staff member has a pecuniary or other form of interest.

Box 2-6. Code of Conduct for Public Officials

The International Code of Conduct for Public Officials, adopted by the United Nations on December 12, 1996, contains the following provisions:

- a public office is a position of trust, implying a duty to act in the public interest;
- public officials shall avoid conflicts of interest;
- public officials shall comply with any applicable requirements to disclose their personal assets and liabilities;
- public officials shall not solicit or accept any gift or favor that may influence the performance of their duties;
- public officials shall respect the confidentiality of any information in their possession;
- public officials shall not engage in political activity outside the scope of their office such that it impairs public confidence in the impartial performance of their duties.

The Council of the OECD in 1998 adopted a Recommendation on Improving Ethical Conduct in the Public Service. The Recommendation is based on a set of Principles for Managing Ethics in the Public Service agreed in the OECD's Public Management Committee to help OECD member countries to review their ethics management systems. (See www.oecd.org/puma/gvrnance/ethics/pubs/rec98/rec98.htm). The principles are based on the UN Code and other efforts to promote ethical behavior by public servants. The OECD's Public Management Committee is preparing a report on ethics and corruption in the public sector.

Application

In many cases, rules related to the conduct of personal financial affairs as applicable to the government also apply to central banks. For example, the Government of Canada has general conflict of interests guidelines, which are applicable to every public servant and are publicly disclosed through the Treasury Board website. The codes of conduct for public servants are part of the public record. Some central banks reconfirm or supplement the government-wide rules of conduct in their publicly available bylaws or similar internal governance procedures.

Most central banks document the rules and standards in the employee handbook or state them in employee contracts. A practice gaining wide prevalence is for central banks to have specified codes of conduct for its officials. While these are typically internal and not public documents—although in some cases the employee handbooks are available upon request through freedom of information-type arrangements—several central banks place the articles and bylaws of the central bank relevant for the conduct of affairs on the website, official government publications and gazettes.

In the Reserve Bank of Australia, Board members, including the Governor and the Deputy Governor, are under legal requirement to disclose material personal interests to the Treasurer. The law also sets standards of conduct for Board members to act honestly and exercise care and diligence in the discharge of their duties. They must abstain from the improper use of inside information or of their position. Standards for the conduct of the personal financial affairs of the staff and officials are laid down in a Code of Conduct that is not disclosed to the public.

Under the Bank Service/Staff Regulations of the Bangladesh Bank, which are disclosed to the public, each employee is required to submit his/her asset and liability position, position of indebtedness and plan for redemption of debts. Prior permission from the Bank is required for obtaining any loans from banks or providing guarantees for third-party loans.

The Central Bank of Brazil[102] intends to disclose to the public a "Code of Conduct for the Holders of Posts in the High Federal Administration," prepared by the Public Ethics Commission. Currently this Code is the subject of public debate. The Code will also cover the Board of Directors of the Central Bank.

The Reserve Bank of India[103] publishes its Staff Regulations, which stipulates that employees must serve the Bank honestly and faithfully, may not without the Bank's permission seek or accept outside employment, accept gifts, engage in commercial business, and speculate in securities. Permission must be obtained for transactions in real estate. Employment of officers' children in any financial institution is to be reported, in order to be able to ascertain that the position has not been obtained through misuse of the officials' position.

Article 32 of the Bank of Japan Law[104] states "In light of the public nature of its business and in order to ensure appropriate discharge of duties by the Bank of Japan's executives and staff, the Bank shall establish rules regarding ethical discipline of its executives and staff, such as the obligations to devote themselves to their duties and to separate themselves from private enterprises. These rules shall be reported to the Minister of Finance and, at the same time, publicly announced. The same steps shall be taken when making any change to the rule. The Bank of Japan keeps the rules available for public review at its head office and branches, and the rules are posted on its website.

The Law on the Bank of Lebanon[105] and the Employees' By-laws are published. These documents stipulate that the Governor and Vice Governors may not have any legislative mandate, engage in activities in commercial enterprises. They may not take a position in a bank or financial institution for up to two years after leaving office. Staff of the central bank is prohibited from becoming members of the board of companies.

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[102] www.bcb.gov.br/defaulti.htm

[103] www.rbi.org.in

[104] www.boj.or.jp/en/about/bojlaw1.htm

[105] www.bdl.gov.lb

According to publicly disclosed rules, members of the Board of Directors of the Central Bank of Nicaragua[106] must make known all financial and commercial interests and of their spouses and relatives to the first degree. They have to refrain from voting and attending discussion on any matters related to them in any way.

Implementation considerations

The requirement of staff disclosure of their personal financial affairs raises issues of confidentiality. In the implementation of this practice, a balance must be found between disclosure and confidentiality. Thus, the objective requirement for this transparency practice is to disclose the content and purpose of the standards for the conduct of personal financial affairs of official and staff of central banks and not necessarily calling for disclosing the information the central bank obtains in the process of implementing these standards.

4.4.1 Information about legal protections for officials and staff of central banks in the conduct of their official duties should be publicly disclosed.

Explanation and rationale

Legal protection for officials and staff of central banks in the discharge of their official duties refers to the need to assure that such officials and staff can perform their official duties without fear of being personally subjected to legal action. Legal protection typically involves giving officials and staff of central banks general immunity against civil lawsuits on any acts or omissions committed by them in the exercise of their official duties in good faith, barring gross negligence. An example of such acts or omissions that could give rise to lawsuits is a policy decision to increase interest rates sharply that could result in large capital losses for certain asset holders. Legal protection shields the officials and staff in the performance of their official duties from civil damages. The constant threat of legal action against officials and staff of central banks would affect policymaking particularly in controversial areas. This could significantly undermine the effectiveness of the central bank.

Information about legal protection of officials and staff of central banks should be publicly disclosed through publication of the scope and procedure for such protection in order to deter unwarranted lawsuits against such officials and staff. Public knowledge about the prevailing legal protection for the officials and staff of central banks would allow them to determine whether particular actions by the officials and staff of these central banks are subject to legal suit.

[106] www.bcn.gob.ni

Application [107]

In many countries, government officials and staff in government agencies enjoy immunity against lawsuits, and such immunity typically applies to officials and staff of central banks. A significant majority of central bank respondents report that rules are in place to provide legal protection and support to central bank officials and staff. In almost all these cases the rules are published, through official government publications, and in some cases through the media and websites.

Under the Commonwealth Authorities and Companies Act, which sets standards of conduct for directors and officers of Commonwealth authorities, and pursuant to a resolution of the Board, the Reserve Bank of Australia has indemnified Board members against costs incurred in successfully defending themselves in proceedings arising out of the proper discharge of their responsibilities, provided that any such liability did not arise from actions in bad faith.

The Reserve Bank of India Act provides protection against claims based on actions by officials of the Reserve Bank taken in good faith. No lawsuit or prosecution can be brought against the central government or the Reserve Bank or any other person with respect to the pursuit of official duties done under the set or in pursuance of any order, regulation or direction made or given the reminder.

Under the law on the Central Bank of Sri Lanka, no member of the Monetary Board or officer or employee of the central bank shall be liable for any damage or loss suffered by the institution, unless such damage was caused by misconduct or willful default. These persons shall be indemnified by the central bank from all losses and expenses incurred in or about the discharge of official duties, other than caused by misconduct or willful default.

Implementation considerations

The system of immunities and protection should be explained thoroughly so as to avoid a market perception that the financial agency staff and officials are above the law. Periodic articles in bulletins and other reports and official statements could be used as a vehicle to disseminate and clarify issues relating to legal protection available to officials and staff of the central bank in the discharge of their official duties.

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[107] See Box 3.3 in 8.4.1 in Part 3 of the *Supporting Document* that provides a summary of statutory protection of bank supervisors of central banks.