Governance in central banks: a comparative study of the governance practices used by the central banks of Brazil, Canada and England

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Corporate governance in central banks has evolved in recent years, both as a result of advances made in the study of the subject by supranational organizations, as well as through the adoption of the best practices used in the public and private sectors. This paper aims to identify, analyze and compare key aspects of corporate governance used by the central banks of Brazil, Canada and England in 2015. By reviewing existing literature on the subject, it was possible to analyze certain aspects of the monetary authorities of these three countries in terms of their structures and their committeees, as well as the three pillars of governance normally attributed to central banks: independence, accountability and transparency. The results showed significant differences between the three, and suggested that the degree of maturity of each country's society has a certain influence on the practices of governance adopted by its central bank.

KEYWORDS: governance in central banks; committeees; independence; accountability; transparency.

Governança em bancos centrais: um estudo comparativo das práticas de governança dos bancos centrais do Brasil, Canadá e Inglaterra

A governança corporativa em bancos centrais tem evoluído nos últimos anos, tanto em decorrência dos avanços obtidos no estudo do tema por organizações supranacionais como pela adoção das melhores práticas oriundas dos setores público e privado. Este trabalho visa identificar, analisar e comparar os

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aspectos principais da governança nos bancos centrais do Brasil, Canadá e Inglaterra em 2015. Por intermédio de uma pesquisa bibliográfica foi possível analisar aspectos das autoridades monetárias dos três países em relação à sua estrutura e a seus comitês, e também aos três pilares da governança em bancos centrais: independência, *accountability* e transparência. Os resultados mostraram que existem diferenças significativas e que o grau de maturidade das sociedades dos países influencia as práticas de governança adotadas pelos bancos centrais.

Palavras-chave: governança em bancos centrais; comitês; independência; accountability; transparência.

Gobernanza de bancos centrales: un estudio comparado de las prácticas de gobernanza de los bancos centrales de Brasil, Canadá e Inglaterra

La gobernanza corporativa en los bancos centrales ha evolucionado en los últimos años, tanto como resultado de los avances en el estudio del tema por organizaciones supranacionales como la adopción de las mejores prácticas derivadas de los sectores públicos y privados. Este estudio busca identificar, analizar y comparar los principales aspectos de gobernanza en los bancos centrales de Brasil, Canadá e Inglaterra en 2015. A través de una búsqueda en la literatura fue posible analizar los aspectos de los tres bancos en lo que respecta a su estructura y sus comités, y también los tres pilares de gobernanza en los bancos centrales: independencia, responsabilidad y transparencia. Los resultados mostraron que existen diferencias significativas, y el grado de madurez de la sociedad influye en las prácticas de gobernanza adoptadas por los bancos centrales.

PALABRAS CLAVE: gobernanza en bancos centrales; comités; independencia; responsabilidad; transparencia.

1. Introduction

The subject of corporate governance is relatively new in central banks — the majority of them have begun to consider and implement its practices over the last 10 years. Several authors (Siklos, 2002; Crowe and Meade, 2007; Dumiter, 2014; Mihailovici, 2015) and supragovernmental institutions (BIS, 2009, 2010; IMF, 2004) have been performing and publicizing a number of studies on the subject, thus helping central banks in their evolution towards the adoption and diffusion of the best governance practices.

As a basis for this study, in a preliminary stage, the governance practices of 12 central banks were analyzed, namely: Germany, Australia, Brazil, Canada, Chile, the United States of America, India, England, Italy, Japan, Mexico, and New Zealand, as well as the European Central Bank. It must be highlighted that each of the countries in the list has its own institutional, economic, social and cultural characteristics, which differentiates their governance models.

The analysis of these governance practices led to the selection of the central banks of Canada and England, who stood out after the 2008 financial crisis in the elements of structure and committees, accountability and transparency. Thus, for the analysis proposed in this study, the governance practices of these countries' central banks are compared with those adopted by the Banco Central do Brasil (BCB).

A good corporate governance requires legal, regulatory and institutional basis that is appropriate and efficient (BIS, 2010). Clear governance rules, as well as the necessity of accountability² in its actions, allows management to be carried out focusing the priorities defined by the organization, and decision-makers to have their actions assured by a formally established institutional structure, among other benefits.

Therefore, the question that guided this paper was: What are the differences in corporate gorvenance practices between the central banks of Brazil, Canada, and England? The aim of this study is to identify, analyze, and compare the main aspects of corporate governance in the central banks of these three countries during the year of 2015, and it is justified by the ongoing necessity of improving such practices in the limited universe of monetary authorities.

2. Corporate governance in central banks

Central banks can generally fall into three models: *company*, *supervised*, or *in-house* (Mendzela, 2009). The main characteristics of each model are shown in chart 1.

chart 1

Classification of central banks

Model	Characteristics			
Company	The central bank's single board comprises one or several full-time internal directors, and a larger number part-time external directors. Besides, the bank is accountable, through its board, to a minister.			
Supervised	The central bank has two boards — an operating board, led by the governor, works internally and with continuity; while an accountability board, to which the central bank is accountable, operates at a distance and more occasionally.			
In-house	The central bank has a single board which comprises full-time appointees, mostly or totally appointed from within the central bank, who have management responsibilities for particular parts of the organization.			

Source: Mendzela (2009).

According to this classification, the Bank of Canada (BOC) and the Bank of England (BOE) fall into the supervised model. The in-house model, adopted by BCB, presents as its main problem the non-differentiation between governance and management.

Governance is associated with the setting of rules for the decision-making process; it defines who makes decisions, who is responsible for them, and how decisions have to be made. In essence, it defines roles and responsibilities. Management has to do with the execution of rules set by governance, and the operational routine of the organization.

According to BIS (2009), the decisions made by central banks fall broadly into three categories, as it is detailed in chart 2

 $^{^{2}}$ Accountability concerns the explanation of one's actions and bearing responsibility for them (ECB, 2002:48; Eijffinger and Geraats, 2006:4).

Responsibility

Board Name

Policy formulation and implementation

Management and administration

Oversight of the institution's performance

Supervisory board or committee

Chart 2
Categories and types of decisions made in central banks

Source: BIS (2009).

In central banks that adopt the in-house model, members of the single board make decisions concerning both policies and management.

Amtenbrink (2004) suggests that governance in a central bank is defined by three pillars (which together form the basis for the legal framework that regulates the central bank): independence, accountability, and transparency. These are integral parts that enable a central bank to obtain its social insertion and credibility over the course of time. These three pillars, together with the analysis of the structure and the decision-making process in committees, guided this comparative study of governance practices in the central banks of Brazil, Canada, and England.

2.1 The first pillar: independence

Literature usually uses the terms "autonomy" and "independence" interchangeably. However, it should be noted that there is a difference between the two concepts. Autonomy entails operational and financial freedom, while independence goes ahead, also indicating the inexistence of institutional restrictions (Lybek, 2004). In this paper, the word "independence" refers to the central bank being independent or having autonomy in its operation. In the latter case, the bank would be endowed with administrative, budgetary and operational autonomy within the limits set forth by law.

In developed countries, the idea of an independent central bank is not new; what they seek is to create an instutional and political environment in which central banks can operate successfully. According to Dumiter (2014:39), "in the last decades, specialists have accomplished the best form for a successful central bank: independence from political pressure, accountability to society, transparency beyond its actions, and an efficient method of communicating with the financial market and the public in general".

A number of authors have already studied the relationship between the central bank independence and both macroeconomic performance and inflation rate (Eijffinger and De Haan, 1996; Arnone, Laurens and Segalotto, 2006; Crowe and Meade, 2008). Some works advocate the central bank independence (Forder, 2005), while others argue against it (Freitas, 2006).

The basic argument against independence is based on the idea that there might be a lack of democratic legitimacy if the central bank were separated from the political power, and

the possibility of disagreement between governmental policies and those established by the central bank. For those who defend the independence, this is a flawed argument.

In Brazil, central bank independence is still a controversial subject among politicians and society. It has already been almost 30 years since the Brazilian Federal Constitution of 1988 was promulgated, and its article 192, which deals with the financial system, has not been regulated yet. Not long ago, Brazil consumed 51 years of discussion in the Congress to create its central bank — from 1913, when the Federal Reserve was created in the United States of America, to December 1964.

There is no independence or autonomy which is not predicted by law. It has to be *de facto and de jure*. Mexico can be taken as an example — has economic and social characteristics similar to Brazil's — and whose article 28 of its Constitution clearly states the Bank of Mexico's independence.

The international experiences in most developed countries and in more mature democracies show that the independence of central banks should be formalized in the country's Constitution (preferably), or in supplementary law that regulates the monetary authority's role. Governance tools such as the Memoranda of Understanding (MoU), used by the Bank of England (2015), can be created in order to facilitate the interaction between central banks and their governments, even in moments of crisis.

2.2 The second pillar: accountatility

Accountability entails the obligation of accounting for actions, which consists of supplying full information and explaining someone's actions; as well as addressing the issues related to those actions. Accountability means a powerful tool in the establishment of political order in a democratic way (Eijffinger and Hoeberichts, 2002; Ullrich, 2007). Given that actions and activities promoted by central banks affect the economic, social and political society as a whole, they should be subjected to the scrutiny of citizens and their elected representatives, especially the Parliament, which is the most democratic institution in a modern country.

In order to be 'accountable' to a principal, an agent must have been assigned a task by this principal; also, he or she has to inform their principal how and to what degree this task is being executed, as well as to be susceptible to penalty in case such task is not performed according to what was assigned by their principal (Kaltenthaler, Anderson and Miller, 2010). The main questions in the design of accountability arrangements are (ECB, 2002): who is accountable in the central bank?; for whom shall the central bank account its actions?; what is the central bank considered liable for?; and how is liability/accountability performed?

The international experience shows that task delegation o a central bank should be accompanied by accountability so as to assure appropriate democratic control and good governance. No society has granted independence to its central bank without the counterpart of accountability rules.

The legal basis for accountability in central banks usually tends to be specified in the countries' constitutions and in the central banks' statutes. In general, central banks have to ac-

count for their actions to the Legislative or Executive Branches of the government, depending on the constitutional delegations of responsibility.

There are several formal mechanisms through which central banks are liable for their activities: monitoring by the government or the legislature; regular publication of reports; repercussion when the central bank's actions or their results are considered lame. Accountability practices legitimate central bank independence, supplying public support for its autonomy and strengthening its credibility.

2.3 The third pillar: transparency

Nearly all studies of transparency in central banks focus on the issue of monetary policy (Geraats, 2002). Only recently, after the 2008 global financial crisis, financial stability started to be studied. Some authors suggest total transparency regarding information concerning the monetary policy (Tomljanovich, 2007), while others support that transparency cannot be total (Van Der Cruijsen, Eijffinger and Hoogduin, 2010).

Neuenkirch (2012) states that empiric literature, in its greatest part, finds beneficial effects in transparency. He also reports that authors who have reviewed such literature concluded that transparency: (1) enhances agreement between analysts; (2) reduces inflation and anchors inflation expectations; (3) enhances the central banks' credibility, reputation and flexibility; (4) does not have an obvious influence on the product and variability of output; and (5) enhances the anticipation of policies.

According to Diamondopoulos (2012:247), in a world of uncertainties, transparency and communication become more important for central banks and regulators. There is more transparency in countries whose political systems are stabler and more developed, and whose financial markets are more perfected (Dincer and Eichengreen, 2007).

Given that central banks have become more independent, the demand for transparency has increased, both because of accountability and legitimacy, and in order to guide the financial market participants' expectations, whose appetite for information has expanded inasmuch as financial markets have become wider and more complex (Crowe and Meade, 2008:764).

2.4 Committees in central banks

The use of committees is a common practice in central banks, and several authors have already approached the subject in a number of publications (Schiffman, 2004; Berger, Nitsch and Lybek, 2006; Sibert, 2006; Crowe and Meade, 2007).

The presence of committees in decision-making processes in central banks is usual and it shows advantages, such as the possibility of bringing together their members' views and information when issues are analyzed and discussed in committees. But decision in committees also displays problems. In a study conducted by Sibert (2006), which offers an analysis of psychological and economic points of view derived from the well-known Condorcet's jury theorem, one can better understand, based on international experiences, how committees work.

A typical board uses committees to improve its effectiveness and ensure its focus on issues of private interest (Tonello, 2010:212). Structuring committees allows a better allocation of skills and responsibilities among subgroups of directors, and meets the increasing necessity of dedicating more time and deeply analyzing key business areas (Klein, 1998; Spira and Bender, 2004).

A committee usually involves a group of members of the organization who are oriented toward the development and execution of specific services, as well as the decision-making process. Thus, the effectiveness of committees is a relevant aspect for central banks. In addition, effective committees do not happen by chance. They are carefully planned and built to have a balanced representation of members, both a mission or goal and a working plan that are clearly defined, a capable chair, and competent staff.

The policy committees of central banks deal with sensitive and worthy issues. The information analyzed by them and the decisions they make influence financial markets in their countries and, in some cases, even global markets. Therefore, a good practice is to adopt the blackout period or *purdah*, which consists of a period of self-imposed silence to committee members during a fixed period before the policy decision. This practice aims to mitigate potential speculations in the market (Vayid, 2013:5).

3. Central banks in the public administration context

Governance studies usually use elements of the agency theory in order to explain the relationship and the potential conflicts that exist between principals and agents (Fama and Jensen, 1983). In private companies, the relationship between owners or shareholders (principals) and executives (agents) is clear. In the public sector, however, this relationship is not so clear, but it exists between the people or society (principal) and public managers (agents). The application of the agency model to the central bank was well explained in the work by Koch (2007).

The public governance theme, also called governance in the public sector, was the object of studies in Brazil (Kissler and Heidemann, 2006; Secchi, 2009; Oliveira and Pisa, 2015) and abroad (Benz and Frey, 2007). In most countries, central banks are public institutions, the central bank of Switzerland being an exception.³

The institutional situation of the central bank in the public sector varies from country to country, depending on historical, social and cultural factors. In more developed countries, the independence of the central bank is common; but even in some developing countries, such as Mexico, Peru and Chile, the central bank is also formally independent.

According to Dumiter (2014), the logics behind the central bank independence is sometimes misunderstood, and thus political authorities fail to understand its importance and significance, especially in developing and emerging countries.

³ The Swiss National Bank has shares negotiated in stock exchange.

The governance structure in central banks has two aspects: corporate governance, and public governance (Oritani, 2010). In the former, governance elements such as committees, accountability, and transparency, are taken into account. In the latter, the relationship of the central bank (agent) with society (principal) and the representative elected by the principal, either the Executive Branch's head or the Legistalive Branch, has to be established. It is a more complex relationship, which needs clear accountability rules.

4. Method

As to its nature, this applied research is classified as qualitative, exploratory and bibliographic, oriented toward the solution of a specific problem (governance practices in central banks). The process and its significance are the main focal points of its qualitative approach, as it seeks to interpret the phenomena without using statistic methods and techniques. Since the subject is comparatively new and in a preliminary stage, the study aims to offer more information about the subject in order to enable better definitions and frameworks. Finally, the study is primarily based on secondary data, such as cientific papers, books, and other documents available on the central banks' Internet websites.

Koche (1997:122) states that bibliographic research can be done for different purposes, namely: (i) enlarging the knowledge extent in a certain field, enabling the investigator to better understand or delimit a research problem; and (ii) describing or systematizing the state of the art at that moment, regarding certain subject or problem.

Research was carried out in four stages: planning, bibliographic research, data analysis, and preparation of the final report. In the planning stage, the research subject and its scope were defined, as well as the necessary stages for its execution. During the bibliographic research stage, besides academic papers and books, data in documents made available on the Internet websites of the banks of Germany, Australia, Brazil, Canada, Chile, the United States, India, England, Italy, Japan, Mexico, and New Zealand, as well as on that of a supranacional bank, the European Central Bank, were gathered and verified. This set of banks was a convenience sample taken by the researchers. Information related to the structure of central banks, their decision-making processes and committees, accountability and transparency in their decisions and actions is among the selected data.

In the data analysis stage (comparative study), the set of central banks was reduced to three. The countries and criteria used were: Brazil, as it is the researchers' native country; Canada and England, since they had the most complete and up-to-date governance data among the countries that were analyzed. The comparison between the governance practices of the central banks of these three countries was developed and organized in two large blocks. The first one, called "structure and committees", aims to show the differences existing in organization forms and decision making processes. In the second one, called "the three governance pillars in central banks", the characteristics of independence, accountability and transparency of the three banks are compared.

5. Corporate governance and the Committees of BOE, BOC and BCB

BOE and BOC are international references in accountability and transparency practices. Their governance designs have been modified after the 2008 crisis, when both initially adopted the model known as two wings for the central bank. In this model, the structure basically comes down to the monetary policy and financial stability areas, supported by an area of corporate services. Several aspects of these two central banks' committees were studied, such as their creation, operation and contribution.

BOE, however, has recently created a third great area, called Markets & Banking, which was separated from the financial stability area, where it belonged previously. This new area is in charge of reforming the Bank's operations — including the guarantee of robust risk management practices — as well as revising and reinforcing markets. This also shows the importance of both system and payment arrangements in its structure.

The two banks differ when it comes to placing the bank oversight area inside or outside the central bank. In England, the Prudential Regulation Authority (PRA), in charge of the microprudential regulation, was included in the central bank, despite being autonomous (Bank of England, 2013); while in Canada, the Office of the Superintendent of Financial Institutions (Osfi), which has a similar function, is an independent institution.

5.1 Bank of England

In BOE (2015), the Court of Directors is responsible for managing all the central bank's businesses, except the formulation of the monetary policy. It functions as a unitary council of directors, composed of executive and non-executive members, and it is chaired by an independent, non-executive member of the Bank. This is an important differential and it reveals the English society's level of evolution and maturity in relation to corporate governance practices.

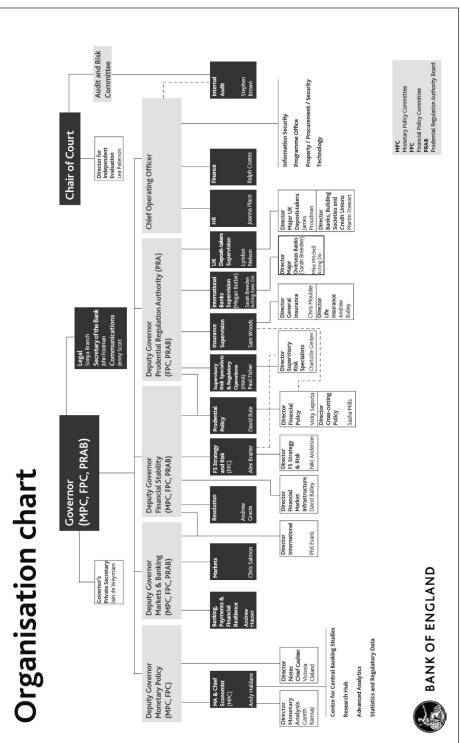
In BOE's organogram, displayed in figure 1, one can note the structure is composed of the governor, the four deputy governors, and the chief operations officer (COO), who does not take part in the policy committees, in spite of having the same status and remuneration of the deputy governors.

Monetary policy, markets and banking, financial stability, and prudential regulation authority (in charge of the microprudential regulation) are the four major areas in the Bank, and all of them are backed by the support areas under the COO. There are 14 departments operating in all of those areas.

In BOE, the chief operations officer is responsible for each and every aspect associated with the daily management of the Bank, including human resources, finance, material resources, safety and IT. The COO's profile is that of a manager, not a policy formulator. This aspect is extremely relevant and has been adopted by other central banks, which have seen advantages in this model with a specialized position. In the model, functions are not mixed up, and the management of support areas is strengthened, because the COO's oversight range is reduced to few areas.

BOE (2015) had 3,868 employees in 2015.

Figure 1 BOE's organizational structure⁴



Source: Bank of England (2015).

BOE's original organizational chart showing the situation in 2015.

The committees in BOE's Court of Directors are listed in chart 3.

Chart 3 Committees of the BOE's Court of Directors

Audit and Risk Committee — ARCo	The Audit and Risk Committee's function is to help the Court of Directors to meet its responsibilities in rendering an effective system of financial reports, internal control and risk management. It is the Committee's responsibility to provide the Court of Directors with an independent guarantee that the Bank's control and risk procedures are appropriate.
Financial System Advisory Committee — FSAC, former Financial Stability Committee	Its purpose is to guide and monitor the execution of the Bank's financial stability functions that are not within the competence of the Financial Policy Committee (FPC). It includes oversight of the payment system, regulation of central counterparts (CCPs) and settlement systems, as well as the Bank's role in relation to the special regimen resolution and the emergency liquidity assistance (ELA).
Financial Policy Committee — FPC	FPC contributes to the achievement of the Bank's Financial Stability goal through identification, assistance and taking of measures in order to reduce risks to the financial system: subjected to this, it is compelled to support the government's economic policy, including its growth and employment goals.
Oversight Committee	The Oversight Committee is a statutory subcommittee of the Board of Directors. Its main function is to keep the Bank's action associated to its goals and strategies under surveillance. In this context, the Bank's goals are the monetary policy goal, the financial stability goal (including the goals set up to FPC), and any other goals defined by the Court of Directors. The Committee has a similar function towards the Prudential Regulation Authority (PRA), which is delegated by the Court. The Committee monitors to what extent the goals established by the Court regarding the Bank's financial management have been achieved and (helped by ARCo) closely supervises the Bank's internal financial controls in order to ensure the good course of its financial businesses.
The Governor's Committee on Non- Executive Director's Remuneration	The 1998 Bank of England Act prescribes that the non-executive directors' remuneration shall be determined by the Bank with the Chancellor of the Exchequer's approval. The Court delegates this function to de Governor's Committee on Non-Executive Directors' Remuneration.
Remuneration Committee	The Remuneration Committee advises the Court of Directors on the salaries and other remunerations to be paid to higher executives in the Bank: governors, members of the executive team, chair's counselors and the FPC's and Monetary Policy Committee's external members. It also advises on all issues concerning the remuneration to be paid to the PRA's non-executive directors.
Sealing Committee	This Committee has the power to make decisions regarding the apposition of the Bank Seal. It is composed of one or more members of the Court and either the Bank's Secretary, the Adjunct Secretary, the Financial Director or the Chief-Consultant of the Legal Department.
Nominations Committee	This Committee was created in 2010 in order to, among other reasons, make recommendations to the Court regarding the appointment of executive directors, of the secretary and the Bank's internal auditor; the appointments for subcommittees (except for the acting FPC), in order to know if potential conflict of interests are serious enough to prevent a Court member from continuing to serve as such; and to review succession plans, paying special attention to appointments that require the Court's approval.

Continue

Trustees, Houblon- Norman Fund	The Houblon-Norman Fund was created by the Bank of England in 1944 as a landmark of the 250 years of the Bank's foundation: Sir John Houblon was the first governor, and Montagu Norman was then in the end of his governor mandate in the Bank. The George Scholarships were created in the Fund's sphere in June 2003 as recognition for Sir Edward George's accomplishments throughout life and his services to the Bank, especially for his role as first Chair of the Monetary Policy Committee. These scholarships, together with the Houblon-Norman Scholarships, share the same goal and are granted "in order to promote the research and propagate the knowledge and understanding of the work, interaction and function of commercial financial institutions in Great Britain and elsewhere, as well as the economic conditions that affect them".
Equality and Diversity Committee	This Committee was created in early 2013 and is composed of four non-executive Court members and three executive directors. These are the Committee's main terms of reference: ✓ Supervising the Bank's diversity strategy to ensure progress in the achievement of its goals; ✓ Supervising the Bank's equality duty under the Equality Act, including reviews and comments on the Bank's Annual Equality Report; ✓ Reviewing and commenting on the Bank's Annual Report sections regarding equality and diversity.

Source: Bank of England (2015).

The other BOE's committees are listed in chart 4.

Chart 4 Other BOE's committees

Monetary Policy Committee — MPC	The Bank's goals regarding the monetary policy aim to maintain the stability of prices and, subjected to this, support the government economic policies, including growth and employment goals.		
Risk Oversight Unit — ROU	It is the ROU's duty to provide the senior management with a profile of the risks in the whole Bank; the two main reports are the Quarterly Report of the Business Risk Committee to the BRC, and the Quarterly Risk Report to the Executive Team, the ARCo, and the Court. ROU supports ORC and BRC, operating as a secretarial function and writing reports to ORC and BRC concerning the implementation and operation of the risk chart in the whole Bank.		
Business Risk Committee — BRC	BRC ensures that the risk chart provides the operational risk information required by the Court of Directors in order to manage the Bank's risk profile. Its responsibilities can be summarized to three areas: ✓ framework oversight: ensuring that the risk chart is suitable for its purpose and operates efficiently. ✓ operational risk oversight profile: ensuring that the Bank's operational risk profile is managed within the Bank's risk appetite. ✓ risk reports: ensuring that issues intrinsic in the operational risk profile are reported to the executive team, the ARCo and the Court. It includes significant issues regarding risk, incidents and behindhand action plans.		
Operational Risk Committee — ORC	ORC provides BRC with support, reviewing highlighted actions, issues regarding the risk profile, as well as updates to the risk chart; and recommends the courses of action proposed by BRC. It is also a forum where specific risk issues can be more deeply approached (Example: reports of specific risk profile items that may require investigation and additional reports).		

Continue

Assets and Liabilities Advisory Committee — ALCo	ALCo supports and advises the Markets Executive Director on the management of the Bank's balance sheet under the terms of the annual Balance Sheet Remit from the Governor. In the context of the Remit and risk framework, it monitors the financial performance and risk profile of the Bank's main financial activities, and of the balance sheet as a whole.
Other risk management committees	The executive committees and organizational units described above are in place to provide assurance to the Governors, Executive Team and Court on the management of operational, financial and strategic risks. A number of additional committees exist within business areas to manage specific risk types.
Operations Committee — OpsCo	OpsCo has responsibility for strategic issues relating to the Bank's operations in financial markets. Its scope includes advising the Governor on the fitness of the Bank's financial risk standards and Balance Sheet Remit

Source: Bank of England (2015).

Notwithstanding intitutional differences that shape, limit and differentiate the central banks' functioning in several committees of the Court of Directors, the Oversight Committee, in charge of overseeing the Bank's functioning, calls attention for its nature and mandate. It is an important institutional arrangement when it comes to the commitment to accountability.

Another point to be highlighted is the existence of another committee in the Court of Directors: the Audit and Risk Committee, whose role and importance are translated in the words by Schiffman (2004):

One of the main corporate governance reforms in western countries is the reinforcement of the role of the Council's audit committee, which will be chaired by an independent counselor. The goal of this committee is to ensure the integrity of both financial statements and its audit and internal control systems.

5.2 Bank of Canada

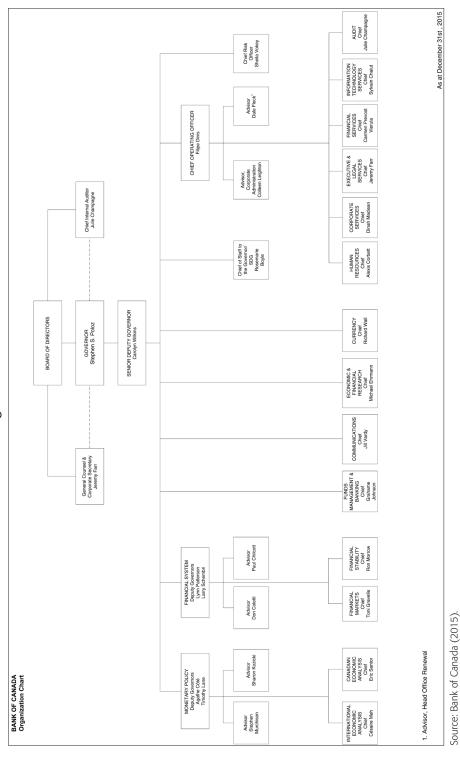
In BOC (2015), the Board of Directors provides general oversight of the Bank's management and administration concerning strategic planning, financial and accounting issues, risk management, human resources, and other internal policies.

The Board is composed of the governor, the deputy governors, and 12 independent directors appointed for renewable three-year mandates by the governor in Counsel (of ministers). The Finance vice-minister is an *ex officio*, nonvoting member of the Counsel.

According to figure 2, the Bank is organized in 14 departments distributed throughout the areas of monetary policy, financial system, operations, and four other areas directly associated with the Board.

BOC (2015) had 1,528 employees in 2015.

Figure 2 BOC's organizational structure⁵



5 BOC's original organizational chart showing the situation in 2015.

The Committees of BOC's Board are listed in chart 5.

Chart 5 Committees of BOC's Board

Corporate Governance Committee	It is this Committee's responsibility to check all of the Bank's corporate governance practices. It must be composed of at least three directors appointed according to Section 9 of the Bank of Canada Act. The Committee's chair is designated by the Committee's members.
Executive Committe (*)	According to the Bank of Canada Act, this Committee can deal with any subject of the Board's competence. It is chaired by the governor.
Audit & Finance Committee	It is this Committee's responsibility to: ✓ Review the Bank's annual and interim financial statements, approve interim financial statements and make a recommendation to the Board with respect to the approval of the annual financial statements, as appropriate. ✓ Oversee and ensure that the external and internal audit functions are carried out in an appropriate manner. ✓ Review the adequacy of the Bank's risk management, internal control and governance framework with respect to financial reporting. ✓ Oversee the Bank's financial management including the Medium-Term Plan financial plan, the annual budget and expenditure reporting. The chair is chosen by the Board from among the Committee's members.
Human Resources and Compensation Committee	It is this Committee's responsibility, among other duties, to review or make recommendations to the Board concerning human resources policies and organizational practices and structures, which must guarantee coherence to the strategic plan, support operational efficacy and efficiency, and maximize potential human resources. The chair is chosen by the Board from among the Committee's members.
Pension Committee	It is this Committee's responsibility to monitor the administration of the Plans, guaranteeing the management of investments in each fund. It is chaired by the senior deputy governor.
Capital Projects Committee	It is this Committee's responsibility to review regular reports from management, and make recommendations to the Board, with respect to large capital projects (corporate and strategic projects). The chair is chosen by the Board from among the Committee's members.
Lead Director	The lead-director is elected by the directors appointed according to Provision 9 of the Bank of Canada Act. Here are some of his or her duties: • guiding the other directors concerning issues relative to the Board. • presiding the Board's meetings when the governor and the senior deputy governor are absent. • providing leadership to enhance Board effectiveness. • leading the process (established by the Corporate Governance Committee) for the Board's annual self-evaluation. • supporting the governor in the management of the Board and the Bank's corporate governance practices. • acting as liaison between the Board and management on matters of governance. • serving as the directors' spokesperson. • working with the Chairperson of the Human Resources and Compensation Committee to ensure the regular review of the performance of the Governor and Senior Deputy Governor against established duties and objectives. • working with the Chairperson of the Corporate Governance Committee and the Governor on the annual review of the composition of committees for recommendation to the Corporate Governance Committee and the Board. • receiving notice of, and attending to any of the meetings of the committees of the Board.

(*) This Committee is defined and established in the Bank of Canada Act. Source: Bank of Canada (2015).

The other BOC's committees are listed in chart 6.

Chart 6
Other BOC's committees

Governing Council	The Governing Council is the policy-making body of the Bank. It consists of the Governor, Senior Deputy Governor, and four Deputy Governors. It is responsible for the monetary policy, decisions aimed at promoting a sound and stable financial system, and the strategic direction of the Bank.
Management Council	It furnishes leadership and guidance regarding strategic issues of management and corporate policies, as well as oversight of all of the Bank's operations. It is chaired by the senior deputy governor and composed of two deputy governors, two consultants, the Legal Department's chief, the Human Resources Department's chief, the financial director, and the Accounts Department's chief.
Chiefs' Committee	It expedites the Bank's decision-making processes by reinforcing the partnership between departments with shared responsibilities for responding to operational issues. This Committee is composed of the chiefs of all departments in the Bank, and the consultant who is responsible for the renewal of the Bank's headquarters.

Source: Bank of Canada (2015).

Among the Board's committees, it is worth highlighting the Corporate Governance Committee, composed of at least three independent directors. Two other committees that are important for the organization because of their strategic role in the achievement of organizational policies are the Management Council and the Chief's Committee. One should notice the senior deputy governor's presence and importance in the Bank's governance structure. This executive serves as vice-president and helps the governor with institutional and policy governance issues.

The lead director is one of the 12 independent directors and is an extremely important personage in the Bank's governance structure. He or she is responsible for providing leadership to improve the Board's efficiency, guiding the Board's annual self-assessment process, supporting the governor in the corporate governance practices and management of the Bank, according to what is established by the Corporate Governance Committee in relation to that mandate. The lead director is also responsible for functioning as a link between the Board and the Management in governance issues.

BOC regularly divulges the composition of its Board's committees, even mentioning the number of participations by committee members. The terms of reference of the BOC's committees are available in the Bank's Internet website.

5.3 Banco Central do Brasil

In BCB (2015), the Board of Governors is composed of the governor and 8 deputy governors, as it can be seen in figure 3. Its structure comprises 36 departments plus 9 regional administrative management units.

BCB (2015) had 4,187 officers in 2015.

BANCO CENTRAL DO BRASIL PGBC Demab Direx Direc Dipom Dipec Governor Difis Dinor Dirad Diorf Position in 12/31/2015 Technical and Administrative Board of Governors Executive Secretariat Technical Authority Office of the General Counsel Deliberative Authority Headquarters Regional Management Offices Dirad – Deputy Governor for Administration Direc - Deputy Governor for Institutional Relations and Citizenship Direx – Deputy Governor for International Affairs and Corporate Risk Management Difis – Deputy Gorvernor for Supervision Diorf – Deputy Governor for Financial System Organization and Control of Rural Credit Dipec - Deputy Governor for Economic Policy Dipom - Deputy Governor for Monetary Policy Dinor – Deputy Governor for Regulation

Figure 3 BCB's organizational structure⁶

Source: Banco Central do Brasil (2015).

In BCB, the Monetary Policy Committee (Copom) and the Financial Stability Committee (Comef) are composed of the same group that constitutes the Bank's Board of Governors, that is, the governor and the eight deputy governors. This is one of the differences between the central banks of the three countries studied in this paper.

Unlike its congeners, the BCB's organizational chart does not allow for an immediate observation of the main operational areas as a central bank (monetary policy, financial stability, markets and banking).

Another aspect that differentiates BCB from the other two central banks under analysis is the existence of areas that are not usually present in the functioning scope of classic central banks, such as regulation and control of rural credit operations. Also, the existence of a bureau called Institutional Relationship and Citizenship should be highlighted, for it has no parallel in the central banks that were studied.

In BCB, the bank oversight, performed by the Supervision (Difis), is placed inside the central bank, which is similar to the model adopted by England — that has recently introduced the Prudential Regulation Authority (PRA) in its structure — and very different from the Canadian situation, in which oversight is performed by another agency — The Office of the Superintendent of Financial Institutions (Osfi).

The committees of BCB's Board are listed in chart 7.

Chart 7
Committees of BCB's Board

Monetary Policy Committee (Copom)	It is this Committee's responsibility to set the monetary policy guidelines and define the interest rate.
Financial Stability Committee (Comef)	It is this Committee's responsibility to: guide the BCB's operation in the Committee of Regulation and Oversight of the Financial, Capital, Insurance, Welfare and Capitalization Markets (Comitê de Regulação e Fiscalização dos Mercados Financeiro, de Capitais, de Seguros, de Previdência e Capitalização — Coremec) and other similar forums, national and international; define the CB's strategies and guidelines for the direction of processes related to financial stability; prescribe studies, research and works associated with financial stability and prevention of systemic risk.

Source: Banco Central do Brasil (2015).

The other BCB's committees are listed in chart 8.

Chart 8 Other BCB's committees

Ethics Commission of the Central Bank of Brazil (CEBCB)	This Commission aims to promote the adoption and application of the rules set forth in the Professional Ethics Code for the Civil Public Officers of the Federal Executive Branch and the Code of Conduct for the Central Bank's Officers.
Information Governance Committee (CGI)	This Committee is in charge of implementing the Information Governance Policy and answering doubts regarding its implementation.

Continua

Post-graduation Committee (CPG)	It is this Committee's responsibility to propose strategic guidelines for the officers' participation program in Post-graduation courses to the Board of Governors.
Corporate Projects Committee (CPC)	It is this Committee's responsibility to propose the approval of Preliminary Projects aligned with its mission, future vision, strategic goals, and priorities to the Board of Governors.
Security Committee (Coseg)	It is this Committee's responsibility to carry out the strategic management of the Bank's security system.
Strategic Committee for the Management of Prevention of Money-Laundering and Terror- ism Financing (CGPLD/FT)	This Committee is in charge of improving governance and internal activities related to the prevention of money laundering and terrorism financing, as well as supervising their implementation.
People Management Strategic Committee (CGP)	It is this Committee's responsibility to develop the people management governance.
PDTI's Executive Committe	It is this Committee's responsibility to prepare and supervise the execution of the IT Master Plan (every three years).

Source: Banco Central do Brasil (2015).

6. Comparative analysis of governance practices

This section presents the data analysis that aims to answer the question proposed in this research: What are the differences in corporate governance practices between the central banks of Brazil, Canada and England?

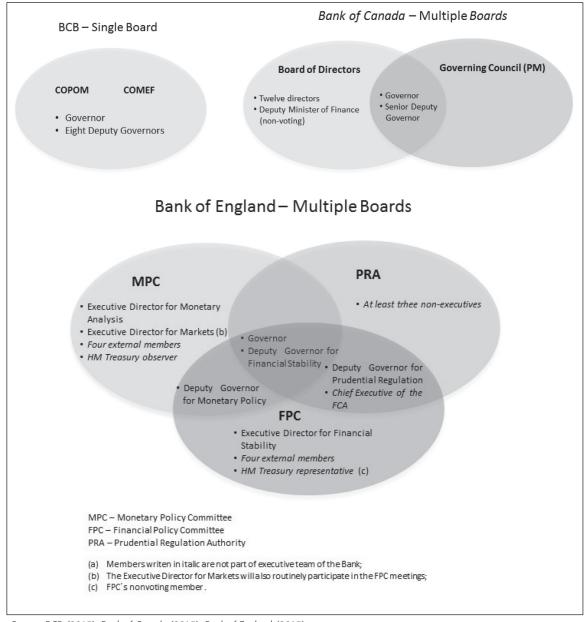
6.1 Structure and committees

An initial analysis of the three banks' organograms shows that BCB has additional functions when compared to its two congeners. It becomes also evident that it has a bigger structure when it comes to the number of departments. Another aspect is that BOC's and BOE's organograms allow for an easier identification of the main functions performed by those two central banks.

Figure 4 presents three Venn diagrams with the different compositions of the BCB's, BOC's and BOE's policy boards in December 2015.

The figure shows the different models adopted by the three countries. As far as the composition of the central banks' policy boards goes, significative differences between the models adopted in both Canada and England and the Brazilian model can be highlighted, such as composition, and formally established mandates for its members, as indicated in chart 9.

Figure 4
Policy boards in BCB, BOC, and BOE



Source: BCB (2015), Bank of Canada (2015), Bank of England (2015).

Chart 9
Policy Committees' composition and their members'mandate in the three countries (situation in 2015)

Country	Committee	Chair	Members	Term
Brazil	Copom Comef	Governor	Governor and eight deputy governors	Undefined
Canada	Governing Council	Governor	Governor, senior deputy governor, and four deputy governors	Governor and deputy governor (seven years)
England	MPC (Monetary Policy Committee)	Governor	Governor; two deputy governors; chief economist; executive director of markets; and four external members directly indicated by the chancellor.	Governor (eight years) and deputy governor (five years)
	FPC (Financial Policy Committee)	Governor	Governor; three deputy governors; the chief executive of the Financial Conduct Authority (FCA); the financial stability executive director; four external members indicated by the chancellor; and a nonvoting member of the Treasury.	

Source: BCB (2015), Bank of Canada (2015), Bank of England (2015).

According to BIS (2009), including external members to the board's group can attenuate the adversities of groupthink,⁷ and its greatest contribution is the aggregation of a variety of experiences and knowledge into the group (Sibert, 2006). Still, according to BIS (2009), one of the most important contributions of a multi-board governance structure is to offer a system of checks and balances that involves internal accountability.

The matter of the ideal size of boards and committees has been analyzed in several studies, such as those by Sibert (2006) and Crowe and Meade (2007). According to Berger, Nitsch and Lybek (2006), from IMF, and also BIS (2009), the average size of central banks' boards varies from seven to nine members.

The "blackout period" (Vayid, 2013) for policy boards' members is formally established in BOC and BOE. In BCB, Copom's regulation for meetings does not set forth a silence period immediately before its members' meetings. This governance practice prevents the exposure of these committes' members.

In BOE, the presence of external participants in policy committees is allowed, which aggregates knowledge and experience into the central banks. BCB and BOC do not adopt this possibility.

⁷ *Groupthink* happens when a committee is sufficiently cohesive and its members, looking for consensus, fail to pay proper attention to alternatives (Janis, 1982).

Among the many committees that were analyzed in the central banks of the three countries, some deserve to be highlighted for their significance at this evolutionary moment in the subject of governance. The first are BOE's Audit and Risk Committee and Oversight Committee. The second are BOC's Management Committee and Corporate Governance Committee. The third are BCB's Committee of Corporate Projects and People Management Committee.

6.2 The three pillars of governance in central banks

The three central banks under analysis perform their functions in different institutional environments, in societies with different degrees of maturity concerning social, political and economic points of view.

6.2.1 Independence

The pillar of independence reveals some differences between the three central banks. BCB has neither independence nor autonomy set forth by law. The Central Bank's governor and deputy governors are appointed by the President of the Republic and these appointments have to be approved by the Federal Senate. The lack of independence does not prevent the other two pillars of governance — accountability and transparency — but surely embrittles them (Amtenbrink, 2004).

In BOC, the governor e deputy governors are appointed for seven-year mandates by the Bank's Board of Directors, and they can be reconducted. Despite having definite mandates, they can be dismissed by the government, which is a point of similarity with the Brazilian case.

Canada, however, has a legal instrument that sets forth that, in case of serious disagreement between the government and BOC, the Finance Ministry can issue written instructions so that the Bank changes its policies. Such a document has never been used so far. Probably, it has never been used because the government has a representative (the Finance vice-minister, a non-voting member) in the Board. Besides, the 12 independent directors, who are representatives of the Canadian provinces appointed by the Finance Ministry with the governor's approval, have three-year, renewable mandates.

It is relevant to highlight that Canada adopts the parliamentary system, where the Congress has a predominant role in the conduction of the country, unlike Brazil, which adopts the presidential system, where the president greatly concentrates powers, including that of appointing and dismissing the BCB's governor and deputy governors.

Another fundamental aspect is that, although BOC does not have its independence set forth in law, it has legally constituted autonomy, which does not occur in the Brazilian case. In order to perform its actions, BCB relies on budgetary resources that are controlled and released by the government. It is a monetary authority that is limited by third parties in its actions and projects, which is not usual in central banks' practices.

The Bank of Canada Act includes in its text an interesting governance-related provision that is called 'disqualifications' and applies to the governor, deputy governors and directors of the Board. The text provides a detailed list of what disqualifies a citizen from occupying those positions.

In BOE, the top chiefs are all appointed by the Crown. The governor is appointed to an eight-year mandate, the deputy governors to five-year mandates, and the directors to three -year mandates. The existence of staggered terms is a good governance practice, which differentiates BOE from both BCB and BOC.

Another governance practice that differentiates BOE from its two congeners is the use of the mechanism of Memoranda of Understanding (Bank of England, 2015) to formalize its relations with both the Treasury and the English government, even for dealing with exceptionalities.

External members' participation in directive committees is another governance practice adopted by that Bank, as it happens in its highest decision-making agency, the Court of Directors, whose chair and most members are external to BOE. Indeed, the Court of Directors is composed of four executives of the Bank (the governor and three deputy governors) and nine non-executives of the Bank; one of them being its chair.

BOE, just as BOC, also has formally constituted autonomy. Its relationship with the Treasury is totally set forth in the Financial Services Act, which settles how that relationship works, as well as all the other Bank's relationships.

6.2.2 Accountability

Among the three banks under analysis, BOE should be highlighted for its accountability practices, since they are always set forth in legal instruments, both internal and external to the Bank. The access to its documents is easy and they are well organized in the Bank's Internet website.

As is the practice with all central banks, the three central banks under analysis offer information regarding monetary policy and financial stability that are either legally defined or not. Thus, inflation reports, minutes from policy committees, among other documents, are regularly made available by the banks to the great public.

There seems to be a strong correlation between the central banks' independence or autonomy and their accountability (Ullrich, 2007). The more autonomy society grants to its central bank, the more counterparts society demands in exchange. Accounting for its decisions and actions becomes a duty, which is constantly demanded by many interested agents.

The principal-agent relationship and conflicts contemplated in the agency theory are present in the relationship between a country's society and its central bank. Accountability is an instrument used by the principal (society) to control the agent (the executive of a central bank). It entails the necessity of accounting for one's acts and the liability for performed actions.

As it was stated by Lybek and Morris (2004), "An appropriate governance structure can help entrench central bank autonomy and facilitate accountability by depoliticizing the process". In BCB's case, when compared to its two congeners, information regarding "corporate governance" is not explicitly available on its Internet website.

6.2.3 Transparency

The analysis of information available on the Internet websites of the three central banks studied here shows some important differences between them. For example, both BOC (2015) and BOE (2015) deal with the subject of governance on their Internet websites in a very specific way. They both offer access to governance information under the title About the Bank. Also, they stand out for the richness of details and the possibility of finding the main governance topics concerning central banks, such as decision-making process, composition of committees, documents released by committees in order to fulfill accountability and transparency requirements.

BCB (2015) displays a great deal of information about all of its activities, but it is more difficult to find specific information on the Brazilian central bank's website than on its congeners'. On BOE's or BOC's websites, for example, one can access all of the publications made available by the Bank, regarding all of its areas, all at once (at "Publications"). On BCB's website, publications are scattered throughout their areas of activity.

One of BOC's governance practices that distinguish this Bank from the other two central banks is the disclosure of all of its committees' terms of reference online. These terms specify each and every governance element related to the committees, such as the committee chair's duties, and a definition of the decision-making process.

BOC's and BOE's more advanced transparency stages comparatively to BCB's, seem to confirm the statement by Dincer and Eichengreen (2014), according to whom transparency and independence respond to similar economic and institutional determinants, and their levels tend to be higher in more open economies.

Chart 10 summarizes some of the previously mentioned differences in the three central banks' governance practices.

Chart 10 Comparison of governance practices in the three central banks

Aspect	Practice	ВСВ	ВОС	BOE
	It expresses, in the organizational chart, the participation of the bank's strategic level members in the policy committees.	No	No	Yes
Structure	It has additional assignments when compared to a typical central bank.	Yes	No	No
Structure	It includes bank supervision in its assignments.	Yes	No	Yes
	It has a member in the strategic level (board) who is responsible only for the management of the bank.	No	Yes	Yes

Continua

Aspect	Practice	ВСВ	ВОС	BOE
Committees	It has monetary policy and financial stability committees.	Yes	Yes	Yes
	It divulges the minutes of the policy committees' meetings at previously fixed dates.	Yes	Yes	Yes
	It has policy committees exclusively composed of members who are attested specialists in their fields.	No	Yes	Yes
	It admits external members in policy committees.	No	No	Yes
	It establishes blackout periods for members of the policy committees.	No	Yes	Yes
Independence	It operates with formally established Independence or autonomy.	No	Yes	Yes
	It has term set out for its governors.	No	Yes	Yes
	It has staggered terms set out for its governors.	No	No	Yes
	It allows the reappointment of governors.	Yes	Yes	Yes
Accountability	It uses MoU between the central bank and both the Treasury and other government agencies.	No	Yes	Yes
	It is formally set forth to whom, for what and how the central bank is accountable.	Yes	Yes	Yes
	It regularly divulges reports regarding the policy committees' results and decisions.	Yes	Yes	Yes
	It is monitored by the Legislative or Executive Branches.	Yes	Yes	Yes
Transparency	It divulges reports and decisions within previously fixed deadlines.	Yes	Yes	Yes
	It makes access to its publications available from one point on its Internet website.	No	Yes	Yes
	It has the subject of corporate governance explicitly featured on its Internet website.	No	Yes	Yes
	It divulges its committees' terms of reference.	No	Yes	No

Source: BCB (Banco Central do Brasil); BOC (Bank of Canada); BOE (Bank of England).

7. Concluding remarks

The aim of this study was to identify differences in governance practices existing in 2015 in the central banks of Brazil, Canada and England. These practices have evolved in the last years and central banks have been trying to work continuously and directly with the three basic pillars: independence, accountability and transparency.

The granting of independence to the central bank varies from country to country and depends on the maturity level reached by democracies. Countries that are more mature usually grant independence to their central banks, with the counterpart of greater accountability.

Central banks strongly operate on the accountability pillar, both by disclosing their policy committees' minutes, and in their institutional committees. Defining roles and responsibilities is essential for good governance; creating rules for the composition and operation of committees and assessing their performance is also fundamental for the central bank's credibility.

Transparency is vital in central banks, since economies and their agents certainly appreciate and value prediction abilities when it comes to better directing their investments. Therefore, central banks and their committees must operate widely disclosing their minutes and decisions, and even showing their members' contribution.

In addition, there is no doubt that the existence of a formal structure to guide the corporate governance matter in central banks is important. A formal instance within such organizations has to be responsible for the adoption and diffusion of the best governance practices. This practice has already been adopted by BOC.

Central banks must keep information about their governance practices updated and easily accessible to interested people on their Internet website. The level of completude and actualization of that information reinforce the pillars of accountability and transparency.

The fact that this analysis was based only in secondary data available on the central banks' Internet websites, which did not allow for observation and confirmation *in loco* by the researchers, may be pointed out as a limitation to this study.

Finally, we suggest that future studies deepen this analysis, comparing a wider range of central banks, with the possibility of gathering them according to a variety of criteria, such as gross domestic product and human development index, so as to identify similarities and differences in their governance practices in view of social and economic parameters.

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