

Iceland: IMF Comments on Central Banking Legislation¹

February 12, 2009

This note contains a brief summary of international practice regarding central banking legislation, with a focus on governance frameworks, namely the nomination and dismissal procedures for the Governor, the structure of management, and issues concerning Monetary Policy Committees. The note also briefly reviews several technical issues in existing CBI legislation that may need to be addressed at some point.

Disclaimer: These comments should be considered preliminary: the IMF staff have not had a full opportunity to discuss them with the authorities.

I. THE GOVERNANCE FRAMEWORK²

(i) International Practice: Nomination, appointment, and dismissal of the governor.

- The disqualification and removal conditions for the governor should be clearly stipulated. Central bank legislation typically includes provisions to ensure the integrity of the Governor (non-eligibility, i.e., in case of conviction of an offence or disqualification from practicing a profession); the specific grounds for dismissal (i.e., inability to perform the functions of the office because of illness); a dismissal procedure (identifying the dismissing authority and involving the Supervisory Board); and due process (allowing the Governor to be heard and giving him recourse to court).
- Qualification requirements are typically not specified as specific educational requirements, but as “recognized knowledge or experience”.

(ii) International practice: the structure of management.

- The Governor of a central bank is typically assisted by one or two deputy governors. The appointment procedure for these deputy governors, as well as disqualification and removal conditions, should be similar to those for the Governor.

3. International practice: monetary policy committees (MPCs)

- The term of office for MPC members is typically not less than that of the individual or body appointing them. That is, if a person or body has the ability to appoint and reappoint

¹ Prepared at the request of the authorities.

² The discussion in the text covers selective aspects of frameworks. See Appendix I, Tables 1 and 2, for a more complete accounting of frameworks in the Czech Republic, Denmark, Norway, Poland, Sweden, Switzerland, Turkey, and the U.K. The sample reflects advanced economies within Europe, but outside of the Euro area.

all MPC members, their ability to offer an independent view suffers. Many countries employ a rotating retirement framework.

- When central bank executives are part of the MPC, it is good practice to identify how they would be chosen (e.g. specifying the deputy governors).
- Central bank legislation should clearly stipulate eligibility criteria for external members. For example, in international practice, government representatives and persons with conflicts of interest (e.g. due to their professional and financial interests) are generally excluded. Restrictions on employment for MPC members do not need to be blanket (for example, in other countries some MPC members are part-time employees and retain other academic work), but they should be aimed at eliminating the scope for conflicts of interest. Finally, disqualification and removal conditions for external members should also be provided in the law.
- Best practice in transparency would have the law stipulate that minutes of the MPC meetings and decisions will be published after a specified (short) time lag.

II. SOME ISSUES REGARDING THE EXISTING CBI ACT

- According to the articles of the CBI Act: (i) authority over the CBI is vested in the Prime Minister; and (ii) the Supervisory Board is elected by each new parliament and has the authority to “approve” or “confirm” decisions of the Governors. These two clauses might be at odds with the independence of the CBI established at the outset in Article 1 of the Act. It would be useful to clarify the powers of the PM and Supervisory Board in exercising their statutory authority and supervision, respectively, over the CBI.
- The CBI Act does not explicitly prohibit government officials from becoming members of the Supervisory Board.
- The Act is not explicit in mandating external audit by an independent external auditor.
- The appointment terms of the Chief Auditor are not explicitly spelled out in the Act.
- The Act is silent on qualification requirements and integrity criteria regarding the Supervisory Board and the Chief Auditor. It also lacks grounds for dismissal and procedures for early dismissal of these officials.
- The Act does not include provisions on CBI capital and the coverage of a shortfall in capital. Moreover, although the Act specifies profit distribution arrangements, it is silent about the treatment of unrealized revaluation gains.

- Fees the CBI may charge the Treasury for its services and interest obligations on the Treasury's deposits are not discussed in the Act. In practice, however, government deposits and CBI's services are remunerated.

Appendix I. Central Bank Governance Framework in Selected Countries

Appendix Table 1. Governance Framework in Norway, UK, Sweden and Switzerland

	Norway (Norges Bank)	UK (BOE)	Sweden (Riksbank)	Switzerland (SNB)
Governing bodies	Supervisory Council and Executive Board	Court of Directors and Monetary Policy Committee	General Council and Executive Board	General Meeting of Shareholders, the Bank Council, the Governing Board and the Audit Board
1. Governor	Governor and Deputy Governor. The Governor is in charge of the Bank's administration and the implementation of the decisions.	Governor and two Deputy Governors.	Chairman of the Executive Board is the Governor of the Riksbank, and at least one Vice-Chairman, who shall serve, when required, in the absence or incapacity of the Governor.	The Governing Board (3 members) is the supreme management and executive body.
1.1 Appointment and terms of the Governor and Deputy Governors	Governor and Deputy Governor are appointed by the King for the term of 6 years.	Governor and Deputy Governors are appointed by the Queen for the term of 5 years.	The General Council appoints the Governor (Chairman of the Executive Board).	Members of the Governing Board and their deputies are appointed by the Federal Council upon recommendation of the Bank Council for the term of 6 years.
1.2 Education and professional requirements of the Governor and Deputy Governors 1/	Not specified.	Not specified.	Not specified.	The members of the Governing Board are required to hold Swiss citizenship and be resident of Switzerland and have a recognized knowledge of monetary, banking and financial issues.
1.3 Other qualification, disqualification and removal of the Governor and Deputy Governors	The following persons may not serve as members of the EB (including the Governor and Deputies):	If a member of the court (including the Governor and Deputies) has any direct or indirect interest in	A member of the Executive Board (including the Governor and Deputies) may not be a cabinet	They may not exercise any other business activity nor hold a federal or cantonal office. A member of the

	Norway (Norges Bank)	UK (BOE)	Sweden (Riksbank)	Switzerland (SNB)
	<p>government ministers; state secretaries and other political staff in the ministries; ministry officials, staff employed by the Ministry of Finance or the Office of the Prime Minister; members of the Storting; other political staff at the Storting; committee secretaries at the Storting; staff at the Bank; and persons closely associated with the persons mentioned above. The King may issue regulations with regard to the members' relationship to other credit institutions and enterprises.</p>	<p>any dealing or business with the Bank, he shall disclose his interest to the court, and shall have no vote in relation to the dealing or business, unless the court has resolved that the interest does not give rise to a conflict of interest. A person is disqualified if he is a Minister or serving in a government department in employment in respect of which remuneration is payable out of money provided by the Parliament; or a servant of the Bank. Governor, Deputy Governor and director of the Bank can be removed with the consent of the Chancellor if he has been absent from meeting for more than 3 months without the court consent; has become bankrupt or unable and unfit to discharge his functions.</p>	<p>minister, a member of the Riksdag, employed at the Government Offices, employed by the central administration of a political party, a member or deputy of a board of directors of a bank or any other company subject to supervision by the FSA, or hold any other employment or assignment which makes him unsuitable as a member of the Executive Board. Nor may a member be a minor, a declared bankrupt, or be subject to a prohibition against carrying on a business. The Riksdag considers whether the members of the Executive Board shall be granted discharge of responsibility. The General Council may remove a member of the Executive Board from office only if he no longer fulfills the requirement laid down for performing his duties or if he has been guilty of gross negligence.</p>	<p>Governing Board can be removed from office by the Federal Council following a proposal by the Bank Council if the person no longer fulfils the requirements for exercising the office or has committed a grave offense.</p>
2. Oversight and/or administrative body	The Supervisory Council	Court of Directors	The General Council	The Bank Council.
2.1 Responsibilities of the	Supervises the Bank's	Manage the bank's affairs	Decides the Rules of	Oversees and controls the

	Norway (Norges Bank)	UK (BOE)	Sweden (Riksbank)	Switzerland (SNB)
oversight and administrative body	activities and ensures that the rules governing the operations of the Bank are observed.	other than the formulation of monetary policy. It keeps the procedures followed by the MPC under review and ensure the effective discharge of the Bank's functions	Procedure for the Riksbank.	conduct of business by the SNB
2.2 Appointment and terms of the members of the oversight body	Fifteen members elected by the Storting (parliament) for 4-year terms. Every other year, seven-alternately eight-members retire. From among the members, the Storting elects the Chairman and Deputy Chairman for the terms of 2 years.	The Governor, two Deputy Governors and 16 non-executive directors appointed by the Queen. Terms of appointment of external members are for 3 years, except that initially some appointments may be for shorter and different periods so as to secure that appointments expire at different times.	Eleven members, appointed by the Riksdag (parliament).	Eleven members—six, including the President and Vice President, are appointed by the Federal Council, and five by the Shareholders' meeting.
2.3 Qualification, disqualification and removal of the members of the oversight body	The following persons may not serve as members of the Supervisory Council: government ministers; state secretaries and other political staff in the ministries; ministry officials, staff employed by the Ministry of Finance or the Office of the Prime Minister; members of the Storting; other political staff at the Storting; committee secretaries at the Storting;	If a member of the court has any direct or indirect interest in any dealing or business with the Bank, he shall disclose his interest to the court, and shall have no vote in relation to the dealing or business, unless the court has resolved that the interest does not give rise to a conflict of interest. A person is disqualified if he is a Minister or serving in a government	A member of the General Council may not be a cabinet minister, a member of the Riksbank's Executive Board, a member or deputy of a board of directors of a bank or any other company subject to supervision by the FSA, or hold any other employment or assignment which makes him unsuitable as a member of the General Council. No	The members are required to hold Swiss citizenship and be resident of Switzerland and have a recognized knowledge in the fields of banking and financial services, business administration, economic policy or in an academic field. A member of Bank Council can be removed from office by the Federal Council following a proposal if the person no

	Norway (Norges Bank)	UK (BOE)	Sweden (Riksbank)	Switzerland (SNB)
	staff at the Bank; and persons closely associated with the persons mentioned above.	department in employment in respect of which remuneration is payable out of money provided by the Parliament; or a servant of the Bank. Governor, Deputy Governor and director of the Bank can be removed with the consent of the Chancellor if he has been absent from meeting for more than 3 months without the court consent; has become bankrupt or unable and unfit to discharge his functions.	may a member be a minor, a declared bankrupt, or be subject to a prohibition against carrying on a business.	longer fulfils the requirements for exercising the office or has committed a grave offense.
3. Body that conduct monetary policy	Executive Board (EB) has executive and advisory authority, and is in charge of the Bank's operations and manages its resources.	Monetary Policy Committee (MPC)	Executive Board	The Governing Board
3.1 Appointment and terms of the members of the body that conduct monetary policy	Seven members, appointed by the King in Council. The Central Bank Governor and Deputy Governor serve as chairman and deputy chairman for a term of 6 years. Other five members are appointed for 4 years terms. Every other year,	Nine members—five from the Bank of England and four external members appointed by the Chancellor. It is chaired by the Governor of the Bank of England. The five members from the Bank are the Governor, Deputy Governors, a person who	Six members of the Executive Board are appointed for a period of five or six years according to a rolling schedule. Usually, one member of the Board will be re-elected or a new member elected each year. One of the Board members is	Members of the Governing Board and their deputies are appointed by the Federal Council upon recommendation of the Bank Council for the term of 6 years.

	Norway (Norges Bank)	UK (BOE)	Sweden (Riksbank)	Switzerland (SNB)
	two or three members retire.	has executive responsibility within the Bank for monetary policy analysis and a person who has executive responsibility for monetary policy operations. Terms of appointment of external members are for 3 years, except that initially some appointments may be for shorter and different periods so as to secure that appointments expire at different times.	appointed Governor of the Riksbank.	
3.2 Qualification, disqualification and removal of the members of the body that conduct monetary policy	The following persons may not serve as members of the EB: government ministers; state secretaries and other political staff in the ministries; ministry officials, staff employed by the Ministry of Finance or the Office of the Prime Minister; members of the Storting; other political staff at the Storting; committee secretaries at the Storting; staff at the Bank; and persons closely associated with the persons mentioned above. The King may issue regulations	The Chancellor shall only appoint external members if he is satisfied that the person has knowledge or experience which is likely to be relevant to the MPC's functions. A person is disqualified if he is a Minister or serving in a government department in employment in respect of which remuneration is payable out of money provided by the Parliament; or a member of the Bank's Court of Directors. Members can be removed with the consent	A member of the Executive Board may not be a cabinet minister, a member of the Riksdag, employed at the Government Offices, employed by the central administration of a political party, a member or deputy of a board of directors of a bank or any other company subject to supervision by the FSA, or hold any other employment or assignment which makes him unsuitable as a member of the Executive Board. Nor may a member be a minor, a declared bankrupt, or be	The members of the Governing Board are required to hold Swiss citizenship and be resident of Switzerland and have a recognized knowledge of monetary, banking and financial issues. They may not exercise any other business activity nor hold a federal or cantonal office. A member of the Governing Board can be removed from office by the Federal Council following a proposal by the Bank Council if the person no longer fulfils the

	Norway (Norges Bank)	UK (BOE)	Sweden (Riksbank)	Switzerland (SNB)
	with regard to the members' relationship to other credit institutions and enterprises.	of the Chancellor if he has been absent from meeting for more than 3 months without the MPC consent; has become bankrupt or unable and unfit to discharge his functions.	subject to a prohibition against carrying on a business. The Riksdag considers whether the members of the Executive Board shall be granted discharge of responsibility. The General Council may remove a member of the Executive Board from office only if he no longer fulfills the requirement laid down for performing his duties or if he has been guilty of gross negligence.	requirements for exercising the office or has committed a grave offense.

Appendix Table 2. Governance Framework in the Czech Republic, Poland, Denmark and Turkey

	Czech Rep (CNB)	Poland (NBP)	Denmark (DN)	Turkey (CBT)
Governing bodies	The Bank Board is the supreme governing body of the CNB.	The President of the NBP, the Monetary Policy Council and the Management Board of the NBP	Board of Directors, Committee of Directors and Board of Governors	General Assembly, Board, Monetary Policy Committee, Audit Committee, Office of the Governor and Executive Committee
1. Governor	Governor and four Vice Governors. The Governor shall represent the CNB externally. In his absence, a Vice-Governor nominated by him shall act on his behalf.	The President of the NBP. In the absence of the President, his duties shall be performed by the Vice President who is First Deputy.	Chairman of the Board of Governors (three Governors make up the Board of Governors).	Governor and four Vice Governors.

	Czech Rep (CNB)	Poland (NBP)	Denmark (DN)	Turkey (CBT)
1.1 Appointment and terms of the Governor and Deputy Governors	The Governor and Vice Governors are appointed by the President of the Republic for a term of 6 years.	The President of the NBP is appointed by the Sejm (lower house) at the request of the President of the Polish Republic for a term of 6 years.	The Chairman of the Board of Governors is nominated by the King and the other Governors appointed by the Board of Directors on the recommendation of the Committee of Directors.	The Governor is appointed for a term of 5 years by a decree of the Council of Ministers. Vice Governors are appointed by a joint decree for a period of 5 years on the recommendation of the Governor.
1.2 Education and professional requirements of the Governor and Deputy Governors 1/	Same as the requirements for members of the Bank Board: Any citizen of the Czech Republic who is fully competent to perform legal acts; has completed university education; is of integrity (has not been lawfully convicted of a criminal offense); is a person of recognized standing and professional experience in monetary and banking matters.	Not specified.	The Governors shall be of age, enjoy the reputation and confidence prerequisite to the offices.	The Governor is required to have received a higher education and to have acquired knowledge and experience in banking or in the fields of economics and finance. Vice Governors are required to have received a bachelors and a masters degree and acquired adequate knowledge and experience in one of the fields of law, finance, economics, business administration and banking, and have worked in their professions for at least 10 years.
1.3 Other qualification, disqualification and removal of the Governor and Deputy Governors	Membership of the Board (including the Governor and the Deputies) is incompatible with the position of member of a legislative body, member of the Government and	The President's term expires following a period of 6 years, in the event of his death, resignation or recall. The President may be recalled if he has been unable to fulfill his duties	The Governors shall reside in Copenhagen or in places closely connected with Copenhagen. They shall not have a seat in the management of trade organizations or	The duties of the Governor may not be reconcilable with any other duty outside the Bank whether of legislative, official or private nature unless otherwise permitted by

	Czech Rep (CNB)	Poland (NBP)	Denmark (DN)	Turkey (CBT)
	membership of the governing, supervisory or inspection bodies of other banks or commercial undertakings, and the performance of any independent gainful occupation, except for scientific, literary, journalistic, artistic and pedagogical activities, and except for management of own assets. Members of the Board shall be incompatible with any activity which might cause any conflict of interest between the performance of this activity and membership of the Bank Board. The President of the Republic shall relieve a member of the Board if the member fails to perform his duties for a period exceeding 6 months; in a breach of integrity qualification; or incompetent to perform legal acts.	due to prolonged illness, convicted of a criminal offense or the Tribunal of State has prohibited him from occupying managerial positions in state institutions.	companies nor carry on or take part in the working of private trading activities.	special law. Furthermore, the Governor shall not be allowed to engage in trade, nor shall he become a shareholder in banks or companies.
2. Oversight and/or administrative body	The Bank Board (policy, administrative, oversight, and execution of policies)	The Management Board (administrative, oversight and execution of policies)	Board of Directors and Committee of Directors	General Assembly, Board, and Executive Committee
2.1 Responsibilities of the	Besides setting the	The Management Board	Have administrative and	Monetary policy execution.

	Czech Rep (CNB)	Poland (NBP)	Denmark (DN)	Turkey (CBT)
oversight and administrative body	monetary policy, the Bank Board shall set forth principles for the activities and transactions of the CNB , and organization structure, and approve budget of the CNB.	shall establish, reorganize and wind up organization units at the NBP, and specify the scope of responsibilities and organizational structure. It also implements resolutions of the MPC, adopt the NBP plan and budget, and perform other administrative functions.	organizational competence and must approve the Annual Accounts of Danmarks Nationalbank.	Have administrative and organizational competence and must approve the Annual Accounts
2.2 Appointment and terms of the members of the oversight body	Seven members comprising the Governor, two Vice Governors and four other members. The members are appointed and relieved from office by the President of the Republic. The appointment term is six years.	The Management Board is composed of the President of the NBP as Chairperson, and from 6-8 other Board members, of which two shall be Vice Presidents of the NBP.	The Board of Directors shall consist of 25 members. All members are appointed for the term of 5 years. Committee of Directors have 7 members (a subset of the Board of Directors). Two members are economist and lawyer, and the rest elected for 1 year at a time.	General Assembly is composed of the shareholders. The Board is composed of the Governor and 6 members to be elected by the General Assembly. Board members are appointed for the term of 3 years. Executive Committee is chaired by the Governor and is composed of Vice Governors.
2.3 Qualification, disqualification and removal of the members of the oversight body	Any citizen of the Czech Republic who is fully competent to perform legal acts; has completed university education; is of integrity (has not been lawfully convicted of a criminal offense); is a person of recognized standing and professional	Members of the Management Board shall not hold other positions or engage in gainful or public activity other than academic work, teaching or writing. Membership of a political party or trade union is not allowed.	The Directors shall be of age, enjoy the reputation and confidence prerequisite to the offices. Eight members with a seat in the Rigsdag (parliament). These are to be elected. Two members of which one shall be an economist and another a	Members of the Board are required to have received a higher education and to have acquired knowledge and experience in banking or in the fields of economics and finance. Members shall neither participate in discussions nor cast votes on credit

	Czech Rep (CNB)	Poland (NBP)	Denmark (DN)	Turkey (CBT)
	<p>experience in monetary and banking matters. Membership of the Board is incompatible with the position of member of a legislative body, member of the Government and membership of the governing, supervisory or inspection bodies of other banks or commercial undertakings, and the performance of any independent gainful occupation, except for scientific, literary, journalistic, artistic and pedagogical activities, and except for management of own assets. Members of the Board shall be incompatible with any activity which might cause any conflict of interest between the performance of this activity and membership of the Bank Board. The President of the Republic shall relieve a member of the Board if the member fails to perform his duties for a period exceeding 6 months; in a breach of integrity</p>		<p>lawyer. These members must not be members of Rigsdag, are appointed by the Minister of Trade, Industry and Shipping. Fifteen members with thorough knowledge of trade, who must not be members of the Rigsdag, shall be elected by the entire Board of Directors, so that 3 members retire every year. Due regards shall be paid to establish a comprehensive representation of trade, workers and geographical representation.</p>	<p>issues concerning themselves or persons with whom they have a link of interest or kinship. The duties of the members may not be reconcilable with any other duty outside the Bank whether of legislative, official or private nature unless otherwise permitted by special law. Furthermore, the members shall not be allowed to engage in trade, nor shall he become a shareholder in banks or companies.</p>

	Czech Rep (CNB)	Poland (NBP)	Denmark (DN)	Turkey (CBT)
	qualification; or incompetent to perform legal acts.			
3. Body that conduct monetary policy	The Bank Board is the supreme governing body of the CNB and sets monetary policy and the instruments for implementing the policy.	Monetary Policy Council (MPC)	Board of Governors	Monetary Policy Committee (MPC)
3.1 Appointment and terms of the members of the body that conduct monetary policy	Seven members comprising the Governor, two Vice Governors and four other members. The members are appointed and relieved from office by the President of the Republic. The appointment term is six years.	The MPC is chaired by the President of the NBP and includes nine other members, appointed in equal numbers by the President of the Republic of Poland, the Sejm and the Senate. The MPC term is six years.	See above in the Governor section.	The Governor is the Chairman of the MPC. It is composed of Vice Governors, a member to be elected by and from among the Board members, and a member to be appointed by a joint decree on the recommendation of the Governor for a term of 5 years.
3.2 Qualification, disqualification and removal of the members of the body that conduct monetary policy	Any citizen of the Czech Republic who is fully competent to perform legal acts; has completed university education; is of integrity (has not been lawfully convicted of a criminal offense); is a person of recognized standing and professional experience in monetary and banking matters. Membership of the Board	Members can be recalled in the event of their resignation, illness which permanently prevents them from performing their responsibilities, a conviction for a criminal offense or a membership of a political party or trade union. During the term, members cannot hold other positions or engage in gainful or public activity	See above in the Governor section.	The members appointed by a joint decree are required to have studied in monetary policy matters and an academic degree in one of the fields of economics, business administration, banking and finance and shall have worked in his field for at least 10 years, and shall be required to have adequate experience and

	Czech Rep (CNB)	Poland (NBP)	Denmark (DN)	Turkey (CBT)
	<p>is incompatible with the position of member of a legislative body, member of the Government and membership of the governing, supervisory or inspection bodies of other banks or commercial undertakings, and the performance of any independent gainful occupation, except for scientific, literary, journalistic, artistic and pedagogical activities, and except for management of own assets. Members of the Board shall be incompatible with any activity which might cause any conflict of interest between the performance of this activity and membership of the Bank Board. The President of the Republic shall relieve a member of the Board if the member fails to perform his duties for a period exceeding 6 months; in a breach of integrity qualification; or incompetent to perform legal acts.</p>	<p>other than academic work, teaching or writing.</p>		<p>knowledge. The duties of the members may not be reconcilable with any other duty outside the Bank whether of legislative, official or private nature unless otherwise permitted by special law. Furthermore, the members shall not be allowed to engage in trade, nor shall he become a shareholder in banks or companies. However, members can hold academic posts in universities.</p>

1/ The ECB act requires the President, the Vice-President and other members of the Executive Board to be appointed from among persons of recognized standing and professional experience in monetary or banking matters. The Federal Reserve Act does not specify professional requirements for members of the Board of Governors, except that appointments should be made with a due regard to a fair representation of the financial, agricultural, industrial, and commercial interests, and geographical divisions of the country.

Reference:

The Act on the National Bank of Poland of August 1997

Act No. 6/1993 Coll. Of 17 December 1992 on the Czech National Bank

Act of 24 May 1985 relating to Norges Bank and the Monetary System etc.

Bank of England Act 1998

Federal Act on the Swiss National Bank (National Bank Act, NBA) of 3 October 2003 (as at 1 January 2008)

The Law on the Central Bank of the Republic of Turkey

The National Bank of Denmark Act

The Sveriges Riksbank Act as from 1 July 2008

IMF, Central bank legislation database.