

Central Bank of Seychelles

16th Anniversary Lecture

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"The implications of the financial crisis for the Governance of Central Bank"

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Opening Address by President James Michel

Salutations....

It gives me great pleasure to be here today to be part of this year's Central Bank of Seychelles' Anniversary lecture. This eagerly awaited annual event is an opportunity for all of us to share some thoughts about issues that impact on us in many different ways.

This year's lecture, entitled "*The implications of the financial crisis for the governance of central banks*" is particularly fitting as it addresses two critical issues that are highly topical in today's environment. Firstly, the global financial crisis is one that has touched us in Seychelles in many ways. Secondly, governance of the central bank is something that all Seychellois have come to take very seriously. I am therefore extremely pleased that the CBS has chosen this particular theme for this year.

Ladies and Gentlemen: When I addressed the Seychellois people on October 31, 2008, to spell out my new vision for the economic management of our country, I warned about the adverse impact of the global financial crisis, and the need for us to remain resilient if we were to ride this storm. But beyond just words, we needed concrete actions.

In the face of this storm my Government took the bold decision to pursue a full and comprehensive macroeconomic reform program. This decision was not without its risks. Above all, the risk that such a small island, with an extremely high openness index, with hardly any reserves at the time, would be able to fully liberalize in the face of a crumbling world economy, on which we depend so much. Some had suggested that we needed hundreds of millions of dollars to do so. But we showed in the end, that all that was needed were smart minds and determination. Let's not also forget the political risk, which at all costs, I was prepared to take. Risks, as we know too well come with reward. The higher the risk, the greater the reward, and today we the Seychellois people we are reaping the rewards of this immense sacrifice.

Today, Ladies and Gentleman, we have an economy that is as solid as a rock. Real GDP growth for 2010 is projected to outpace the original growth forecast and exceed 6 percent. The government budget continues to perform so impressively that we have already surpassed the primary fiscal surplus target for this year, at over 10 percent of GDP. This will provide us with more fiscal space for the benefit of our people. The inflation rate continues to hover around zero percent, while the exchange rate remains impressively stable in the face of volatility in the world's leading currencies. Official foreign exchange reserves continue to grow at an impressive pace, having already surpassed the 2-month import threshold. Our debt level continues to decline as our debt-to-DGP ratio moves toward the path to sustainability. These impressive indicators, Ladies and Gentlemen, point to an overwhelming success of our economic reform program.

Critical to this success has been the contribution of the Central Bank of Seychelles. As most of us here today would appreciate, one of the fundamental pillars of our macroeconomic policy is our monetary policy. When I embarked on our journey to transform the Seychelles economy two years ago, I was convinced that a prerequisite for a successful monetary policy framework would be an independent central bank. I felt that this was absolutely necessary if the CBS was to deliver on its monetary policy

mandate to the full. To this end, my Cabinet approved several fundamental amendments to the Central Bank Act in early 2009, which were later made into law through Parliamentary approval.

The new Act, as amended, provided a streamline and more focused set of objectives, with price stability spelled out clearly as the Bank's primary objective. In terms of accountability, the amended Act provides for the possibility that the Governor may be called before Parliament to explain and answer questions on monetary policies and other activities of the Bank. And with regards to independence, it disqualifies all government members and employees, and all persons affiliated with a political as a potential member of the CBS Board of Directors. Moreover, no CBS Board member can sit on other Boards, except where these have a direct implication to the work of the CBS. The law was also strengthened such that it bars CBS Board members, which includes the Governor and Deputy Governor, to be influenced by any person in the discharge of their duties. With these provisions, our amended CBS Act meet the fundamental criteria of best practice when it comes to central bank governance structure of clear objectives, accountability, and independence.

Governance, Ladies and Gentlemen, is a term that has taken prominence in my government's efforts to improve transparency and accountability. I am extremely pleased to note that our central bank has also made important strides in that regard. Notwithstanding our achievement in successfully stabilizing our economy, it is critical that we pursue our structural reform agenda to preserve these gains. In this regard my government will pursue our structural reforms with the same vigour and determination that we have shown over the past two years.

The fact that the CBS chose Governance as the main theme of this year's lecture is an illustration of the importance that the Management of our central bank attaches to the issue of governance. The Seychellois people have taken note of the critical role played by our central bank in the success of our reforms through its successful monetary and financial policies, and its endeavour to continue to improve governance and transparency in its operations.

Just over two years ago a Safeguards Assessment carried out by the International Monetary Fund pointed out several areas that required strengthening, and one of these areas was the governance structure of the Bank. In July 2010, exactly two years later, a similar report concluded the CBS has made substantial progress in implementing the recommendations of the 2008 report, which has resulted in a marked improvement in the Bank's governance structure, among other things.

Ladies and Gentlemen, one of the reasons that Seychelles was able to weather the financial crisis with almost no impact on the domestic financial sector is that the CBS already had in place an adequate supervisory and regulatory framework that ensured that financial institutions were adequately capitalized, and that the CBS itself had in place adequate instruments that would have allowed it to assist any institution that could have got in trouble. I have followed with interest the further progress that the CBS has made over the past two years to further modernize its banking supervision framework and other regulatory requirements, with the assistance of the IMF in particular.

Make no mistake; there were significant risks for some of our institutions when we launched the reforms, which coincided with the implosion of US and European financial systems in late 2008. One of our government banks faced serious interest rate

risks, whilst another faced serious exchange rate risks. However, in a reflection of the resilience of our financial system, both banks weathered the storm without any assistance from the CBS or from Government.

In a few moments we will hear more from our Guest speaker about the implications of the financial crisis for central bank governance, which I know you are all eagerly looking forward to. On this note I would like to conclude by thanking the Central Bank for hosting this important event, and for inviting me to be here with you today.

Thank you.

**Introductory Remarks by
Mr. Pierre Laporte
Governor Central Bank of Seychelles**

President James Michel, Former President Sir James Mancham, Vice President Danny Faure, Distinguished Guest Dr Gavin Bingham, Ministers, Leader of the Government Business in the National Assembly, Leader of the Opposition, Secretary of State, Members of the National Assembly, Excellencies, Members of the Board and Staff of the Central Bank, Distinguished Guests, Ladies and Gentlemen,.

Welcome to the 2010 Central Bank of Seychelles Annual Anniversary Lecture.

Two days ago we celebrated the 32nd anniversary of the Central Bank of Seychelles and I want to thank all of you present today, for having accepted our invitation to be with us for this evening's event.

Just over a year ago whilst attending the COMESA central bank governor's meeting in Mauritius I had the privilege of listening to a presentation by Dr. Gavin Bingham, our lecturer for this evening's event, on central bank governance. At that time the CBS and Seychellois people had already taken a major step forward in reforming our economy and our financial system. But as I often remind my Seychellois brothers and sisters, economic reforms are not just about getting the macro-economy right. Equally important is the need to deal with structural problems that if left unaddressed would hamper the prospects of the macroeconomic reforms. This is no exception for the central bank, as we too, have faced serious challenges of structural nature.

Our institution has over the past 24 months undergone major structural reforms internally to improve our stature, including our governance structure. It is against this backdrop that I proposed today's theme to my Management and Board, and I am absolutely delighted that Dr. Bingham was able to accept our invitation to deliver today's lecture.

The recent global financial has brought about many challenges for central banks around the world. One major challenge is how central banks should tailor their governance structures to allow them to effectively tackle the ever evolving financial landscape with new and sophisticated systems and instruments. Dr. Bingham's presentation will allow us to understand this better. For my part, I will focus my remarks on some of the key actions that the Central Bank of Seychelles has taken in that direction.

Probably the first major step toward a modern governance structure for our central bank was the enactment, in 2004, of a new CBS law. Among other things, this new legal framework provided more independence and transparency by eliminating the dual role played by the Governor as being simultaneously the Principal Secretary of Finance. Moreover, the 2004 Act included a provision that no person shall seek to influence the Bank's Board or employees.

Despite this positive step, the deep-rooted nature of the economic liberalization that the Seychelles economy entered into in late 2008, coupled with the challenges of the global financial crisis at exactly the same time, required further adjustments to the central bank law if the CBS was to fulfil its monetary policy, supervisory and regulatory mandates in an effective way. In 2009 further amendments to the CBS Act were

adopted, which paved the way for a more modern governance structure for our central bank.

The new legal framework provided for a streamlining of CBS' objectives such that price stability was given prominence over others. Independence of the Bank was strengthened by disqualifying members of government and of political parties, as CBS Board members; the provisions relating to Government access to CBS credit were tightened; and transparency and public awareness was increased through a new clause that the Governor could be asked to appear before Parliament to answer queries regarding the affairs of the Bank.

With the amended legal framework CBS Management and Board have been able to implement several other important measures over the past two years that have significantly strengthened our governance structure. I could give a long list of actions, however in view of time constraints; I will keep to a few more significant ones.

Firstly, to ensure the highest level of transparency, several internal guidelines were drawn up and approved by the Board that guide the functions of Management and Staff of the Bank. These range from guidelines on monetary policy instruments, to those on internal audit, reserve management etc. To ensure adequate oversight, several committees, including a number of Board sub-committees were also established to see that the guidelines are adhered to and risks are minimized.

To illustrate this, I will take the example of the internal audit functions of the Bank, which is one of the most critical. In October 2008 the audit functions were restored with the appointment of a new internal auditor to fill the post which had been vacant for a while. An audit committee, which is a sub-committee of the Board was then established which operate independently of the Management of the Bank i.e. with no staff being a member of this committee. The audit functions of the CBS are governed by an audit charter, which describes the functions, objectives, and responsibilities of the Audit Committee. An audit plan is prepared annually, which determines priorities of the internal audit activities, consistent with the goals of the CBS. To avoid conflict of interest, the Internal Audit division reports to the Audit Committee on all audit issues and only reports to the Governor on administrative issues. Furthermore, to ensure the highest level of transparency and eliminate conflict of interest, earlier this year the internal auditor was removed from all committees of the bank, including the audit and operational risk committee. Instead the auditor only has observer status.

In May 2010, an independent operational risk assessment of the CBS was carried out, at the Bank's own initiative. Based on the recommendations of this audit, a set of operational risk guidelines is being drawn up. A risk implementation committee which consists of Management staff is responsible for drafting policies on risk management. However, to ensure that audit and risk oversight of the CBS are carried out independent of the Bank's executive arm, an operational risk committee which consists solely of non-executive Board members was also established. This has since been merged with the Audit committee.

Another example of improved governance and oversight is the reserve management functions of the Bank. In 2009, investment guidelines were approved by the Board which spell out the principles and criteria that guide decisions on investment of Seychelles' external reserves. Fundamental to this is the principle of maximizing returns on the investment whilst minimizing risks. An investment committee was established, which takes key decisions on reserve management, and report quarterly to

the Board. Furthermore, to guarantee the highest degree of oversight and internal controls, the reserve management function is subject to regular and mandatory audits by the Bank's internal audit division.

Ladies and Gentlemen: As I have said, these are just a few important steps that the CBS has taken to bring its governance, oversight and internal control systems in line with best practice. However, there is always room for improvement. In this regard, CBS Management will over the coming months review several other policies such as our policies on tender and procurement, conflict of interest etc. We consider these as critical in ensuring that the Bank continues to operate with the highest degree of integrity and transparency.

On this note, let me once again thank all of you present here today. I want to thank especially President Michel who has honoured us with his presence. I cannot end without expressing my most sincere appreciation to Dr. Bingham for accepting to deliver today's Lecture. Last but not least, I want to thank my competent CBS staff for their professionalism, and devotion to our institution and our country. You make Seychelles proud everyday, keep it that way! A special note of thanks goes to all those who have assisted in organizing today's event.

Thank you.

The Implications of the Financial Crisis for the Governance of Central Banks
Dr. Gavin Bingham
Secretary General of the Central Bank Forum

Mr. President, Former President Sir James Mancham, Vice President Danny Faure, Governor of the Central Bank, Ministers, Leader of the Government Business in the National Assembly, Leader of the Opposition, Secretary of State, Members of the National Assembly, Excellencies, Members of the Board and Staff of the Central Bank, Distinguished Guests, Ladies and Gentlemen.

It is both an honour and a pleasure to speak at the 2010 anniversary celebrations of the Central Bank of the Seychelles. The Seychelles are a fascinating example of how different legal, social and cultural traditions can be woven into a fabric with its own distinctive hue. Countries and regions that now face the challenges of integration could benefit from investigating the Seychelles experience.

In a nutshell, my message is that the most serious financial crisis in over half a century has the potential to generate some very significant changes in the governance of central banks. Central banks are being given a greater role in fostering financial stability. This implies greater interaction with other public sector authorities, including the government because the central bank alone cannot ensure that the system will remain resilient. This in turn could raise questions of autonomy. New accountability arrangements may be needed. The now standard model of announcing objectives (eg for inflation) and holding the central bank to account through transparency about decisions and operations cannot have the same prominence in these changed circumstances. Financial stability objectives cannot be given the same precision as monetary policy ones. This implies greater oversight by boards and parliamentary committees. This has implications for the composition of the boards and committees and the management of conflicts of interest.

Let me start by describing the consensus about the role and governance of the central bank that had emerged in the decades preceding the crisis. The consensus rested on three pillars. The first was clarity of objective, with price stability being the primary and in some cases sole objective. The distinctive feature of a price stability objective is that it is measurable and quantifiable. This means that central banks can be held to account by being transparent about the decisions and actions to an extent that virtually no other public authority can be. Accountability through transparency about objectives, operations and outcomes is thus the second pillar of the governance of the modern central bank. The third pillar is autonomy in the use of an array of market based policy instruments in the pursuit of price stability. Without autonomy that shields the central bank from political pressure, there is the risk that it will be compelled to impose an inflation tax on the community at large.

This current central bank governance paradigm is silent about its role in the promotion of financial stability. This is clearly an anomaly. Giving the central bank a wider and more financial stability mandate implies changes in its objectives, its powers and organizational structures as well as in the methods used to hold it to account. From a governance perspective, the biggest questions raised by the crisis are therefore: 1) What financial stability responsibilities should the central bank have? 2) What powers, structures and decision-making arrangements are needed to perform a broader set of tasks? 3) How can an institution with greater power and vaguer objectives be held to account without eroding the autonomy it needs to perform its public policy functions?

1. Financial stability responsibilities of Central Banks

Current legislation rarely sets out an explicit and well-specified financial stability mandate for the central bank. Often its financial stability mandate is derived from other provisions such as responsibility for the payments system, or is based on a general understanding about the central bank's role in the economy.

When discussing the central bank's financial stability mandate, it is useful to distinguish between its role in a crisis and its responsibilities in "peacetime". The focus of its actions in a crisis will be on providing liquidity. In normal times, no such extraordinary actions will be needed. Instead, the central bank will play a part, perhaps an important part, in preventing the emergence of pressures that threaten financial stability and in ensuring the resiliency of the financial system.

While it is a foregone conclusion that central banks will have a notable "peacetime" role in promoting systemic stability, it is not yet clear just what it will be. The debate centres on three potential roles. The first is the extent to which central banks should pay greater attention to financial stability issues when conducting monetary policy. Properly planned, calibrated and executed, monetary policy that "leans against the wind" can help prevent asset price bubbles and unsustainable imbalances, without compromising the central bank's ability to ensure price stability.

The second potential peacetime mandate relates to supervision. Broadly speaking, half the world's central banks perform supervision, and half do not. This suggests that the arguments relating to the locus of supervision are finely balanced and situation specific. The experience during the recent crisis has shifted the balance towards giving greater responsibility to central banks. Supervisory information is needed to determine the soundness of counterparties that the central bank lends to in a crisis. Such information is more readily available if the supervisory function is housed in the central bank. Coordination of supervisory and regulatory actions with other policy measures is also easier if supervision is within the central bank. One of the lessons of the crisis is that coordination among diverse independent authorities with different mandates is not always seamless – even within the same country. Finally and importantly, the central bank is better able to address systemic and macroprudential concerns if it has regulatory and supervisory powers.

The role of the central bank in macroprudential policy is "work in progress". This is due in part to a still nascent understanding of what macroprudential policy is and what instruments should be used to implement it. At a minimum, fostering financial stability involves the identification of vulnerabilities, the evaluation of actions to mitigate them, the crafting of rules, regulations or policies, the application and enforcement of the rules and the orderly resolution of distressed financial institutions in a manner that preserves critical functions.

The macroprudential policy frameworks that are now being put in place in all major countries foresee a role for the central bank in macroprudential policy, but there are significant differences across countries in the precise role of the central bank. The UK government's proposals for regulatory reform foresee a very considerable role for the Bank of England. It will be the sole macroprudential authority, and because it will be responsible for both microprudential supervision and for monetary policy, it will have direct control over a set of instruments that can be used to foster systemic stability. In the approach being considered in the EU, central banks would play a prominent role in diagnosis and prescription, but a more limited one in implementation and resolution. By

contrast, the Fed will be responsible for the regulation and supervision of systemically significant institutions of all types, but policy guidance will be given by the FSOC. In Europe, macroprudential responsibilities will be assigned to the European Systemic Risk Board (ESRB). The ESRB will have a majority of central bankers as members, will be chaired by the President of the ECB and will be supported by a secretariat provided by the ECB. Nonetheless, the ESRB will have no explicit tools that it can use. Instead it will be able to recommend action by others on a “comply or explain” basis. In the United States, overall responsibility for macroprudential policy is being assigned to the Financial System Oversight Council (FSOC). The Chairman of the Federal Reserve Board will be only one of ten voting members. The FSOC is empowered to identify systemically important financial institutions and to make recommendations to the Fed about enhanced standards and safeguards that the Fed must consider when making supervisory and regulatory decisions. The Fed is given explicit supervisory and regulatory authority over systemically significant financial institutions.

2. Powers, organisational structures and decision-making

Since there is no consensus on what central banks should do to promote financial stability, it is hardly surprising that agreement has not emerged on the powers, organisational structures and decision-making procedures that they need. Whatever mandate it has, it is important that the central bank has suitable tools, the power to use them and effective decision-making arrangements. This is true both in the area of crisis prevention and crisis management.

The statutory basis for central bank liquidity provision in a crisis varies widely. Almost all central banks can provide liquidity against collateral. This enables them to provide lender of last resort financing, though this term is rarely, if ever, used in the empowering legislation. Generally also have the authority to conduct unconventional monetary policy in times of distress. By contrast, their power to provide financial support beyond conventional lender of last resort financing, varies. Prior to the passage of the Dodd Frank legislation in the United States, the Fed was authorised under Section 13(3) of the Federal Reserve Act to extend credit in unusual and exigent circumstances to any individual, partnership or corporation. Under the new legislation, its powers to extend emergency credit are curtailed. The Fed can provide such credit only in the context of a programme with broadly based eligibility. The programme in question must be approved the Treasury Secretary. The recipient must be solvent, and the credit must be sufficiently collateralised to prevent a loss to the taxpayer. In Japan, a double key approach is used which involves both the government and the central bank. The central bank retains ultimate discretion on whether it will or will not provide liquidity in a crisis and it has articulated principles that it will follow in making these decisions. In the United Kingdom, decisions by the central bank to provide credit to financial institutions that entail financial risk to the central bank are made after consultation with the Treasury, in part because the central bank has very little capital and therefore no meaningful risk absorption capacity.

Giving the central bank a macroprudential responsibility would imply changes in the tools it uses and the organisational structures that exist. So far, the precise nature of the macroprudential toolkit has yet to be specified, but in general terms it would consist of administrative or regulatory instruments used to mitigate threats to systemic instability. It might involve imposing capital surcharges on systemically important institutions or creating countercyclical capital buffers. Historically, central banks have had administrative powers that permitted them to control capital movements, to restrict credit expansion and to impose liquidity requirements. Some of these powers were used

to implement monetary policy or to influence the allocation of credit when financial markets were less developed than they are today. Once markets became deep and liquid enough to permit the use of market based instruments, these administrative instruments were phased out. Now their use is being mooted for financial stability purposes

This raises some of the same challenges that arose in earlier decades such as whether they will be circumvented or whether they will distort allocation. Their use also has the potential to change the internal culture within the central bank. The expertise needed to make administrative decisions is different from those needed to make economic policy or market intervention decisions. This could create challenges in managing a larger, more diverse workforce. Finally, reliance on administrative tools exposes the central bank to lobbying and other forms of pressure from the financial industry. Unlike market-based tools that have a strong but diffuse impact, administrative decisions often have a disproportionately large impact on a small number of firms or individuals. They have strong incentives to try to secure a decision that is compatible with their needs or, failing that, to find ways to circumvent it.

When a central bank has a mandate that extends beyond monetary policy to actions aimed at promoting financial stability, the question arises about how such decisions should be made. The basic choice is between using a single board or committee to make such decisions, or instead relying on a multiplicity of committees. Examples of both can be found. The Central Bank of Brazil and the Bank of Sweden both have a single board that is responsible for all policy decisions. However, it is now more common to use multiple committees, often with overlapping membership. For example, monetary policy decisions are made by the Federal Open Market Committee consisting of Federal Reserve Bank presidents and members of the Board of Governors, but decisions on emergency support are made by the Board of Governors. Similarly, in Malaysia and Thailand, which have recently adopted new central bank legislation after a thorough review of international practice, there are separate central bank committees for monetary policy and financial policy. The proposals for the Bank of England foresee the creation of separate decision-making structures to complement the now well-established Monetary Policy Committee. Using multiple committees permits a broader range of expertise to be brought to bear. It also addresses some of the concerns about the concentration of power that arise when a central bank is given a broader mandate. These concerns can also be addressed by double key decision-making arrangements that provide for checks and balances.

3. Accountability and autonomy

When central banks are given a broader mandate and a wider array of powers, there is a pressing need to make sure that the accountability and oversight arrangements are strong and effective. At the same time, it is important for the central bank to retain the autonomy it needs to perform its tasks.

Transparency plays a critical role in the established paradigm of the governance of central banks. It permits them to be accountable for their monetary policy actions to their ultimate stakeholders – the public at large. The public can exercise effective oversight because the objective of price stability is clearly specified and success or failure in achieving it can easily be monitored. It is impossible to hide rampant inflation from the man in the street. Accountability through transparency also provides the basis for autonomy. There is no need for control of the central bank by other organs of the state as long as there are effective means to assure accountability to the ultimate stakeholders.

The extension of the central bank's mandate to financial stability raises serious questions about the extent to which transparency can be used to hold the central bank to account. Financial stability is by its nature less amenable to precise specification and measurement than price stability. Moreover, financial stability, unlike price stability, is a responsibility that is shared with other authorities (non-central bank supervisors, the competition authorities, the fiscal authorities and the government). This makes it difficult to set a specific financial stability objective for the central bank alone. Finally, central banks sometimes assume significant reputational and financial risks in pursuing financial stability objectives. Transparency alone may not suffice to ensure that these risks are well-managed and the central bank exercises appropriate stewardship over the public resources at its disposal.

Although it is not possible to set out clear, observable financial stability objectives for the central bank alone, it is possible to require clarity about actions and the decision-making process. A clearly articulated strategy for promoting financial stability will make this form of disclosure meaningful. The central bank can then be held to account for pursuing the strategy purposefully, whatever the outcome. Accountability for decisions can be achieved by disclosing information to the public or in reviews by the legislature or government. Both procedures are widely used for both monetary policy and financial stability policy, though on balance the disclosure of information on financial stability actions is less extensive and less frequent than the disclosure of information on monetary policy.

Because the responsibilities are shared, financial stability decisions require greater interaction with the government than monetary policy ones. Greater interaction with the government does not need to imply less autonomy as long as the mechanisms for coordination are well-specified. And the time-consistency arguments in favour of making the central bank autonomous in monetary policy apply with equal force in the area of financial stability. In addition, there is a need to shield decision-making from the vested commercial interests of the financial industry. In fact, one argument for assigning financial stability responsibilities to the central bank is that it already benefits from independence in order to be able to conduct monetary policy.

One mechanism for reconciling independence in monetary policymaking and accountability for financial stability decisions is to separate decision-making on monetary policy and financial stability matters. This is the approach that has been followed at the Fed. The FOMC is responsible for monetary policy decisions, but the Board of Governors and the Reserve Banks are responsible for financial stability policy decisions. For example, the Reserve Banks, and not the Board of Governors or the FOMC, are responsible for determining whether credit extended under the unusual and exigent provisions of Section 13.3 are secured to the satisfaction of the central bank. The fact that the decisions are made by different bodies under different authorities permits different accountability mechanisms to be used and to ensure that a sufficient degree of autonomy is retained.

Another way to provide for accountability without infringing on the autonomy needed to conduct policy is through the use of impartial oversight boards or bipartisan parliamentary committees. In the corporate world, a supervisory board acts for shareholders whose ownership rights may be widely spread, reducing the ability and incentive of each principal to monitor and control management. In the central banking world, the motivation for a supervisory board is different. It provides a means by which the ultimate stakeholder – the public at large – can exercise oversight without employing the government and legislature, which may have an agenda of their own and

a horizon shorter than their principals. The temptation of those in power to renege on their pledge to maintain monetary and financial stability is a justification for using a supervisory board as a monitoring mechanism. Properly constituted oversight boards provide checks and balances and increase the efficiency of oversight of the central bank, while reducing the risk of undue party political influence. The Central Bank of the Seychelles Act of 2004 provides many of the elements needed for the effective oversight.

Roughly two thirds of the central banks around the world have boards that perform significant oversight functions. Early central bank boards did not always perform this function. Many of the boards that now primarily exercise an oversight function used to make decisions on operational matters such as the interest rates applied to central bank transactions. For example, the Court of Directors at the Bank of England decided on Bank Rate up through the mid-1980s, and the boards of the Federal Reserve Banks still formally decide upon the discount rates that each Reserve Bank applies.

The evolution of central bank boards of directors into oversight bodies was a consequence of three developments. The first was the creation of distinct monetary policy committees responsible for deciding on key short-term rates. The second was the need for greater accountability as the counterpart for greater autonomy in the pursuit of price stability. Stronger oversight by boards of directors complemented increased parliamentary scrutiny and greater disclosure about decisions and deliberations. The third was the development of more rigorous governance principles and procedures in the wake of a series of corporate scandals and financial crises. Central bank boards adopted a number of these practices, including using more explicit terms of reference and a stronger focus on the experience, expertise and impartiality of board members.

The role of oversight boards in ensuring good governance increases when central banks have broader and less specific mandates and cannot rely on transparency as much as in the past. To be effective, the boards need to be of the right size and the right composition. In particular, they need to be composed of members who are free of conflicts of interest and have the time and skills needed to exercise oversight over an institution responsible for important public policy decisions and for the stewardship of significant resources.

Securing impartial board members who have the skills is not trivial. Members need to understand both the policymaking process and the procedures used to hold an institution with a sizeable balance sheet and diverse staff to account. It is particularly important for the members of the board to be free of conflicts of interest. This makes it difficult to recruit individuals who have links with the financial sector. Because the pool of candidates in any one country is small, central banks sometimes look abroad to find suitable board members.

Decisions on the structure and operation of the board shape its effectiveness. Non-executive members generally dominate the board in numerical terms. This helps to counterbalance the influence of full-time executive members who are more closely involved with the day-to-day operation of the central bank. Conflicts of interest can be dealt with by the choice of appropriate structures and procedures (use of subcommittees, separation of the post of chairman from that of CEO, etc). In addition, the board itself needs to be accountable in the conduct of its oversight. This often involves the release of information on the membership, terms of reference and activities of their oversight boards and their subcommittees. Because of privacy concerns and the

confidentiality of some matters, disclosure cannot play as great a role in board accountability as it can in monetary policymaking.

4. Conclusions

The financial crisis will have significant implications for central banks. It is likely that they will pay greater heed to financial considerations in framing their monetary policy. It is also likely that they will play an important role in macroprudential analysis and also in some cases in macroprudential policy implementation. Their powers to provide liquidity in times of stress may be changed, and in some countries they could be given a greater role in supervision and regulation.

Wider responsibilities require greater accountability. Financial stability actions are by their nature more political than monetary policy ones. The challenge in the coming years will be to refine and develop the governance mechanisms for central banks so that they retain the independence they need for both their monetary policy and financial stability roles. This will require greater clarity about their financial policy strategies. It will also require well-articulated mechanisms for cooperating with other public authorities. And it implies greater use of independent, impartial oversight boards and committees.

**Concluding Remarks by
Ms. Caroline Abel
Deputy Governor Central Bank of Seychelles**

Former President Sir James Mancham, Vice President Danny Faure, Distinguished Guest Dr Gavin Bingham, Governor of the Central Bank, Ministers, Leader of the Government Business in the National Assembly, Leader of the Opposition, Secretary of State, Members of the National Assembly, Excellencies, Members of the Board and Staff of the Central Bank, Distinguished Guests, Ladies and Gentlemen.

I have the great pleasure to say a few words to conclude this memorable event of today. Across the spectrum of speakers and the feedback from the audience, the Central Bank is gratified that we have been able to create more awareness as to what the institution is about and how it is transforming itself and adapting to the changing environment. Based on this foundation that we have put out today, we hope that exchanges continue to flourish amongst us and that at an individual basis we have also gathered lessons from the presentation that we can apply to our own institutions.

Ladies and Gentlemen, as have been highlighted by our guest speaker Dr Bingham, with the aftermath of the financial crisis, the role of Central Banks is being revisited and with that many challenges for governance have come to the fore, for which many have been discussed this evening.

Whilst we did not have a financial crisis as was experience internationally, the country was implementing its own reform program and within that environment coupled with external events, the Central Bank has made significant strides to modernise itself, but this does not mean that we stop here, despite the many commendations that have been received. For these successes, we would like to thank all our partners that have helped us in the process.

The Central Bank always stands ready to adapt and to improve its governance structures when seen appropriate but as have been discussed here today many of the challenges are sometimes difficult to have a definite solution, especially when more responsibilities are being entrusted on the Central Bank.

For our context, the country's size and finding the expertise are some of the critical underlying factors which affect the execution of many policies. Whilst we strive to put in place international best practices as the guiding principle; the environment in which these conditions are implemented maybe restrictive and as such the right balance needs to be ascertain.

From the audience the pertinent question of competition has been raised for which the contributions and concerns have well been taken on board. They will serve to stimulate our internal debates and thinking as we continue to work on a solution.

To conclude, I would like to thank the President for the time he spent with us and also for his support, to the Vice-President for the coordinating exchange that we have with the Ministry of Finance, our guest speaker Dr Bingham for the excellent presentation which has stimulated a fruitful debate as well as the audience for your questions, comments and proposals.

I would also like to thank the Board of Directors for their support especially in approving many policies that strengthen our institution for the better and last but not

least the Management and Staff of the Central Bank for their dedication, continued commitment and hard work.

I thank you for your attendance and participation; enjoy the rest of the evening.

Thank you.