



Governance, Independence and Accountability for Financial Supervisors. What are the trends?

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Overview

1. **Introduction**
2. **Governance, Independence and Accountability**
3. **Independence and accountability in practice**
4. **What are the current trends?**
5. **Conclusions**

I. Introduction

- **Case for supervisory independence and accountability is not yet generally accepted, unlike for central banks (Hungary/Italy).**
- **Attention to operational aspects of I & A has been growing in new millennium.**
- **Meanwhile, in supervisory world a great shake-up is taking place, with restructuring everywhere**

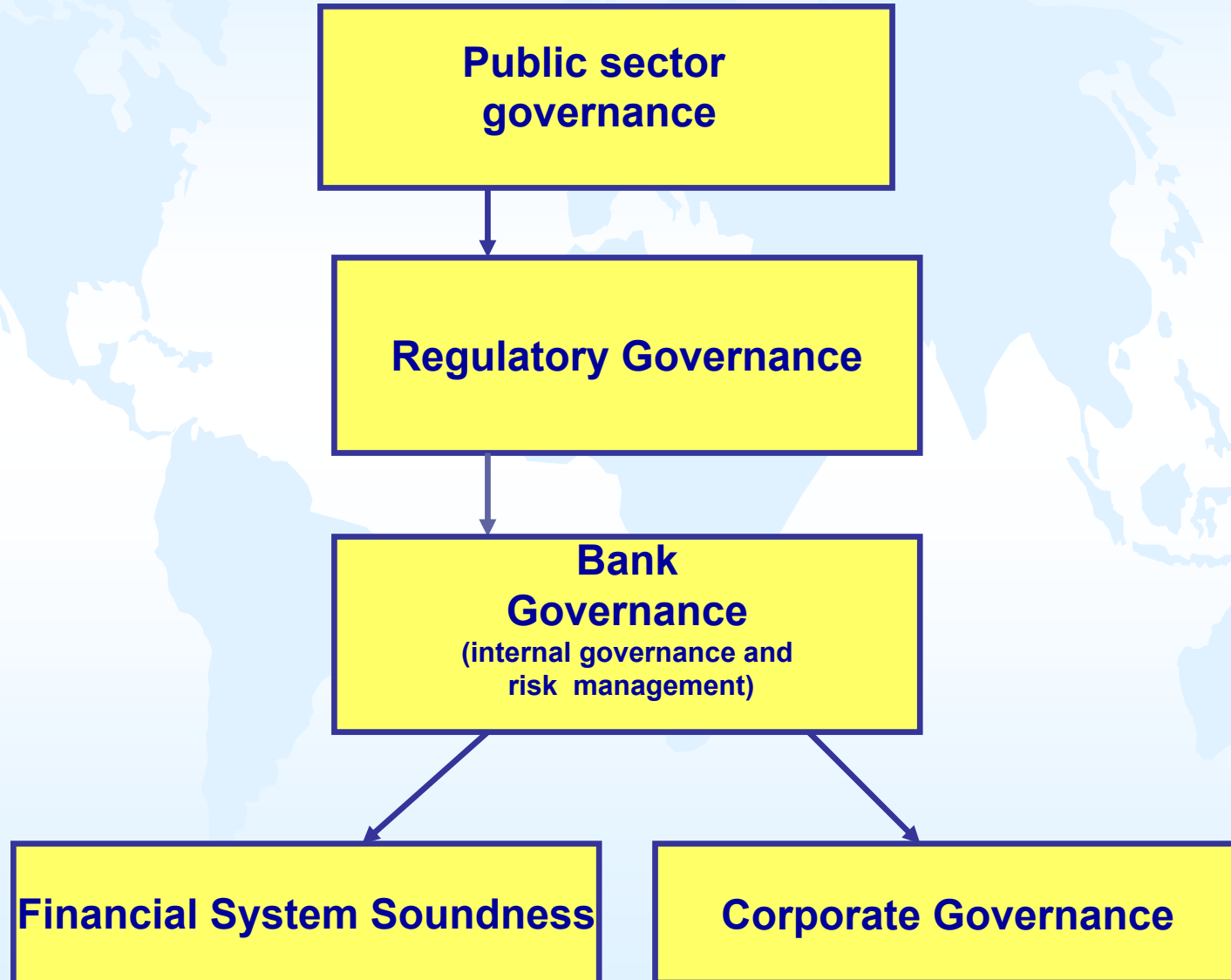
I. Introduction

- **Organizational structure has stepped out of the sphere of irrelevance and at the same time attention is being given to governance issues**
- **This paper analyzes trends in I & A in sample of countries that went through a restructuring.**

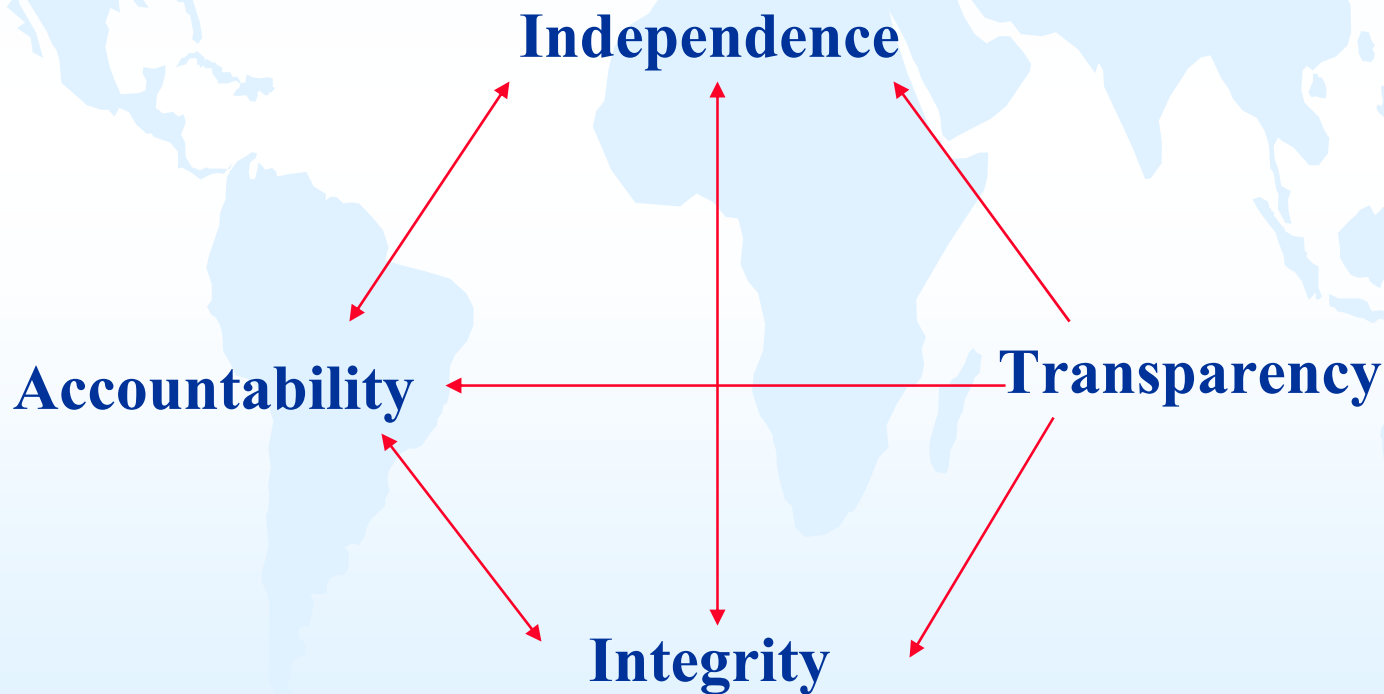
II. Governance, Independence and Accountability

- **Governance practices have impact on strength of financial sector**
- **Instilling good governance practices is joint effort at different layers**
- **“Governance nexus” (Das & Quintyn, 2002 and Das, Quintyn & Chenard, 2004)**

The “Governance Nexus”



Four pillars of regulatory governance



➤ Four elements reinforce each other

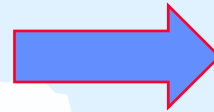
II. Governance, Independence and Accountability

- **Focus in this paper on I & A. Why?**
- **Among the four, the hardest to achieve**
- **Need political support to get the principles into the enabling legislation**
- **Once these two adopted, two others are easier to adopt (internal policies)**

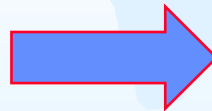
III. Independence and Accountability in Practice

III.1. Making independence operational -- Four dimensions (Quintyn and Taylor, 2003)

- **Regulatory**
- **Supervisory**
- **Institutional**
- **Budgetary**



Core



Underpinning

III. Independence and Accountability in Practice

III. 2. Making accountability operational – The dimensions of accountability (Hüpkes, Quintyn and Taylor, 2005)

- 1. Accountability is necessary to make independence work**
- 2. Accountability provides legitimacy to the agency**
- 3. A complex activity like banking supervision needs complex accountability arrangements**
- 4. Each dimension of independence needs to be matched by accountability arrangements**

Regulatory I &A

Economic/prudential/information rules & regulations Focus is on prudential

Independence	Accountability
<p>Ability to set prudential rules – is key element of supervision – no political interference</p>	<ul style="list-style-type: none"><li data-bbox="978 591 1715 793">• Legislative branch – reporting, update on quality of legal and regulatory framework<li data-bbox="978 876 1810 1001">• Supervised industry – consultation, announcements<li data-bbox="978 1090 1671 1215">• Users of financial services – consultation, information

Supervisory I & A

Private nature of intervention makes supervisors vulnerable

Independence	Accountability
<ul style="list-style-type: none">• Licensing and withdrawing: Birth and death to be assisted by those who monitor live Supervisors' threat is empty when power is in other hands• Supervision sensu stricto and sanctioning• Legal protection	<ul style="list-style-type: none">• Mainly judicial branch• Administrative review – not by minister• Appeals procedures – well defined in time and nature; possibly done by specialized judges or specialized court

Institutional I & A

Status of agency as institution separate from executive and legislative branch

Independence	Accountability
<ul style="list-style-type: none">• Legal status• Terms of appointment and dismissal• Governance structure• Openness and transparency	<ul style="list-style-type: none">• Legislative branch – reporting, briefing of parliamentary committees, ad hoc briefings• Executive branch – reporting, frequent contacts, exchange of information• Law – clear criteria for dismissal• Public at large – mission statement, website

Budgetary I & A

Budgetary independence reduces political pressure
- allows for quick(er) response to changing
Circumstances

Independence	Accountability
<ul style="list-style-type: none"><li data-bbox="192 654 852 853">● Independence in setting budget, staffing and salary levels<li data-bbox="192 982 782 1068">● Also avoid industry capture	<ul style="list-style-type: none"><li data-bbox="991 654 1414 746">● Ex-post reporting<li data-bbox="991 868 1563 946">● Internal and external audit

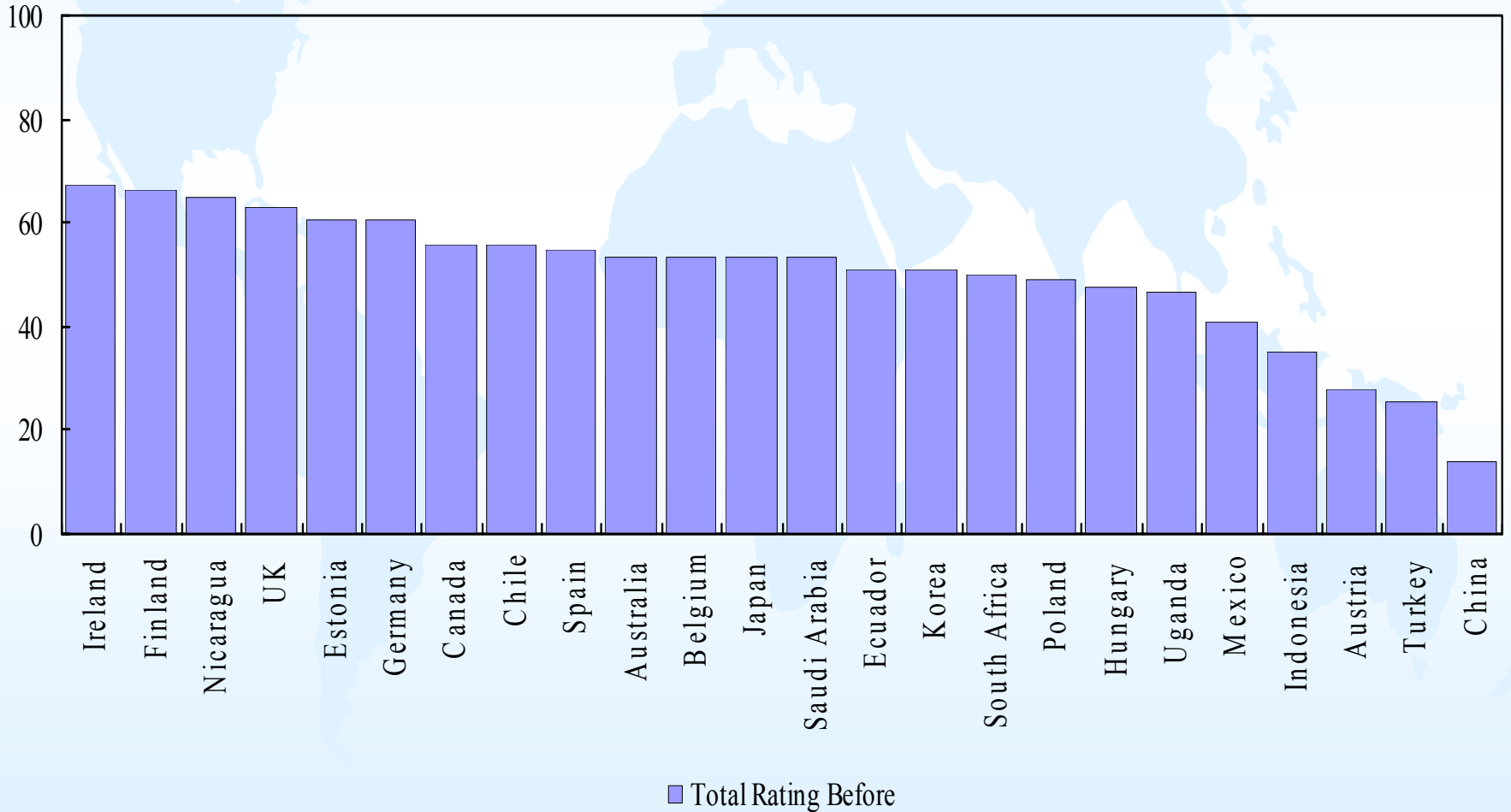
IV. What are the trends?

- **Sample: 24 countries that went through reorganization/legislative changes**
- **15 criteria for I, 28 for A (reflects complex nature of A) – based on elements from previous section**
- **Values from 0 to 2 (compliant) (a few -1)**
- **Index, measured against benchmark**

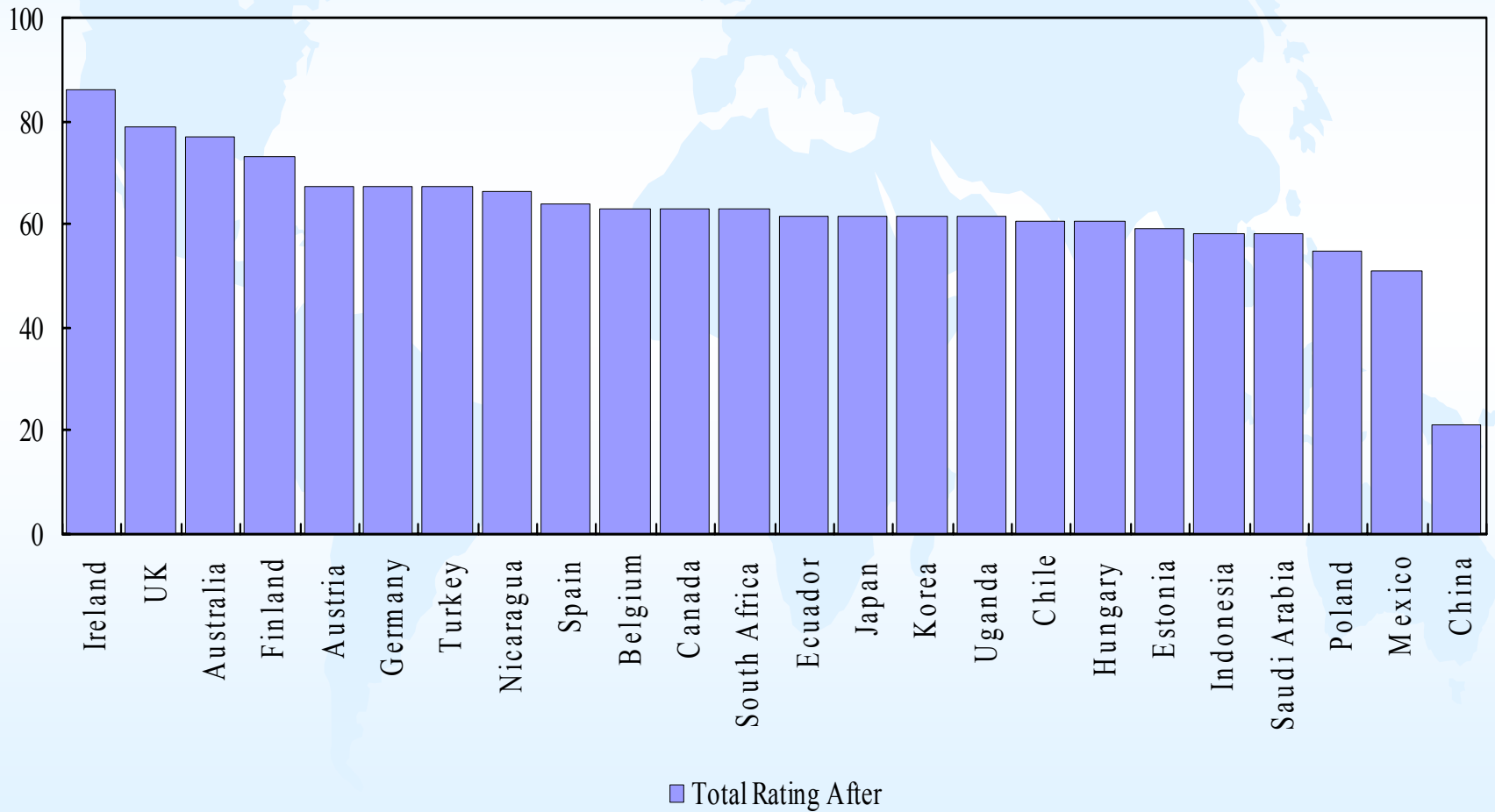
IV. What are the trends?

- **Sources**: national legislation/BCP assessments/Barth-Caprio, Levine 2001
- **Questions**:
- **Reforms-cum-progress?**
- **If progress, is it balanced between I & A?**
- **Does one form of reform lead to better results than another?**
- **Which criteria received more attention than others? Quality of reforms.**

Total Ratings before



Total Ratings After



IV. What are the trends?

1. General observations:

- **Improvements across the board**
- **Drive for more I generally accompanied by more A – awareness of importance of A for I!**
- **I closer to benchmark than A. However, A is more demanding!**
- **Several discrepancies among countries**
- **A – still more Anglo-Saxon phenomenon**

The trends - overview

(Number of countries)

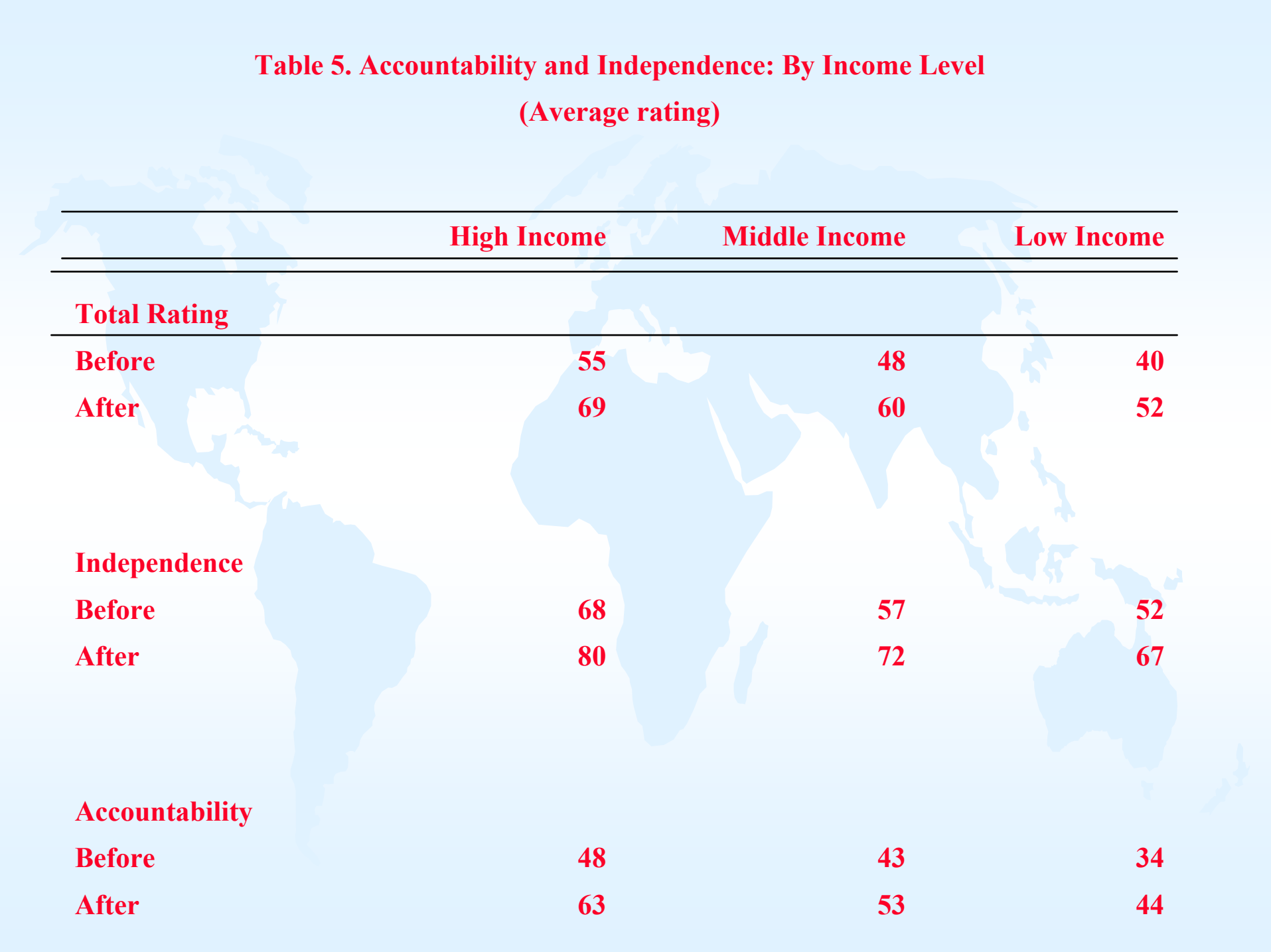
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Total	23	0	1
Independence	19	5	0
Accountability	20	3	1

Table 4. Accountability and Independence: Regional Trends

(Average rating for the region)

	Africa	Asia	Europe	Middle East	WHD
Total Rating					
Before	48	41	52	53	54
After	62	56	67	58	60
Independence					
Before	65	50	63	67	66
After	68	67	81	67	74
Accountability					
Before	39	37	47	46	47
After	59	50	60	54	53

Table 5. Accountability and Independence: By Income Level
(Average rating)

A light blue world map is visible in the background of the table, showing the continents of North America, South America, Europe, Africa, Asia, and Australia.

	High Income	Middle Income	Low Income
Total Rating			
Before	55	48	40
After	69	60	52
Independence			
Before	68	57	52
After	80	72	67
Accountability			
Before	48	43	34
After	63	53	44

Table 6. Accountability and Independence: By Type of Institution
(Average rating)

	Inside Central Bank	Outside Central Bank	<i>Of Which Unified Supervision</i>
Total Rating			
Before	53	47	52
After	60	63	70
Independence			
Before	67	59	61
After	75	76	83
Accountability			
Before	46	43	44
After	55	56	63

IV. What are the trends?

2. Specific observations:

- **Europe slightly better arrangements than other regions**
- **HIC countries have more complex A-arrangements**
- **LICs made greatest progress**
- **“Outside central bank” most progress and better arrangements**
- **Unified regulators “carry” these better results**
- **Confirmed by fact that “reorganization” generates better results than pure legislative reforms**

	Before		After	
Independence	Fully met	Partly met	Fully met	Partly met
Does the law state that the institution is independent	8		11	
Who has legal immunity for actions done in good faith? (full met means all staff, partly met means only senior management)	8	2	16	
Can the agency autonomously issue legally binding prudential regulations for the sector?	13	8	17	6
Has the agency the (sole) right to issue licenses?	13	8	18	3
Has the agency the (sole) right to withdraw licenses?	9	12	15	6
Has the agency the right to enforce sanctions?	15	5	22	
How is the agency funded? (fully met means not through government budget, partly means some part through government budget)	6	4	11	7

IV. What are the trends?

3. Individual criteria

- **I – progress in:**
 - **Legal immunity**
 - **Right to issue regulations**
 - **Budgetary independence**

- **I – small(er) progress in:**
 - **Licensing**
 - **Withdrawing licenses – but to a lesser extent**

	before		after	
Accountability	Fully met	Partly met	Fully met	Partly met
Is the agency's mandate defined in the enabling legislation?	23		23	
Does the law/act give the minister of finance oversight power?	10 1/		11 1/	
Have supervised entities the right to appeal supervisory decision to courts?	18		21	
Has the agency issued a mission statement?	23		23	
Is there a consumer grievance board	0		3	
Has the law defined clear criteria for dismissal of the president of the agency?	9	2	14	
Is there a formal ex ante consultation process with the industry about new regulations?	5		17	
Is there a formal consultation process with the public at large about new regulations	1		4	

IV. What are the trends?

3. Individual criteria

- **A – generally accepted**
 - **Accountability to legislative and executive branches**
 - **Clear(er) mandate**
 - **Mission statement**

- **A – progress in:**
 - **Ex-ante consultations with supervised industry**
 - **Right to appeal by supervised**
 - **Dismissal procedures**

- **A – emerging:**
 - **Consultation with public at large**
 - **Consumer grievance board**
 - **Special appeal procedures**

IV. What are the trends?

3. Individual criteria

- **One “sobering” finding: oversight role given to Minister of Finance.....**
 - **Still in 13 countries out of 24**
 - **Undermines credibility of I and A arrangements.....**
 - **Sometimes in the law alongside “independence-stipulation”**
 - **More with supervisors outside central bank...last resort?**
 - **Is independence-claim overstated?**

V. Conclusions

- 1. Discussion on I & A for supervisors still controversial**
- 2. Amidst all the realignment of supervisory structures, paper takes stock – in which directions is the world going?**
- 3. Results encouraging, but also raise flags**
- 4. A still behind I Unfamiliarity?**
- 5. Great differences remain, despite upward trends**

V. Conclusions

- 5. Accountability: Anglo Saxons and mega-regulators**
- 6. Quality of I and A – positive and negative**
- 7. Several positive developments in I and A....**
- 8. Less progress in others**
- 9. Reluctance to give up oversight of minister....**
- 10. These positive trends need to be confirmed...more needs to be done to convince about importance of governance issues.**