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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 19/31-1

10:00 a.m., April 29, 2019

1. Staff Proposal to Update the Monetary and Financial Policies Transparency Code

Documents: SM/19/66 and Supplement 1

Staff: Shabsigh. MCM; Adrian, MCM

Length: 1 hour 18 minutes

Executive Board Attendance

D. Lipton, Acting Chair

Executive Directors	Alternate Executive Directors
D. Mahlinza (AE)	
M. Raghani (AF)	
	R. Morales (AG), Temporary
N. Ray (AP)	
	B. Saraiva (BR)
	P. Sun (CC)
L. Villar (CE)	
	A. McKiernan (CO)
	S. Benk (EC)
	M.Gilliot (FF), Temporary
	K. Merk (GR)
S. Gokarn (IN)	
	F. Spadafora (IT), Temporary
	Y. Saito (JA)
	K. Badsi (MD), Temporary
	F. Al-Kohlany (MI), Temporary
	V. Rashkovan (NE)
	J. Sigurgeirsson (NO)
	A. Tolstikov (RU), Temporary
	F. Rawah (SA), Temporary
	K.Tan (ST)
P. Inderbinen (SZ)	
S. Riach (UK)	
	P. Pollard (US), Temporary

G. Bauche, Acting Secretary
S. Maxwell, Summing Up Officer
D. Alcantara, Board Operations Officer
M. McKenzie, Verbatim Reporting Officer

Also Present
Asia and Pacific Department: D. Kihara. European Central Bank: A. Meyler, R. Rueffer. European Department: V. Guzzo. Fiscal Affairs Department: S. Pattanayak. Legal Department: J. Ams, N. Rendak. Middle East and Central Asia Department: N. Blancher, M. Cerisola. Monetary and Capital Markets Department: T. Adrian, J. Alwazir, U. Das, M. Khan, T. Mancini Griffoli, M. Savastano, G. Shabsigh. Office of Budget and Planning:

B. Christensen. Statistics Department: A. Mialou. Executive Director: L. Levonian (CO), J. Mojarrad (MD). Alternate Executive Director: A. Guerra (CE), H. Razafindramanana (AF). Senior Advisors to Executive Directors: Z. Abenoja (ST), H. Etkes (NE), F. Fuentes (BR), G. Heim (SZ), W. Kuhles (GR), Y.Liu (CC), O. Odonye (AE), G. Vasishtha (CO). Advisors to Executive Directors: A. Arevalo Arroyo (CE), S. Bah (AF), K. Carvalho da Silveira (AF), S. David (AP), T. Hemingway (UK), M. Ismail (AE), B. Jappah (AE), U. Latu (ST), T. Manchev (NE), A. Nainda (AE), A. Park (AP), M. Svenstrup (US), N. Vaikla (NO), A. Zaborovskiy (EC), K. Hennings (BR), K. Lok (CC), J. Montero (CE).

1. STAFF PROPOSAL TO UPDATE THE MONETARY AND FINANCIAL POLICIES TRANSPARENCY CODE

Mr. Saito and Mr. Minoura submitted the following statement:

We thank staff for the paper on the 1999 Monetary and Financial Policies Transparency Code (MFPT), responding to the board's request at the Review of the Standards and Codes Initiatives (RSCI) in 2017. As staff pointed out, several factors have changed since 1999, including the development of financial sector standards by international standard-setting bodies and changes in monetary policy practices such as unconventional monetary policies (UMP) after the Global Financial Crisis (GFC). As a result, the use of MFPT has gradually fallen and very few assessments have taken place over the past 10 years.

Those changes and outcomes call for a comprehensive overhaul of the MFPT, as the broader and more complex mandates of central banks following the GFC has strengthened the case for reviewing the desirable central bank transparency. Against this background, the update must take account of avoiding redundancy, while capturing changes in monetary policy practices and the broadening of mandates, functions and powers of central banks. In this light, it is appropriate to take an institutional/entity-based approach and thus we support the staff's proposal to replace the MFPT by a Central Bank Transparency (CBT) Code. We would like to know how the current coverage of the MFPT overlaps with other international standards for financial policies. We also welcome that the proposed CBT code will be aligned with other relevant international standards and policies, as suggested in Annex III.

At the same time, the new CBT framework needs to be flexible enough to take into account country specific circumstances and environments. As staff rightly pointed out, the application of the CBT code should not be indiscriminate or excessive as there are many central bank activities which have legitimate needs for confidentiality. In particular, UMP and financial stability functions are newly developed areas whose transparency standards are still under debate. There are possibilities that indifferent or excessive emphasis on transparency for financial sector policies or UMP could undermine financial stability or policy effectiveness. Therefore, it is essential to ensure flexibility for application of the CBT code to those areas. Moreover, the new CBT framework is expected to support Fund surveillance and serve as a diagnostic tool in capacity development. Thus, it should take into account that central banks operate under a diverse set of circumstances and environments. In this light, we would appreciate it if staff could elaborate on how the proposed framework of "Five Transparency Pillars" would ensure flexibility and deal with country specific circumstances.

Regarding next steps, we support that staff convenes an international advisory group comprised of former central bank governors and international experts to provide guidance and feedback to draft code and methodology. Could staff share criteria and procedures for selection of advisory group members? Diversities for the composition of group members need to be ensured. We also underscore the importance of future extensive consultation with the board.

Mr. Geadah and Mr. Al-Kohlany submitted the following statement:

We fully acknowledge the importance of transparency as a basic pillar of good governance. The Board unanimously approved the new Framework for Enhanced Fund Engagement on Governance, which includes the assessment of the central bank accountability and transparency framework as one of its important elements. Given the Fund's robust governance framework, we would appreciate staff elaboration on the rationale for developing a new Central Bank Transparency (CBT) code instead of providing guidance to staff on how to better assess central bank transparency within the Fund's governance framework. Overall, at this stage, we do not see a compelling reason to develop the new CBT code. However, if most Directors agree with staff's proposal, we can go along with the consensus and offer the following comments on the way forward.

We recognize staff's effort to develop the proposed framework and the extensive desk review of public information on a sample of central banks, including from the Fund's Central Bank Legislation Database, authorities' legal documents, official banks' websites, and relevant economic research. However, we note that the intended recipients and primary beneficiaries of the CBT code, namely monetary authorities, were not engaged when developing the framework. Going forward, and prior to engaging with the proposed international advisory group, we would suggest that staff consult with central banks and monetary authorities from across the membership to seek their input on the framework.

We would also encourage staff to strengthen the framework's outcome-focused approach. To this end, the emphasis of Pillar III on transparency of operations may pose risks and operational challenges to some central banks or monetary authorities. The code should give room for central banks to determine, without unwarranted stigma, which operations they deem to become transparent in line with each country's underlying political economy. This is important so as to mitigate any debilitating effects on central bank's power vis-a-vis the markets and the effectiveness of its monetary policy, and to avoid moral hazard or speculative behavior.

The modular approach proposed by staff would be welcome. We agree that modular assessments of the subcomponents of each pillar would better focus staff assessments and recommendations. We encourage staff to evaluate the merit of prioritizing the subcomponents (Figure 5) based on impact. This may be of particular value for countries with constrained implementation capacities and, thus, would help allocate scarce institutional resources accordingly when designing and implementing reform initiatives.

Mr. Fanizza and Mr. Spadafora submitted the following statement:

The staff's report makes a well-grounded case for: (a) removing the 1999 Monetary and Financial Policies Transparency (MFPT) Code's overlap with financial policies covered by other standards – notably with those set by the Financial Stability Board; (b) updating this Code in light of the innovations in the conduct of monetary policy brought following the Global Financial Crisis (GFC). We thus support the staff's proposed approach on introducing a new Central Bank Transparency (CBT) Code based on five "Transparency Pillars".

The update should facilitate the use of the CBT framework across the Fund's activities – particularly in low-income countries. We welcome the modular approach to take country-specific circumstances into account.

Mostly in response to the GFC and the more active use of their balance sheets for conducting unconventional monetary policies, many central banks now feature broadened de iure or de facto mandates to pursue key financial stability objectives. These developments call for enhanced transparency as a way to ensure adequate accountability standards for central banks.

While Box 1 hints at these standards, the staff's report should have discussed more extensively the consequences of the fact that in some cases the expansion of a central bank's mandate has occurred only de facto and its responsibilities can be shared with other institutions. The absence of a clear-cut de iure mandate may make the assessment of transparency (especially if "outcome-focused") and accountability more difficult, by preventing the identification of specific policy objectives and possibly misguiding stakeholders' judgement on the performance of central banks.

Even in cases of a formally-expanded mandate, macroprudential policies pose challenges to assess transparency and accountability, arising for example by the lack of quantitative objectives and the possible influence of an inaction bias (i.e., activating a macroprudential measure poses costs that are short-term and visible, while its benefits are long-term and invisible). It might not be a coincidence that the analysis of transparency practices detailed by staff in paragraph 23 finds less transparency especially in the outcome of central banks' operations (Pillar IV). Staff's comments are welcome.

Staff rightly acknowledge that there could be limits to the degree of transparency, which should be properly weighted against confidentiality. This is all the truer for specific micro prudential cases, where information can be market sensitive and transparency may be constrained by legal impediments established by law.

In the same vein, as far as monetary policy is concerned, the staff assume that transparency and disclosure of information is always unambiguously "good": central banks should fully disclose and explain to the public their "framework, instruments, and methods (data, models, forecasts, simulations) used to pursue the objectives of monetary policy" in an attempt to align private expectations with monetary policy decisions.

Even though consensus on such position is broad, both in policy and in academic circles, it is not unanimous. Some argue that in specific cases it might be optimal for central banks to embrace "constructive ambiguity" as their leitmotif, as there are precise circumstances in which transparency may be counterproductive in exacerbating misalignments between expectations and fundamentals. This possibility is advanced in a series of recent theoretical and empirical analyses as well as in some contributions by central bankers and market commentators alike[1]. Accordingly, we wish to emphasize the importance that the new CBT preserve the flexibility needed by central banks to implement monetary policies in an evolving economic context.

[1] Lustenberger, T, and E. Rossi (2017), Does Central Bank Transparency and Communication Affect Financial and Macroeconomic Forecasts? SNB Working Paper 2017–12. Mishkin, F. S. (2007), Can Central Bank Transparency Go Too Far? In: Monetary policy strategy, Mit press. R. Wigglesworth (2018), There's still a lesson Jay Powell could learn from Greenspan, Financial Times, 13 April 2018.

Mr. Kaya, Mr. Benk, Mr. Just and Mr. Zaborovskiy submitted the following statement:

> We thank staff for the informative paper and take note of the proposal to update the Monetary and Financial Policies Transparency Code (MFPT) as requested by the Executive Board at the time of the 2017 Review of the Standards and Codes Initiative. The MFPT is one of three key standards developed by the IMF. The Code was designed to cover the transparency of both monetary and financial policies which are the areas of the Fund's core mandate. We support the IMF's strong focus on promoting transparency of monetary and financial actions and policies while preserving confidentiality where there are legitimate needs for it. Regarding staff's proposal on the way forward we would like to make a few comments.
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> While narrowing the perimeter of the MFPT, the issues of financial policy transparency should not be overlooked in the Fund's engagement with its members, as both monetary and financial policies are essential for the stability and development of financial systems. Monetary policy, oversight of payment systems, and supervision of financial institutions are closely interrelated and are often all the responsibility of a single institution, the central bank. And even where these responsibilities are assigned to different institutions, their conduct must be closely coordinated. We note the advances in the development of international standards for financial policies highlighted in Annex III. We would have however preferred a more nuanced discussion on how issues of financial policy transparency are going to be incorporated into the Fund's work since they are at least as important as the transparency of monetary policy. Staff comments are welcome. We can go along with staff's proposal to replace the MFPT with a new Central Bank Transparency Code (CBT) provided that staff can assure full coverage across the membership despite significantly differing institutional set-ups, mandates and responsibilities. We also encourage staff to maintain a strong focus on financial policy transparency across the membership and inform the Board about the planned work in this area.
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> Broadening the areas on which central bank transparency are assessed would help capturing the major developments in the aftermath of the Global Financial Crisis (GFC). We broadly agree with the five-pillar framework proposed by staff to assess the transparency of central banks. As outlined in the paper, the new Code will evaluate the degree of transparency according to the mandates, policies and governance arrangements of countries' central banks. In this context, we wonder how this evaluation is planned to be translated into the policy advice on transparency considering country-specific

circumstances. We welcome the results of the proposed CBT framework application to the sample set of 24 central banks. Staff points to trade-offs between confidentiality and transparency. While we are in favor of overall transparency, staff should further explore whether full transparency is always the optimum or whether it could undermine policy effectiveness for example, on foreign exchange market interventions or emergency liquidity assistance. Could staff elaborate more on transparency not only in an ex ante but also ex post context? What would be an optimum level of transparency also concerning policy effectiveness? In this context, we also see a need to revisit Pillar IV and Pillar II, as both seem to cover policies and decisions adopted by a central bank. Also, how do we assess “implications of not reaching the desired objectives”. Some central banks have a more medium-term orientation which is difficult to define in concrete time units, and it is thus not straightforward to assess at what point the desired objective has or has not been reached, while this assessment appears ‘easier’ for central banks that have a ‘pure’ inflation targeting mandate. Further consideration of these issues is warranted taking into account the diversity of monetary policy mandates and frameworks, and exchange rate regimes employed by central banks, to ensure that staff’s objective of transparency concerning target, operations and activities related to price stability is meaningful across the membership.

The Code should be updated with strong involvement of key stakeholders to strengthen their ownership and make its implementation easier. We believe that extensive consultations with central banks are indispensable going forward. Close engagement of the Executive Board should be preserved throughout the process. Taking stock of the best transparency practices among the membership, as well as further elaboration on why the use of the MFPT was abandoned well before the GFC, would also be helpful. We agree that transparency issues should be better integrated in Fund capacity building activities, surveillance, and the use of Fund resources going forward.

Mr. Mahlinza, Mr. Ismail and Mr. Nakunyada submitted the following statement:

We thank staff for the concise report and support the proposal to replace the Monetary and Financial Policies Transparency Code (MFPT) with the proposed Central Bank Transparency (CBT) framework. We view this work as long overdue, given the evolution in monetary and financial policy practices by central banks, following the global financial crisis. While we agree with the key objectives of the Update, including eliminating overlaps on financial policies covered by other standards, further details on the specific overlaps and how they are addressed by this Update would have enriched our discussion. Staff comment are welcome.

We note that the MFTP has gradually fallen into disuse due to a number of reasons including, the development of financial sector standards by standard setting bodies (SSBs) and the evolution in monetary policy practices by major central banks. As a result, the update of the MFTP has also been delayed. While justified, the lengthy delay remains concerning and we underline the need for regular updates that can be finetuned over time as monetary and financial practices continue to evolve. The continuous evolution in monetary policy practices underline the importance of the Fund's work in this area. We also underscore the need to put in place a mechanism to ensure effective collaboration with other SSBs in the development of the central bank transparency code going forward.

We agree with the five-pillar framework proposed to assess the transparency of central banks. Specifically, we support its role as a diagnostic tool in capacity development. That said, we underscore the need to strengthen synergies and alignment with country priorities, and related work on surveillance, FSAPs, UFR, Safeguards Assessments, and the Fund's Governance framework. We welcome the proposed flexibility in the application of the five transparency pillars. We believe that this is important to take account of the diverse central bank functions and organizational mandates among the Fund's membership. Looking ahead, staff should stand ready to make regular and mid-course reviews, should unforeseen weaknesses emerge during implementation of the CBT.

Based on the case studies, we note the prevalence of transparency gaps in newer and non-traditional central bank mandates. Against this background, we would urge greater focus on these cross-cutting weaknesses as staff continues to do further work on the code and methodology.

We support the constitution of an international advisory group (IAG) as essential to leverage diverse country experiences and expertise. We, however, emphasize the need to maintain regional balance in the composition of the IAG. In addition, a fine balance will be required between past Governors and recent Governors to ensure that the IAG has capacity to oversee recent changes in monetary and financial policies in the post-global financial crisis era, from a practical and informed position.

Mr. de Villeroché, Mr. Castets and Ms. Gilliot submitted the following statement:

Central banks have been delegated significant state powers that not only affect the distribution of income and the financial stability at a national level but have also cross-border effects. To perform their function in the full, central banks have been given responsibilities, high level of autonomy and great amount of resources. They also need to protect their powers from political interferences while being accountable to elected representatives and more broadly to the public at large to ensure appropriate democratic oversight and good governance. One of the key issues lies in achieving the right balance between openness and transparency, accountability and the need to preserve the institutions' independence. This a complex task. While we welcome the update and the deepening of the Fund's monetary and financial policies transparency code now renamed Central Bank Transparency (CBT) framework, the selection of mechanisms designed to deal with transparency in the five new pillars should be tailored to the country's circumstances. As a matter of fact, the survey conducted on a sample of 24 central banks is full of insights on common or local practices. The final choice of accountability and transparency instruments and strategies depends however on the central banks' mandates and responsibilities and should be designed carefully in particular where policies, operations, outcome and official relations are concerned.

Transparency in Central banks plays a critical role with regard to the accountability of their decisions and actions. The global framework should take into account the functions and objectives of the central bank while considering that some of the latter may be conflicting or that may be difficult to define and assess. As a matter of fact, the new assessment methodology that grounds the five-pillar framework will need to be accurate in the way it evaluates the compliance of the central banks with transparency criteria that may i) be difficult to define regarding some policies such as in financial stability issues, ii) rely on judgment for certain outcomes for which the action of the central bank is one of the various explaining factors or iii) not be desirable under specific conditions when it comes to operations in some fields like liquidity assistance or microprudential supervision.

Under Pillar I related to governance, autonomy remains a key issue when it comes to transparency and accountability. We agree that, while it is not an end in itself, it is instrumental in achieving the central bank's mandate. Greater transparency leads to higher accountability which reinforces public support for central banks' autonomy and credibility. Central banks should remain subject to accountability requirements that do not conflict with their autonomy be it in terms of financial institutional and functional autonomy. In this respect, transparency regarding autonomy issues should reflect the central bank's ability to protect against taking instructions and against political manipulation over its resources and their use. Likewise, personal autonomy should be strengthened by considering the terms of the mandate of governors, the conditions of their (non) renewal depending on the term's duration and/or the cases for dismissal under specific circumstances. Finally, we agree with the importance of elaborating a communication strategy and policy as the critical component of the information disclosed by a central bank is expected to influence expectations (inflation, financial conditions). The strategy must encompass also secrecy and confidentiality requirements. Though most central banks are generally well-acquainted with formal reporting duties, there may be also a need to use informal channel. We would have seen merit in having clearer and more detailed references in the CBT framework on informal transparent communication measures such as those used to maintain markets confidence (financial markets' global watch, press interview, publication of materials explaining monetary policy decision…) in a digitalized world where timely information is highly valuable. On the latter and given the rise in cyberattacks, more emphasis could have been put on the way transparent communication should also hinge on robust information security management systems.

Pillar II and III references to transparency on policies and operations respectively are closely linked and merit careful implement. First, for better understanding, these two categories could be merged into one. On operations, transparency framework should be carefully designed in order not to interfere with the achievement of central banks functions and goals. While information disclosure on monetary policy has generally become a well-calibrated exercise with the forward guidance and the publication of macroeconomic projections and/or interest rate path and minutes, central bank transparency on financial stability including macro and microprudential supervision and liquidity assistance (ELA) should be cautiously processed. Specifically, on banking supervision and payment system policies, we take note of the CBT equivalences of relevant international standards presented in Annex III. Beyond that, the result of the survey falls a little short of clarifications. Transparency is undeniably beneficial to central banks' accountability and credibility, but the disclosure of detailed information on specific supervisory and regulatory actions taken toward individual financial institutions could risk causing a loss of confidence and a bank run, leading to widespread instability. Likewise, the revelation of liquidity shortfall of a bank may exacerbate its difficulty to access market liquidity even though the financial institution remains solvent. To a certain extent, disclosure can deter financial institutions from pursuing risky behaviors but may also have limits imposed by the necessity of safeguarding financial stability and avoiding moral hazard behaviors. Appropriate transparency policy for operations is challenging and need consequently to be though out depending on multiple factors including the nature of the national financial system, the mandate and the credibility of the central bank and the capacity to abide by its own policies and rules.

Pillar IV is particularly important as transparency in outcomes enhances the accountability of the central bank, may its performance in reaching its objectives be positive or negative. The CBT framework advocates for reporting requirements of the central bank's governing bodies to the executive branch, legislative power and to the public at large. The implications of not reaching the desired objectives are also mentioned albeit too rapidly. Notwithstanding the negative consequences of missed targets on stakeholders (such as unveiling missed inflation target), we think that careful and well-handled communication of non-performance is important as it reinforces the credibility and the integrity of the central bank. As legally framed in some cases, such transparency on non-performed goals should encompass specific formalized procedures such as additional reporting explaining the reasons for not reaching the objectives and the corrective actions implemented.

Finally, further thought needs to be given to the transparency in official relations presented in Pillar V given the sensitivity of some of the central banks' functions. The Code needs to integrate and preserve a differencing approach among countries and practices, largely heterogenous. In the case of France, the central bank is bound by European rules on the explicit prohibition of budget deficit financing, which enhanced the transparency of its actions towards the official sector. However, the relevance of public disclosure on the central bank's credit function to a government or on its relations to international institutions highly depends on the existence of a well-specified legal framework and on the level of understanding of complex accounting standards by the public at large. In cases linked to its function of agent, cashier or depository entity, confidentiality of its operations with the public administration can be desirable for a central bank. Confidentiality does not exclude transparency and accountability as selective disclosure to the legislative power (Parliament or committee) can be used. Against this background, a flexible framework is essential to ensure transparency while avoiding excessive accountability requirements.

Mr. Gokarn submitted the following statement:

We thank staff for the useful paper. It makes a cogent case for the revision of the MFPT code and a narrowing of the focus of the code on central bank transparency. However, it also points out several limitations that any new code would have to operate within. Collectively, these serve to moderate expectations about both the feasibility of a universally applicable approach and the inferences that might be drawn from individual country assessments. We use the issues for discussion as a way of structuring our views on these issues.

In principle, a code that was last revised in 1999 must be subject to review and, where necessary, revision. Certainly, the entire domain of finance has changed considerably, even perhaps unrecognizably, since then and this includes the practice of central banking. Given this, a case could conceivably have been made for the entire code to have been reviewed. However, the entry of other assessors of financial sectors, such as the FSB, requires that clear boundaries be drawn between the focus and activities of each institution. Based on this, we agree with the proposal to narrow the focus of this workstream to central banks and leave other components of the financial system in the hands of other institutions. But, a key point made in the paper is about the previous code falling into disuse. Even with a narrower focus, the risk of this happening again remains. Could staff elaborate on attributes of the new approach that would mitigate this risk?

However, as the paper points out, simply narrowing the focus does not eliminate challenges against implementation. We note two broad categories of challenges from the paper. One, the practice of central banking itself is in a fluid and evolving state, as many of them are operating with broader mandates and an expanded set of instruments after the financial crisis. While the paper makes the valid point that, regardless of the heterogeneity in these areas, transparency is always good, it also concedes that confidentiality may be a virtue in some situations. It is not obvious to us whether the tradeoff between transparency and confidentiality is universal. On the contrary, it is probably subject to country-specific and context-specific factors. Based on the case studies presented, could staff comment on whether this tradeoff was visible in some countries? If so, how did it impact the assessment?

Two, the paper acknowledges that differences in institutional arrangements and capacities, as well as macroeconomic conditions, do not make a universal framework practical. This suggests that the results of country assessments be used with care; comparisons with other countries based on the final transparency assessments may overlook these differences and lead to faulty conclusions. While this qualification is welcome, once an aggregate judgement or score is published, comparisons, which may have an impact on capital allocations, will inevitably be made. Avoiding this consequence will require a sophisticated communications strategy. Could staff comment?

As regards the framework, we agree that it is a priori comprehensive in its coverage of the dimensions of central banking and potentially provides a useful starting point for this exercise. However, the very useful reporting of the case studies provides some sense of the concerns about comparisons raised in the previous paragraph. On several criteria, the proportion of "non-transparent" central banks is quite high. Is non-transparency randomly distributed across the sample, or concentrated in specific groups of countries?

Against this backdrop, we welcome the incremental approach proposed in Para 27. Convening an international advisory group, which will presumably be adequately representative of the membership, could help in addressing questions about application of the framework across countries, appropriate interpretation of assessments and the communication strategy. This process is not particularly time-sensitive, and we believe that it is better to do it right than to do it quickly.

Mr. Saraiva, Mr. Fuentes and Ms. Hennings submitted the following statement:

We thank staff for the document and the technical briefing on the Update of the Monetary and Financial Policies Transparency Code (MFPT). Since the Global Financial Crisis (GFC), the context and practice of monetary policy have experienced considerable change, including mandates, functions and instruments. In this context, transparency plays a critical role to strengthen central bank's autonomy, accountability and credibility. Therefore, we understand staff's reasoning behind replacing the MFPT with a new Central Bank Transparency Code (CBT), which broadens the thematic scope covered while reducing overlaps with other standards by focusing on a single institution.

The proposed five-pillar framework that allows for a modular approach seems sensible and well aligned with the Fund's mandate. Given that transparency is not an end in itself and that assessments should facilitate the achievement of policy objectives, we concur that they should be more outcome-focused, proportional, and risk-based. Moreover, the CBT framework may serve as a blueprint for international best practices, guiding the design of transparency arrangements in central banks. In this regard, the new code is expected to be an important diagnostic tool in capacity development programs. That said, while the prospective CBT seems to fit well into the capacity development workstream, its integration into surveillance should be carefully pondered. For instance, the assessment of any module of the CB transparency code in the context of Article IV consultation should be an exception and take place only if there is a clear indication that lack of transparency may be undermining the attainment of policy objectives or posing financial or macroeconomic risk.

The thorough consideration of the diverse settings in which central banks are embedded is essential for a balanced and evenhanded approach to transparency. We welcome the wide-ranging sample of countries reviewed to develop the proposed framework which provides a more comprehensive perspective of transparency practices across the membership. Yet, any evaluation of transparency practices should take into account not only the complex challenges faced by central banks after the GFC, but also the variety of ecosystems and conditions in which they operate. Similarly, considering the marked disparity in transparency practices between lower- and middle-income countries with emerging markets and advanced economies, the criteria should be set in a way that remains relevant for the heterogenous circumstances of the membership. We wonder how will these differences affect the design and the use of the new CBT code?

The extent and scope of the interaction between the new CBT and the Fund's broader approach to governance need to be clearly established. The new framework – approved by the Board in 2018 to assess governance vulnerabilities and their macroeconomic impact – includes a central bank component encompassing transparency practices. While, the proposed CBT is not expected to assess the adequacy or pass judgment on central banks' governance practices, it will evaluate the degree of transparency related to them. Against this background, we see merit in clarifying the boundaries of both tools to ensure consistency and provide clear guidance to member countries.

Another area in which more clarification is required is the application of the proposed CBT in the context of use of Fund resources. A cautious approach here is deserved. Does staff envisage resorting to the CB transparency code to establish program conditionality? How does staff see the prospective relation of the CBT and the safeguards assessment?

Finally, we favor an extensive consultation with relevant actors in the process going forward. Giving that it is better to have a good and widely accepted code rather than having a code soon, engagement with the central bank community is of the essence. The proposal to establish an expert advisory group with varied international experience is most welcome. However, international organizations that congregate central banks and are also standard setters, like the BIS and the FSB should be consulted throughout the process. In addition, we would see very favorably if some sort of direct consultation with the central banks starts at an early stage of the discussion. Furthermore, we would appreciate more information on the proposed timetable and the foreseen format of discussions at the Board.

Mr. Mojarrad and Mr. Sassanpour submitted the following statement:

We thank staff for a concise and well-articulated paper and their outreach. We agree with staff that the 1999 MFPT code has lost its relevance over the years, especially since the global financial crisis (GFC). Staff present a compelling case for replacing the MFPT code with a more focused Central Bank Transparency (CBT) code to assess the transparency of a wider spectrum of central bank objectives, functions, and operations that are also consistent with central banks' broader or new mandates since the GFC, while removing the overlap on financial policies covered by other transparency standards. We share staff view that the proposed modular CBT framework could provide sufficient flexibility in undertaking outcome-focused and risk-based transparency assessments of the proposed five pillars in a manner that could potentially capture the circumstances and constraints under which central banks operate.

The proposed CBT framework has benefitted from the ongoing discussion on central bank governance. However, the paper makes it clear, and we agree, that CBT transparency assessments should not pass judgment on the adequacy of central bank governance, functions and policies. Governance gaps and vulnerabilities, in particular, could be identified and discussed under the framework for enhanced Fund engagement in governance issues approved by the Board in April 2018.

The aggregation of individual transparency assessments of a diverse group of 24 central banks and the ECB in case studies reported in the paper could hide some of the more granular differences in transparency across country groups which may warrant scrutiny. It would be useful if staff could assess transparency practices in the same sample but classifying the institutions according to some criteria such as country income groups or financial market development. It would be helpful to ascertain, for instance, what country groups contribute the most to the transparency gaps identified in the CBT case studies in Appendix II.

We support staff plan of convening an international advisory group—which should include a representative number of experts from developing countries—to help staff develop, refine and articulate their proposal for the new CBT code and methodology, followed by extensive consultation with Executive Directors and country officials to seek their views before submission of the proposal to the Board.

Mr. Inderbinen and Mr. Heim submitted the following statement:

We agree that it is timely to develop a new and improved Central Bank Transparency Code (CBT). The current Code of Good Practices on Transparency in Monetary and Financial policies (MFPT) clearly no longer corresponds to today's economic and institutional reality. The modification and extension of central bank functions in the wake of the global financial crisis call for a review of transparency practices. Moreover, we consider it adequate to look at central banks' transparency independently from financial policy transparency practices, which are now covered by other standards. The focus of the CBT on one institution only – the central bank – will increase its relevance compared to the current MFPT and facilitate assessments against the Code.

The CBT will need to strike the right balance between transparency and confidentiality.

We echo staff's view that the new Code should not be geared towards assessing the adequacy of countries' central bank mandates, autonomy, governance, policies, or operations. The CBT should take these arrangements as given and evaluate the degree of transparency that underpins them. In addition, while transparency is an essential element to ensure accountability vis-à-vis the legislative and executive branches of government and the public, it is also important to note that there are central bank activities with legitimate needs for confidentiality. As staff mention in the paper, this is recognized in the current MFPT and should also be reflected in the new Code.

It will be important to ensure the CBT's applicability to surveillance and capacity development. We welcome staff's efforts to ensure broad applicability to the membership and to promote the alignment with surveillance and capacity development. In particular, the CBT framework could serve as diagnostic tool in capacity development, and help countries, especially LICs, implement and monitor reforms of central banks' transparency practices. We also agree on tying the CBT to the existing governance work within the IMF. Could staff elaborate on the synergies with other workstreams?

The five-pillar framework set out by staff should provide a good basis for further work on the drafting a new Code. The modular five pillar approach presents a good starting point and we take good note that its application on a sample of central banks from different regions has led to robust results. Nevertheless, it will be important to further flesh out this framework to ascertain whether it is up to the task. At this stage, the framework should be considered work in progress and not prejudge any outcome.

We broadly agree with staff's proposal on the way forward. We support the setting up of an international advisory group to provide guidance on the new Code. Given the early state of the work on the CBT, thought should be given to submit to the advisory group not only a draft code based on the five-pillar framework but also the framework as such. Finally, we welcome the planned outreach to Executive Directors at an early stage and look forward to engaging with staff on the further work.

Ms. Riach and Mr. Hemingway submitted the following statement:

We thank staff for their informative paper and their prior engagement on this issue. We broadly support the general direction of travel proposed in the staff paper, emphasizing the important role central bank transparency can play complementing a sound policy framework in all countries. We provide the following comments for emphasis.

Building on past discussions, staff make a convincing case that a substantial overhaul of the Monetary and Financial Policies Transparency (MFPT) code is justified, noting the low usage in recent years, substantial changes in policy frameworks in most member countries and overlapping coverage in other international bodies. We support the proposal to narrow the perimeter of the MFPT code and develop a new Central Bank Transparency (CBT) code that reflects the evolution of central bank activity since the global financial crisis. We welcome the proposed modular framework focused on five aspects of transparency. We also agree the significantly broader coverage of central bank activities more accurately reflects the reality of what these institutions do today. We note further evolution to the code may well be necessary as central banks tackle new or emerging challenges, such as cyber risk to financial systems, or if the global architecture changes again.

We emphasize the importance of transparency not being an end in itself, but a complement to sound policies. In most cases, more transparency strengthens policy making and the effectiveness of a central bank in achieving its objectives. However, we note that the CBT's focus on transparency creates some tensions in areas where transparency needs to be weighed against other objectives, such as confidentiality or financial stability, with country specific considerations further complicating the policy judgement for members. This challenge is particularly apparent in some operations, such as the emergency liquidity assistance (ELA), FX interventions and the use of swap lines, due to the market sensitive nature of these interventions. Given this, we note the potential for 'gaps' identified in the case studies to, at least in part, reflect countries managing this tension. As a result, we emphasize nuanced analysis and discussion with the authorities will be needed in developing and implementing the code. Can staff set out how they envisage staff using the code managing the trade-offs between transparency and other objectives?

Finally, reflecting the initial nature of this proposal, the paper provided limited information on how the CBT code would be used in practice. The Fund has an important role continuing to share best practices and country specific advice on central bank operations. We believe the CBT code can be a valuable complement to other advice provided to members in surveillance and capacity development activities. We endorse the intention to develop a code that would provide a framework to facilitate productive exchanges between the Fund and authorities across the membership.

Mr. Alkhareif and Mr. Rouai submitted the following statement:

We thank staff for their work and outreach, which allowed our office to clarify a number of technical issues.

The staff report makes a clear case for an overhaul of the 1999 Monetary and Financial Policies Transparency Code (MFPT). As shown in Figure 1 and since the global financial crisis, the MFPT is no longer being used as a standard for the assessment of policy transparency because of the changes in monetary policy practices by many central banks and the development of financial sector standards by international standards-setting bodies.

Against this background, we support staff proposal to limit the coverage of the proposed code to central banks while broadening its scope. Since the global financial crisis, many central banks have broadened their mandates and functions to pursue additional objectives like financial integrity, consumer protection, and modernization of the payments system and they also relied on new macro- and micro-prudential instruments, among others. At the same time, the assessment of transparency of financial policies has evolved with the development of specific international standards, thus reinforcing the case for limiting the code to central banks only. Here, we appreciate staff's clarification that the new Central Bank Transparency (CBT) code will focus on central bank transparency only and not on the adequacy of its governance, institutional framework, or policies.

The emphasis on transparency in the CBT is appropriate but should also take into account the need for confidentiality. As already recognized in the MFPT, the CBT should also respect central banks' legal obligation to safeguard "commercial confidentiality", i.e., the confidentiality and privacy of information on individual firms.

We support the modular approach for the CBT. As the experience has shown, central banks are operating in a fast-moving environment and we therefore see the usefulness of adopting a modular approach based on the Five-Pillar Framework detailed in Figure 5. Among other things, a modular approach would allow adequate coverage of various central banks operating in different environments and would also facilitate future amendments of the CBT without disrupting its structure. In this regard, we would appreciate if staff could clarify how Fintech issues would be covered in the proposed Five-Pillar Framework? In addition, and in view of the importance of Parliament in the governance framework of many central banks, we would suggest adding a specific section in Pillar V on the transparency of central banks' relations with Parliament. Staff's views would be welcome. That said, we would urge staff to take into account the different characteristics of central banks when formulating the CBT to ensure its flexibility given the differences in country-specific circumstances and national policy objectives.

Uneven transparency. The case studies conducted by staff has shown that central banks are fairly transparent in the traditional areas of governance, policies, and official relations. At the same time, transparency gaps were noted in newer central bank mandates like financial integrity, consumer protection, and bank resolution. Could staff elaborate on how the CBT could contribute to improving transparency in newer areas? Would the forthcoming FSAP review be helpful in this regard in identifying transparency requirements in newer central bank mandates?

Communication and outreach will be important for a successful development of the CBT. In this context, we support the timeline suggested by staff for the development of the CBT. In particular, we agree on the importance of relying on an international advisory group for guidance and feedbacks on the draft code and we look forward to future briefings on progress.

Mr. Agung, Mr. Tan, Mr. Anwar and Ms. Latu submitted the following statement:

We thank staff for their informative report and welcome their efforts to enhance the relevance of the Fund's transparency standards and codes (S&C) by proposing a revision to the 1999 Monetary and Financial Policies Transparency Code (MFPT). We support having a new code that has broad applicability to the membership, that focuses on facilitating implementation of policy objectives, supporting policy effectiveness and addressing macroeconomic risks, that is risk-based and proportional in application, and would not overlap with other international standards.

A review of the MFPT code is warranted given the significant developments in international standards for financial policies, and the broadening of central bank mandates, functions and policies since the global financial crisis. Streamlining the transparency code to narrow its focus on central banks while deepening its coverage would assist in bolstering central bank accountability and credibility, and therefore contribute to enhanced policy effectiveness. While Figure 3 reflects how all-encompassing the various instruments and policy objectives may extend to under the CBT code, we encourage staff to ensure that the proposed new CBT code avoids overlap and duplication with other international standards. To maintain quality and relevance, the new CBT code should be developed based on well-established transparency practices and a distinction should be made from norms that may still be evolving as referred to in Mr. Saito's gray. Where the costs and benefits of increased transparency are still unclear, staff should make the case on their appropriateness for inclusion in the code. Whilst we acknowledge that transparency is a part of the Fund's overall governance framework as referred to in paragraph 8, can staff clarify how the transparency practices/expectations under the CBT will be different from the coverage of transparency issues under the governance framework?

The application of each of the five pillars should be tailored to country circumstances to ensure traction. While we agree that improved transparency would address information asymmetries and help anchor market expectations, country circumstances should be core in the determination of the appropriate level of transparency. The benefits of more transparency may be outweighed by risks of compromising policy effectiveness or market sensitivity, or the country's capacity to produce the required information. We suggest that the pilot assessments have a representative sample to support the broader applicability of the CBT code. Can staff indicate the current thinking on how the CBT code is to be applied when "plugged" in the Fund's capacity development, surveillance, UFR and governance framework, in terms of the obligations on members and consequences for non-compliance? How would this compare to the application of the MFPT?

We support the establishment of the international advisory group to provide guidance to staff in the development of the new CBT code. This could provide assurance to the Board on additional vetting of the CBT code to enhance its relevance and practicality. We however encourage ensuring the criteria for the selection of experts for this advisory group allows a diverse composition to be representative of the Fund membership. We also echo Mr. Geadah that staff need to seek the inputs of the central banks and monetary authorities from across the membership on the framework before engaging the proposed international advisory group. This can contribute to improving ownership of the new code, and better ensuring that the perspective of emerging markets and small states are adequately considered. We welcome the proposed extensive consultation with the Executive Directors and look forward to receiving a clear timetable for the Board discussions of the new code.

Mr. Lopetegui and Mr. Morales submitted the following statement:

We thank staff for the proposal to update the Monetary and Financial Policies Transparency Code (MFPT) by replacing it with a Central Bank Transparency Code (CBT). This proposal responds to the Board's request to eliminate the overlap with assessments covered by other standards and expand the coverage of central bank transparency standards to incorporate a broader set of activities, some of them arising after the Global Financial Crisis (GFC). For example, the MFPT focused on conventional monetary policy activities, which do not include central banks' financial stability functions and unconventional monetary policies, among other areas.

We are in broad agreement with the proposed framework to prepare the CBT, based on five "Transparency Pillars" covering governance, policies, operations, outcomes, and official relations. However, the new framework should be mindful of legitimate confidentiality provisions based on specific country's circumstances. Experience with past assessments shows that transparency is a useful complement of sound policies when it is not regarded as an end in itself. Also, the 2017 Review of Standards and Codes Initiative

(RSCI) recommended that the transparency standards and codes should aim at facilitating policy objectives rather than focusing on disclosure of operational processes. In this regard, we welcome the intention to design a CBT framework that could help support Fund surveillance in the context of Article IV, FSAP and UFR; and that could serve as a diagnostic tool in capacity development.

While we welcome the expansion of CBT coverage, we wonder if some of the components of the different pillars are equally relevant at all times, in particular if the CBT intends to take into account that central banks operate under a diverse set of circumstances and environments. For example, concerns regarding moral hazard may justify ambiguous transparency arrangements surrounding Emergency Liquidity Assistance, banking resolution, and financial integrity functions, as illustrated in the case studies in Annex II. Also, coverage of risk management systems under pillar one could be challenging for LICs, especially if the standards require "a risk appetite statement (that) could be a written, published and widely-communicated document referring to the amount and type of risk that a central bank is willing to take". More broadly, the report shows that LICs and some middle-income countries show lower transparency than more advanced economies, which in fact could reflect, to some extent, idiosyncratic issues rather than a bias toward less transparency. Staff's comments are welcome.

We agree with the proposal to convene an international advisory group comprised of former central bank governors and international experts to provide guidance to draft the code and assessment methodology. In fact, the discussion of the case studies in Annex II raises some important questions that would benefit from a qualified exchange of views. For example, regarding governance, the report gives a lot of weight to availability of information on the central banks' website as the preferred avenue for disclosure, and we wonder if this expectation is reasonable. Also, how relevant is the transparency of the central bank code of conduct for Board members and staff to facilitate the achievement of policy objectives, in line with the RSCI recommendations mentioned above? On a separate point, we are surprised that central banks lack transparency on consumer protection provisions, given that consumer protection could only be effective if the corresponding regulations are well understood by all parties. Could staff elaborate on this finding? Finally, we certainly welcome the intention to conduct extensive consultation with Executive Directors, including a clear timetable for Board discussions.

Mr. Ray, Mr. David and Ms. Park submitted the following statement:

We thank staff for the paper to update the Monetary and Financial Policies Transparency Code. We note that the 1999 IMF Code of Good Practices on Transparency in Monetary and Financial Policies (MFPT) has fallen into disuse over time against a background of changing policy frameworks and overlapping coverage with other international standards. We agree on the proposal to review and update the MFPT by replacing it with the proposed central bank transparency (CBT) code and provide the following comments.

We note that the proposed CBT framework is based on a desk review conducted on a sample of 24 members countries and the European Central Bank. None of the small developing states, including those that are vulnerable and fragile, is included. Many central banks in these states have wide roles, including driving financial inclusion to developing domestic capital markets and accommodating financial intelligence units, as well as the conduct of monetary policy and fostering of financial stability. The success of the new CBT will depend on its relevance to the full membership. Given staff's assessment that transparency of central banks in LICs for monetary policy effectiveness lagged those of emerging and advanced economies, we suggest that some small developing economies are represented on the external advisory group and included in the pilot assessments when the CBT is being rolled out.

The new transparency framework should be sufficiently flexible to take into account the diverse set of circumstances and environments that central banks operate within, and the potential for continued evolution of their role. For example, where responsibility for macroprudential policy setting is shared with other institutions, each may be accountable within their individual mandates, so caution is needed in developing a standard that works for a range of institutional arrangements.

It is important that the standard is grounded in an understanding of the role of transparency in supporting good governance and decision making. As staff noted, there are many central bank activities where there are legitimate needs for confidentiality, including emergency liquidity assistance or FX interventions and the use of swap lines, where transparency needs to be balanced against other objectives. We highlight here the concerns raised by the BIS in their Governance Aspect of FX Interventions (2005) that too much transparency on interventions may impede their effectiveness.

We also agree that the new framework should focus on areas not otherwise well covered and avoid duplication. We agree that the new transparency framework be confined to central banks given the expanded role of other standard setters in dealing with other financial policies.

Ms. Pollard and Ms. Svenstrup submitted the following statement:

We welcome the long-awaited revision of the Monetary and Financial Policy Transparency Code (MFPT), which has essentially been shelved over the last decade. The proposed Central Bank Transparency code (CBT) appears to be appropriately focused on addressing gaps in current transparency assessment frameworks and complementing existing financial sector standards and codes. We broadly agree with the staff's proposed framework and next steps. We wish to emphasize a few key points for emphasis in that process:

Incentivize Uptake

Given lack of interest in the MFPT, it will be important for staff to focus on making the CBT a user-friendly, flexible, and practical tool. We appreciate that staff are planning to design the CBT to be adaptable for various purposes—e.g., to design capacity development programs and/or to develop a transparency action plan to be monitored in the context of FSAPs, Article IV surveillance, and/or UFR. It will also be helpful for the tool to be user-friendly and clearly written so that authorities can conduct self-assessments or use it to inform their policies even in the absence of explicit Fund-engagement. We urge staff to engage with the membership to gauge potential demand for the CBT, both in terms of potential demand per year and type of activity.

Modular Approach

Although this chair has some questions about the efficacy of staff's modular approach more broadly, we think it makes sense in this instance given the Fund is the SSB and there is a need to adapt the CBT to diverse central banking environments.

Integration with financial sector surveillance: We appreciate that staff took care to avoid duplication and plan to carefully integrate the CBT with elements of existing international standards or principles. Nevertheless, we expect staff to continue to scrutinize suspected transparency deficiencies at a financial supervisory and/or regulatory agency that is separate from the central bank through routine surveillance and/or an FSAP. Do staff anticipate that ongoing assessments of the CBT will require additional resources and/or crowd out other financial sector surveillance work?

We appreciate staff bringing this initial proposal to the Board and look forward to continued engagement as the draft code and assessment methodology is developed and tested.

Mr. Raghani, Mr. N'Sonde and Mr. Carvalho da Silveira submitted the following statement:

We thank staff for the focused and concise paper on the Proposal to Update the Monetary and Financial Policies Transparency Code (MFPT). The envisaged approach to modify the MFPT is consistent with the call made by the 2011 Review of Standards and Codes (S&C) Initiative and IEO reports to strengthen the initiative.

We concur with the assessment that the MFPT, in addition to having fallen into near dereliction, has become outdated in the current environment of increasing demand for transparency and accountability following the Global Financial Crisis (GFC). We take note of staff's account of challenges to updating the 1999 MFPT. While revisions to the MFPT have stalled over the years, other developments have also contributed to its lack of use. At the same time, there has been an increased demand for enhanced transparency for central banks and financial agencies responsible for supervision and regulation to foster more informed market expectations and greater public accountability. We also agree with the need to overhaul the MFPT based on Fund's new framework on governance and corruption.

Against this background, we support the proposal to replace the MFPT with a new and more focused central bank transparency code (CBT). In line with Directors' call made at the time of the 2017 Review of Standards and Codes, the proposed CBT attempts to eliminate financial standard overlaps while ensuring that the coverage of financial policy standards is broadened enough to include post-GFC developments. In addition, we appreciate the applicability to the broad membership as different central banks operate under different mandates and circumstances, with certain activities requiring some degree of confidentiality. We see a particularly high value in the proposed CBT for lower-income members. We welcome the feature that while pursuing evaluations of central banks' transparency, the proposed CBT would not strive to assess the adequacy of their mandates, independence, governance policies or operations but rather take these policies and arrangements as given.

We broadly agree with the proposed five-pillar framework to assess the transparency of central banks. In our view, the envisaged framework is generally appropriate to cover the key areas and requirements of central bank transparency. While it is developed based on a review of relevant documentation and an analysis of transparency practices in 24 central banks, we are of the view that the sample could have been more representative of various circumstances and central bank mandates. It is important that the new CBT framework be flexible enough to take into account country or regional specific contexts. For instance, inclusion of one or two central banks of a monetary union involving low-income countries could have provided additional insights. Could staff comment on whether consideration was given to the inclusion of currency union central banks such as BCEAO, BEAC or ECCB? Furthermore, while we appreciate the exercise presented in pages 14 through 16, we incidentally wonder how staff would find the appropriate degree of transparency for central banks, noting from Figure 6 that 80 percent seem to be the threshold for distinguishing “transparent” from “less transparent” central banks in a given pillar? Staff’s elaboration will be appreciated.

We welcome the fact that the CBT can be aligned with Fund surveillance and capacity development. Considering that there are risks of uneven follow-through in some policy areas and unequal needs among members, we concur that promoting collaboration across the initiatives and better engaging with member countries should help maintain the momentum in good transparency practices between S&C reviews and ensure alignment of S&C work with strategic priorities and members’ needs. The proposed CBT would also be helpful in establishing transparency diagnostic and benchmarking practices.

Finally, looking forward, we support the proposed next steps, including the setting up of an international advisory group to guide staff in the development of the new code, and extensive consultation with Executive Directors. We would appreciate staff elaborating on the timeline for the proposed steps. Could staff also comment on the potential resource implications?

Mr. Villar, Mr. Guerra and Ms. Arevalo Arroyo submitted the following statement:

We thank staff for its informative paper and outreach. We broadly agree with the proposal to replace the Monetary and Financial Policies Transparency Code (MFPT) with the Central Bank Transparency Code (CBT). Nevertheless, we believe that—given the relevance of the topic—the final CBT proposal should reflect a careful analysis of its implications on the Fund’s workstreams.

The replacement of the MFPT with the proposed CBT code was long-overdue and warranted. We welcome the focus on the evaluation of the degree of transparency of the institutional setup in place rather than assessing its adequacy. We strongly support the view that transparency is a key component of the central bank's accountability framework and, thus, of its necessary degree of autonomy. Given current global developments on central banks' independence, this update is both timely and necessary. We share staff's stated purposes to enhance the relevance of this Fund's transparency standard, to avoid overlap with well-established transparency standards of financial policy, include new areas of influence of monetary policy and broadening of central bank mandates post GFC, as well as to facilitate risk-based assessments to support policy objectives. Most importantly, we consider countries should continue to have the final word on the most suitable institutional setup for their central banks. Thus, we strongly welcome that the CBT is not geared to pass judgement on the adequacy of existing institutional arrangements, but rather to evaluate the degree of transparency that underpins those choices.

The establishment of the five transparency pillars and their clearly defined objectives are positive steps in the right direction, but further consideration must be given to its interaction with Fund surveillance and UFR. The proposed framework provides an explicit structure to assess central bank's transparency. We also believe that a particularly constructive addition to this framework is that of macroprudential areas. Further, a priori we share the principles laid out in pillar IV, which call for transparency in the engagement with central bank's stakeholders. However, there are some areas of ambiguity that would require clarification, e.g. those regarding implications of not reaching desired targets or other areas of monetary policy. Staff's comments are welcome. The use of case studies and their preliminary results in Annex II are very helpful to understand how the proposed framework could potentially be applied in practice. While we note this is a preliminary exercise, we welcome that a more granular examination will be required for Pillar I to avoid biased results, as stated in footnote 15. We would suggest examining if further granularity in all pillars could provide more accurate results. Given the overarching coverage of the pillars of the CBT, we would like to hear staff's view on how the interaction of the new transparency framework with IMF surveillance and UFR would take place in practice. Particularly, we would like to know how the CBT would interact with the Safeguards Assessment Policy.

Further clarity of the "entity based" approach in cases of shared supervisory functions would be desirable. While we agree with staff's proposal to follow the so called "entity-based" approach—to broaden the coverage of the code by expanding the activities of the central bank and confining it to the central bank—there is certain ambiguity on how the assessment of financial supervision would work. While we appreciate footnote 11, it is still not entirely clear how transparency would be assessed when the central bank is not the sole supervisor or regulator.

A balance between compliance of transparency standards and policy and operational effectiveness should be pursued, while considering flexibility according to countries' circumstances and institutional setups. Enhanced central bank transparency has been conducive to a more effective monetary policy and proper accountability in the past years. The overhaul of the MFPT poses an opportunity to establish transparency standards that consider substance and ensures that compliance is not only a formality. For instance, a central bank can comply with the publication of minutes, but the minutes might not have relevant information for market participants on the decision-making process. In this sense, there is compliance, although the ultimate objective of transparency is not achieved. On the other hand, it is important to strike the right balance between transparency and confidentiality so that the ability of the central bank to conduct its operations is not hampered and monetary policy effectiveness is ensured. This is particularly relevant for activities in which there is a legitimate need for confidentiality. That said, we concur with Mr. Saito and Mr. Minoura that the proposed framework needs to be flexible enough to consider country's circumstances. We agree that in novel areas in which transparency standards have not yet been fully agreed, indifferent or excessive emphasis on transparency could undermine financial stability or policy effectiveness.

Finally, we welcome the steps for the development of the CBT code, but would stress the importance of a continuous engagement with central banks throughout the process. We underscore the relevance of preparing this code with the advice of an international group of former central bankers and international experts. However, we consider that engagement with central banks and monetary authorities during the development of the code, as well as after its elaboration, is warranted. We note that the MFPT was elaborated in cooperation with the Bank for International Settlements, and in consultation with relevant international and regional organizations. Will this also be the scope of the international advisory group of the CBT? Moreover, we look forward to extensive engagement with the Executive Board on the new code.

Ms. Levonian, Ms. McKiernan and Ms. Vasishtha submitted the following statement:

We welcome the staff proposal to overhaul the 1999 Monetary and Financial Policies Transparency Code (MFPT) in response to the Board's request during the 2017 Review of the Standards and Codes Initiative (RSCI). A comprehensive overhaul of the MFPT has been long overdue given the development of financial-sector standards by international standard-setting bodies and significant changes in central bank mandates following the Global Financial Crisis.

We support the staff's proposed approach to replace the MFPT with a new Central Bank Transparency Code (CBT) which will narrow the perimeter of the code by confining it to central banks while broadening the scope of transparency assessments. The proposed CBT should enhance the efficiency of Fund work by removing the overlap with FSB standards and improve the general effectiveness of the Fund's activities.

Given that transparency and governance structures can quickly become conflated, it will be important to keep the CBT distinct – both conceptually and operationally – from the Fund's work on central bank governance. There are risks in using a 'one size fits all' code to assess different central banks against a staff-determined set of criteria, without sufficiently taking into account the unique governance and legislative structures of central banks in different countries. That said, we are reassured to see that the staff paper is cognizant of this risk and notes that the CBT would take the mandates, policies and governance structures of central banks as given. We also support staff's focus on outcome-based and modular transparency assessments which will facilitate a risk-based and proportional application considering country-specific circumstances. Further, staff rightly acknowledge that transparency is not an end in itself and central bank transparency needs to be balanced against the need for confidentiality.

Strengthening the links between the Fund's standards and codes (S&C) work and other lines of Fund's work, including capacity development and surveillance, is crucial. The 2017 RSCI found that, outside of FSAPs, the link between S&C output and surveillance has weakened. In this context, we are pleased to see staff's efforts to identify the interplay between the proposed CBT and surveillance and capacity development activities. We encourage staff to give further consideration to strengthening these links as they develop the CBT. For instance, member countries would likely be more willing to participate in the new CBT and other S&C exercises if assessments were followed by targeted capacity development efforts to support members in addressing identified shortcomings.

We support the staff’s five-pillar central bank transparency framework. However, we are curious to see how the framework would account for the evolution in payment systems architecture and other developments, such as fintech. Staff views are welcome.

Finally, we look forward to continued close engagement between the staff and the Board and more frequent updates as the CBT is developed.

Could staff provide more information on the composition of the envisaged international advisory group? Also, could staff share their preliminary views on the potential resource implications of the new CBT?

Mr. Sigurgeirsson and Mr. Vaikla submitted the following statement:

We thank staff for the set of papers and welcome the initiative to update the Monetary and Financial Policies Transparency (MFPT) code. Since its creation in 1999, the MFPT has provided guidance on policy transparency and best-practices thereby contributing to strengthening economic and financial institutions. However, given the decline in the number of MFPT assessments and changed circumstances, an update of MFPT is needed. The updated framework should reflect broadened central bank mandates, grounded on transparency, while seeking the appropriate balance between transparency and central bank confidentiality requirements. It is also necessary to take into consideration both traditional and less traditional mandates to support policy effectiveness with the objective of providing a relevant and widely used standard among members. We support staff´s proposal to replace the MFPT with the Central Bank Transparency (CBT), based on the five-pillar framework and suggested steps to develop it.

We appreciate that the proposed CBT framework is based on country-specific circumstances with the objective of enhancing central bank autonomy and accountability and aims at facilitating risk-based and proportional application. We also note that the CBT reflects post-GFC activities and practices of central banks, as well as their broadened policy mandate in many cases.

It is essential that the CBT ensures continued relevance, appropriate coverage and efficient implementation to strengthen monetary policy transparency, support policy effectiveness and address macroeconomic risk. At the same time, it is important to take into consideration boundaries concerning central bank confidentiality. The CBT should also assess recognized gaps in the MFPT and identifies lessons from individual assessments that could be adopted to increase its effectiveness. In that regard, we appreciate that the set of papers also include case studies based on the results of application of the proposed CBT framework.

Given that very few MFPT assessments have been undertaken in the last decade, it is important that the CBT addresses the main factors that have contributed to its disuse. We also emphasize that the take-up of CBT assessments should avoid being too resource-intensive in order to encourage its use across the membership, including by smaller countries. Therefore, we emphasize that the new framework should be simple, easy to use, flexible and suitable for all member countries. The CBT framework should also be developed in a way that enables a link to the Fund´s technical assistance, FSAPs, and Article IV consultations.

It is important that the proposed CBT eliminates overlap with FSB standards. However, we note that while avoiding overlap with other financial policies covered by other standards, it is also essential that the proposed CBT does not leave any gaps in coverage, given that the CBT aims to remove the financial policies from the MFPT and limit its focus only to central banks. With this in mind we also underline the importance of the of continued Fund collaboration with other standard-setting bodies, especially those with expertise in central banking issues to ensure that the coverage of the CBT is sufficient, and that it complements existing transparency standards.

Finally, concerning the proposed next steps, it will be important to take into account the diversity of the membership when selecting members to the international advisory group.

Mr. Merk and Ms. Kuhles submitted the following statement:

We thank staff for the thoughtful paper and broadly support the proposal to replace the Monetary and Financial Policies Transparency Code (MFPT) with a Central Bank Transparency Code (CBT). We generally share staff’s comments on the importance of central bank transparency. However, it is somewhat unclear to us to what extent the new Code would be used more often than the current one and for which purposes. The fact that the MFPT has gradually fallen into disuse over the past ten years could also point to a lack of need for such a tool. We would therefore welcome if staff first defines the actual need for such a Code and its purpose, also in view of limited Fund resources. Further comments by staff would be welcome.

Moreover, we regard it of utmost importance that the application of the new Code and the publication of the results are voluntary for central banks and not mandatory, such as the data provision obligations under Art. VIII Section 5 of the Articles of Agreement. We ask staff to clarify and clearly state the voluntary nature of the CBT. This said, we welcome efforts to narrow the Code's application to central banks and update the areas to be assessed. However, the specific circumstances and institutional set-up of a country or currency union should be duly taken into account. Furthermore, any judgment on the adequacy of a central bank's institutional set-up should be avoided. In this regard, we are reassured by staff's assertion that "the proposed CBT will take as given the mandates, policies and governance arrangements of countries' central banks". We also ask staff to explicitly acknowledge legitimate needs for confidentiality.

We regard the proposed five-pillar framework as a useful starting point for assessing central bank transparency in a structured manner and for the advisory group to take into account in its work. This said, as highlighted by the MFPT, "transparency is not an end in itself, nor is transparency a substitute for pursuing sound policies". This principle should remain centrally embedded in the new Code. The report rightly mentions a potential trade-off between transparency and legitimate needs for confidentiality. This trade-off varies across different central banks and across different activities within one central bank. Moreover, the report rightly distinguishes between low-income countries on the one hand and emerging markets and advanced economies on the other hand. Consequently, a schematic, one-size-fits-all approach should be avoided and different circumstances and environments taken into account when evaluating the degree of transparency. Also, in terms of depth and breadth, assessment across the five pillars cannot be uniform. In this regard, we welcome the modular approach of the CBT. Moreover, we take note that the ECB was included in the sample and would expect that the specificities of currency unions such as the euro area will be adequately accounted for in the further process. Overall, the proposed five-pillar framework seems quite ambitious, in particular with regards to its application as a diagnostic tool in capacity development. Further staff comments would be appreciated.

In principle, we are very much in favor of convening an international advisory group. In this regard, we would like to emphasize that a well-balanced selection and representation of group members will be key to ensure that a broad range of views and considerations are taken into account. Moreover, the mandate for this advisory group should be open-ended in terms of outcome and not just limited to a fine-tuning around the five-pillar approach presented in the paper. In particular, the group should discuss potential conflicts between transparency and legitimate concerns about confidentiality and personal autonomy. Also, the advisory group should take into account the mandate of the Fund and actual needs of its membership and ensure an efficient use of staff resources when providing its guidance and feedback on the draft code and methodology. Could staff provide further comments on the envisaged composition, size and concrete tasks of the advisory group, also given that staff's proposed five-pillar central bank transparency framework appears to be already quite well-advanced.

Mr. Jin and Ms. Liu submitted the following statement:

This year marks the twentieth anniversary of the IMF Code of Good Practices on Transparency in Monetary and Financial Policies (MFPT). We agree it is timely to review the MFPT and introduce updates to make the code more relevant. Overall, we broadly concur with the general direction of staff's proposal but would like to make the following specific comments for consideration.

We see a case for replacing the MFPT with a Central Bank Transparency code (CBT). From an efficiency-perspective, it seems reasonable to eliminate overlap with other standards and develop a code that is more focused on central banks, and rely on other relevant standards or principles where appropriate. Given the important developments in central bank activities since the Global Financial Crisis, a broader coverage of the transparency criteria could help create a more relevant code for today's world. The challenge is to maintain the scope of coverage to a manageable size, focusing on the most essential elements for policy effectiveness and addressing macroeconomic risks.

The proposed five-pillar framework is a good starting point for further engagement with relevant stakeholders. As shown in the case studies, the degree of transparency in different elements of the proposed framework is not consistent. For instance, all central banks in the sample are transparent about their legal personality, while understandably, transparency is limited in many areas of central bank operations. As noted by staff, "there are many central bank activities where there are legitimate needs for confidentiality". In the upcoming outreach and consultation efforts, we encourage staff to take a deeper dive into the underlying reasons for limited transparency and take these into account when developing the CBT, allowing flexibility for central banks to maintain confidentiality where needed.

We take positive note that the proposed CBT framework acknowledges that central banks operate under a diverse set of circumstances and environments. In fact, institutional set up and responsibilities of central banks themselves vary across jurisdictions. For instance, the proposed framework covers policy areas such as microprudential supervision, which may not fall under the purview of some central banks. This may complicate the application of the CBT. We also wonder if there may be any evenhandedness concern when, by way of institutional set up, a central bank with multiple responsibilities is assessed much more extensively under the CBT than one with a narrower mandate. Staff's comments are welcome.

Under different operating environments, such as the difference in developmental stage, the level of suitable transparency would also vary. For example, disclosure that may be beneficial in economies where markets are more developed and sophisticated, could be de-stabilizing for markets that are less developed. The CBT and related assessment methodology should therefore be flexible enough to cater for differing circumstances and environments, while balancing the need for broad applicability. How do staff plan on addressing this challenge? The eventual CBT framework should be well-communicated to the authorities to ensure proper ownership, effective implementation, efficient assessment, and the needed traction.

The application of the CBT in Fund surveillance would need to be carefully managed to ensure it is effectively tailored to country circumstances and need, while maintaining evenhandedness. First, whether the CBT should be applied to a member country should be determined based on a clear demonstration of macro-criticality. Second, the application of the CBT should be risk-based and focused on priority areas of policy effectiveness according to country circumstances. Both of these decision processes require active engagement and consultation with the authorities to ensure traction of the assessment findings and recommendations. The relevant guidance for carrying out these processes should ensure evenhandedness and consistency of application across jurisdictions. Meanwhile, in case central bank transparency is assessed in FSAPs, staff should ensure the assessment is well-coordinated with the Article IV consultation process to avoid unnecessary duplication.

In terms of next steps, we support developing the CBT in a staged approach. The proposed international advisory group should comprise of experts from diverse backgrounds to provide adequately representative feedback. Besides extensive consultation with Executive Directors, we strongly encourage staff to actively engage member authorities directly to understand their views and concerns first hand. We also suggest staff to draw on the expertise of other international institutions such as the Bank for International Settlements when preparing the CBT.

Mr. Mozhin and Mr. Tolstikov submitted the following statement:

We thank staff for the well-formulated proposals to update the Monetary and Financial Policy Transparency Code (MFPT). The revision of the MFPT is long overdue. The changes in central banks' operational and monetary policy practices in the aftermath of the global financial crisis (GFC) rendered the MFPT relatively obsolete and, after 2010, very few assessments under the current MFPT have been conducted. The revision of the MFPT was called for during the 2011 Review of the Standards and Codes Initiatives (S&C). However, constantly evolving policy practices in key central banks delayed formulation of the new approach. In addition to changing monetary policy practices, the continued development of international standards for financial sector policies by other international standard setting bodies (ISSB) made some areas of the MFPT overlapping with the domain of other ISSBs.

Taking into account a substantial broadening of central banks' mandate, staff propose to narrow the perimeter of the transparency code by confining it to central bank activities ("entity-based approach") and to include in the code the coverage of all activities performed by central banks, including those related to financial policies. Accordingly, it would make sense to rename the MFPT as the Central Bank Transparency Code (CBT).

While we can go along with the entity-based approach, we wonder how the IMF transparency standards will be harmonized with the standards, developed by other ISSBs. It is our understanding that in the areas related to the financial policies, like oversight of payments systems, banking supervision, deposit insurance, etc., it would be based on other ISSBs' standards (Annex III). We would welcome staff comments on the applicability of the current transparency standards related to the financial policies to central banks. Who will be responsible for the assessment of transparency in central banks in such areas – the IMF or other ISSBs?

With regard to the organization of the code, we support the five "Transparency Pillars" as a logical and convenient way to organize assessment of the level of transparency of central banks' work. We agree that the proposed modular approach is sensible. It will allow to undertake a flexible and risk-based assessment that takes into account country-specific circumstances.

The transparency standards envisaged in the proposed CBT require a central bank to disclose a vast amount of information on all aspects of the organization and functioning of the institution and its policymaking. In this regard, it will provide a lot of support for the Fund's surveillance in countries where central banks fully implement these standards. Ideally for the staff, the web site of a central bank should become the first point of reference in the situations, which now require meetings with the authorities or a lengthy research of numerous legislative acts.

We also agree that the assessment based on the CBT will be a useful diagnostic tool for capacity development, providing the information to the authorities and TA providers about the level of central bank transparency and existing weaknesses that need to be addressed.

We broadly support the proposed future work program, as presented in para 27 of the paper. The work on the code is already at a relatively advanced stage, as evidenced by the exercise that tested the proposed CBT framework on 24 central banks. We support the establishment of the international advisory group to provide guidance to staff in the elaboration of the new code. It is, however, important to ensure that this group reflects the diversity of the Fund's membership to reflect different experiences of its members. It is also encouraging that the plan envisages extensive consultations with the Executive Board and development of a clear timetable for Board discussions of the new code.

The Acting Chair (Mr. Lipton) made the following statement:

Before we turn to our agenda item, I want to take a minute to inform the Board of the passing of our former Managing Director, Johan Witteveen, who died last week.

Mr. Witteveen had a remarkable career, including as Finance Minister and as Deputy Prime Minister of the Netherlands. He was our Managing Director between 1973 and 1978, serving with distinction through some challenging times, with the world going through what was then the deepest recession since the Great Depression and, of course, the period where a new international monetary system emerged.

On behalf of the Managing Director, I would like to express our condolences to the Witteveen family and mark that occasion.

With that, we will take up our agenda item on the Staff Proposal to Update the Monetary and Financial Policies Transparency Code (MFPTC).

Mr. Rashkovan made the following statement:

We thank the staff for their good work on the long overdue topic of central bank transparency and also for the extensive outreach before today's meeting.

Central banks and financial regulators are under increasing political and public criticism since the global financial crisis and, according to services such as the Eurobarometer, trust in these institutions eroded in the last decade. Hence, the transparency of central banks, together with other steps, are important measures for regaining trust in regulators in order to enhance the effectiveness of monetary and financial policy. Therefore, like many Directors, we agree it is timely to introduce updates to the MFPT code to make it more relevant. But like Mr. Merk, we would be interested to hear how the staff plans to make these codes operational and avoid the same fate as the MFPT, which has gradually fallen into disuse over the last 10 years.

We broadly agree that the proposed five-pillar framework is a good starting point for further work, even if it seems quite ambitious. We take as granted that the central bank transparency (CBT) framework will be developed in a way that enables a link to the Fund's technical assistance (TA), Financial Sector Assessment Programs (FSAPs), and Article IV consultations. At the same time, we see some potential problems in the implementation of the code.

First, it is essential that narrowing the perimeter of the code solely to central banks while broadening the scope of transparency assessments do not leave any gaps in coverage, given that the code aims to remove the financial policies from the MFPT.

As mentioned by some Directors in their gray statements, the institutional setup mandates and the responsibilities of central banks vary across different jurisdictions and the evolution of their role is not yet obvious. Therefore, a one-size-fits-all solution should not be applied in the implementation of this code. From another side, it is not clear how the staff plans to cover the issues of the transparency of other financial regulators, especially in the jurisdictions where the central banks are not engaged with micro-supervision. Having said that, in general, we are seeking a further and deeper discussion with staff over their holistic view on central bank governance.

Third, the increasing engagement of both central banks but also the Fund in the evolution of payment systems, the architecture and development of the fintech sector probably opens room for enhancing the scope of the code to cover those topics. Like Ms. Levonian, we are seeking the staff's views on this issue. We also encourage the staff to work with other standard-setting bodies to avoid duplication in the work.

Last but not least, we support the staff's idea to engage in an international advisory group to provide guidance on the elaboration of the new code. We believe that the advisory group should include not only insiders from the central banks and the international financial institution (IFI) community but also outsiders with more critical views. We would be thankful if the staff could elaborate on the expected participants in the advisory group beyond the governors of central banks and IFIs. Like some other Directors, we also believe that the mandate for this advisory group should be open-ended in terms of outcome and not just limited to fine-tuning around the five-pillar approach.

Mr. Tan made the following statement:

We thank the staff for putting forth a clear case for enhancing central bank transparency's practices and a sensible way forward to make progress on the longstanding review of the MFPT.

We have a few comments, drawing on our own gray statement, as well as those from other Directors. These are centered around three broad themes: One, on maintaining the objective of the transparency code as a complement to sound policies; two, on giving effect to the code's risk-based and proportional principle that will underpin its broad applicability to the membership; three, on ensuring the new code is of use, compared to the MFPT.

First, while the MFPT has become obsolete, a key principle from the existing code that remains sound, as noted in the paper and by Directors, is that transparency is not an end in itself. This speaks to several comments raised by Directors, including those by Mr. Ray, on anchoring the CBT code on an understanding of the role of transparency and supporting good governance and policy effectiveness, and those by Mr. Gokarn on fostering a more nuanced, careful interpretation of assessment results across countries.

Their comments are crucial to avoid the risk of mechanistically prescribing a laundry list of transparency standards or adhering to a code for its own sake. In his gray statement, Mr. Saito also rightfully distinguished between the post-crisis mandates and policy actions and the associated transparency principles that may not be as well developed and universally accepted yet. A distinction is essential to avoid front-running what should be considered desirable practices that first lead to the implementation of policy objectives, vis-à-vis practices that may be counterproductive in reality.

Second, like many others, our support is premised on the modular approach that aims to facilitate a risk-based, proportional, and country-specific application. The devil is in the details; and, like Mr. Inderbinen, it is premature to prejudge the outcome of the proposed CBT code. The implication here is twofold. One, the case remains to be made to the Board on the relevance and the feasibility of each pillar when they are more fully fleshed out. In this regard, it is prudent to bear caution to Mr. Merk's and Mr. Rashkovan's comments on a one-size-fits-all approach across the five pillars. Due consideration should also be given to Mr. de Villeroché's suggestion to streamline the five pillars, where appropriate. Two, the need remains to articulate clearly to the Board what it means to operationalize the risk-based and proportional use of the CBT code. Essentially, this should provide more clarity on how the right balance between transparency and confidentiality will be struck in practice so that the burden of proof will not rest solely on the countries. To this end, we would echo the comments by Mr. Fanizza on the danger of assuming that more transparency is always unambiguously good, and Ms. Riach and Mr. Kaya on determining the optimal level of transparency that would not undermine the policy effectiveness of foreign exchange interventions, emergency liquidity assistance, macro- and microprudential supervision and resolution.

Equally important is the key question on how to preserve flexibility and account for country circumstances, to which Directors had also provided insightful observations on the inherent complexity of defining the transparency expectations and assessing the intended outcomes. There are challenges in making country comparisons, given the diversity of monetary policy frameworks—exchange rate regimes, for example—and the understanding that what works for one country may not necessarily work for another.

Lastly, we fully agree with Directors that the Fund needs to avoid making the same mistake and risk developing a CBT code that does not promote its use across the membership. We agree with Mr. Sigurgeirsson on the need to drill further into and address the underlying reasons for this use of the MFPT, and it is important to draw lessons from our past experience, especially as Figure 1 of the staff report showed that the decline in MFPT assessments had commenced long before the global financial crisis.

Similarly to Ms. Pollard on the need to incentivize uptake and keep the code simple, user-friendly, and practical, it is crucial that the CBT code is developed with the view of improving policy traction and country ownership.

Mr. Merk made the following statement:

Let me first emphasize, we broadly support the proposal to replace the MFPT with a CBT code. It is important that the application of the new code and the publication of the results are voluntary for central banks and that the voluntary nature of the CBT code is clearly stated. Moreover, judgment on the adequacy of central banks' mandate, institutional setup, policies, and outcomes should be avoided.

Also, we would like to emphasize that a schematic one-size-fits-all approach should be avoided. Rather, different country-specific circumstances, institutional setups, and environments, including those of currency unions, should be duly taken into account when evaluating the degree of transparency.

In this regard, we welcome the modular approach of the CBT code. Also, it is essential that the new code explicitly acknowledges the legitimate need for confidentiality. The tradeoff between transparency and confidentiality varies across different central banks and across different activities within one central bank. As mentioned by several Directors—for example, by Mr. Ray and Ms. Riach—there are many central banks activities where there are legitimate needs for confidentiality, including emergency liquidity assistance, the use of swap lines which are market-sensitive and where too much transparency on interventions may impede effectiveness.

Overall, we regard the proposed five-pillar framework as a useful starting point for the advisory group to take into account in its work. As emphasized by Mr. Inderbinen and Mr. Heim, the framework should be considered a work in progress and not prejudge any outcome of the advisory group.

As regards the international advisory group itself, we would like to emphasize—and this was also stressed by many other Directors—that a well-balanced selection and representation of group members will be key to ensure a broad range of views and that considerations are taken into account. We would be interested to hear more about the concrete tasks for the advisory group that are envisaged by the staff.

Finally, we agree with other Directors, that it is important to work together with central banks in developing and implementing the new CBT code, as well as to closely engage with the Board throughout the process, preferably via Board meetings. Close interaction with central banks is important to ensure that the new code will be used by central banks in the future.

Mr. Benk made the following statement:

In our gray statement, we supported the proposed update of the code and the staff's further work in this area since CBT remains within the boundaries of the Fund's core mandate. Devising a workable, useful code is an ambitious task. What we have read in the paper is a good basis but is still a work in progress, rather than a finished product. Like many Directors, we would like to stress some issues which should be taken onboard in the course of this work.

First, the balance between confidentiality and transparency is a delicate issue. We know that the proposed framework admits the importance of maintaining a fine balance. However, the practical application of this principle is only planned to be developed as part of the implementation methodology. We emphasize the importance of preserving flexibility and considering country-specific circumstances.

Second, the voluntary nature of the code's implementation, we agree with Mr. Merk and other Directors who stressed the importance of clarifying and clearly stating this in the new code. The code should not be used as a checklist. We are cognizant that some Fund members might lack sufficient resources or the institutional capacity to implement all of the good transparency policies.

Third, intensive consultations and an active engagement with the Board remain critical. Central banks and other stakeholders should also be consulted again before the code is endorsed. Such consultation will strengthen the ownership of the code and make its implementation easier.

To sum up, we welcome the progress, and we look forward to follow-up discussions once the necessary consultations with expert bodies have taken place.

Mr. Sun made the following statement:

The emerging views from gray statements have already highlighted the key considerations in the development of the proposed CBT code, so I would like just to add a few comments for emphasis.

In developing the CBT code, we wish to reiterate the importance of striking the right balance between transparency and confidentiality. As recognized by the 1999 MFPT, under certain circumstances, disclosure of areas such as internal policy discussions, near-term monetary and exchange market rate policy implementation and details on foreign exchange operations might disrupt markets. As such, at times, there are legitimate reasons for limiting the extent of transparency, and the CBT code should properly reflect that.

Overall, the development of a CBT code that is sufficiently comprehensive, flexible, usable, and broadly applicable is an enormous challenge, and we commend the staff for taking on this task.

To effectively deliver this task, we encourage the staff to actively engage member authorities during the development process to understand the needs and the considerations of the ultimate users of the code.

Could the staff elaborate on how they plan to engage country authorities going forward? Given the varying views across the membership, conducting assessments based on the CBT code in a consistent and evenhanded manner would also be a challenge. Active engagement of the member authorities is key to success, both in terms of effectively communicating assessment findings and recommendations to the authorities to enhance the traction and to reach common ground on determining what to publish, when, and how, given the complex and delicate nature of this subject area.

I would like to echo Mr. Merk, Mr. Benk, and others, that the application of the CBT code should be voluntary. Whether or not a transparency assessment should be included in a member’s Article IV consultation should be based on the member’s needs.

We encourage the staff to take its time in completing these tasks. As Mr. Gokarn pointed out, it is better to do it right, rather than do it quickly. In terms of process, we wonder if there is merit in first rebuilding the proposed CBT code and, based on that, Directors could have another discussion on how the code can be applied to the Fund’s work and the related methodologies to do so.

Finally, I have just a few technical points. First, we wonder if international reserves management should fall within the scope of monetary policy operations in Pillar III of the proposed framework, as the investment and use of reserves do not seem to necessarily affect monetary policy.

Second, given the potential market sensitivity toward disclosures, exchange transactions, and operations, we are not sure if it is appropriate to include this in the framework.

Third, not all areas in the CBT framework fall within the mandate of central banks. For example, some central banks are not responsible for microprudential supervision. As such, should this code really be called a CBT code? We invite the staff to continue to think about those issues and are happy to provide further input.

Mr. Inderbinen made the following statement:

We welcome the opportunity to discuss the proposed revision of the transparency code at this early stage. An overhaul of the code has been long overdue, as we have stated on previous occasions. The revision should enable the code to play the role that it should play as one of the key standards for sound financial systems. The new code should become the source of reference for policy advice in the context of surveillance and for recommendations of safeguard assessments and, where appropriate, conditionality in program contexts.

We broadly agree with the proposed framework, as well as with the next steps. I would just like to limit my intervention to a few comments and two questions.

First, as a broad comment, transparency needs to be weighed against other objectives of central banks, such as confidentiality. It is important that the new CBT code preserve the flexibility needed by central banks to implement their monetary policies. foreign exchange interventions and emergency liquidity assistance have been singled out in several of the gray statements, and we would agree that this applies to these fields in particular.

Second, as noted by Mr. Geadah, Mr. Al-Kohlany, and others, it will be critical that the addressees of the prospective CBT code—that is, the practitioners of monetary policy whose actions would, ultimately, be assessed against the new code—be closely involved in the further work. This will correspond to the way other key standards are set in their respective standard-setting bodies. This puts a premium on the well-balanced composition of the envisaged advisory group, allowing for a broad range of views and considerations.

We take note of staff's proposal that the "group would likely consist of reputable former central bankers and/or academics." We were wondering whether the staff could elaborate on the composition of the advisory group at this stage and, in particular, whether consideration will be given to also invite or include active central bank practitioners at this stage.

Third, we would welcome more elaboration on how the staff envisages assessments against the new code. We note with interest the possibility of a modular approach. But we do wonder whether this needs to preclude a vehicle to assess the code in its entirety. That is something that will be akin to the evaluations under the Fiscal Transparency Code.

We look forward to further engagement on this topic.

Mr. Saito made the following statement:

As the staff pointed out, several factors have changed since the creation of the MFPT in 1999. As a result, the use of the MFPT has gradually fallen, and few assessments have taken place over the past 10 years. Therefore, the changes and the outcomes call for a comprehensive overhaul of the MFPT. Thus, we support the staff's proposal to replace the MFPT with the CBT code.

That being said, Mr. Inderbinen, Mr. Agung, Mr. Villar, and many other Directors underscored that the new CBT framework needs to be flexible enough to take into account country-specific circumstances and the characteristics of policy areas. As the staff rightly pointed out, the application of the CBT code should not be indiscriminate or excessive, as there are many central bank activities which have a legitimate need for confidentiality. In particular, unconventional monetary policy and financial stability functions are newly developed areas where transparency standards have not been established yet. It could be possible that the indifference or excessive emphasis on transparency for financial sector policies or unconventional monetary policy could undermine financial stability or policy effectiveness. Therefore, as many Directors stated this morning, the new CBT code should strike the right balance between transparency and confidentiality in those areas so as to safeguard the ability of the central bank to conduct its operations and ensure policy effectiveness. Therefore, we support a modular approach and strongly encourage the staff to incorporate sufficient flexibility into the CBT code and its implementation to deal with a diverse set of circumstances and environment.

Finally, like Mr. Merk, Mr. Benk, and others, we underscore the importance of extensive consultation with the Directors' offices and the Board in developing the framework.

Ms. McKiernan made the following statement:

I thank the staff for the clear and concise paper and for the prior technical sessions with our offices.

We are pleased to be discussing this long-awaited overhaul of the MFPT as a key standard of the Fund's work. As indicated in our gray statement, we generally agree with the proposed approach and the five-pillar framework to replace the MFPT with the CBT code. I will just emphasize three points, and none of them are new to the discussion.

First, this new CBT framework should be flexible enough to account for country-specific circumstances, including currency union and/or supervisory union approaches, because it is tricky to use a one-size-fits-all scorecard to compare different central banks against a Fund-determined set of criteria. It would be extremely useful to have these assessments, but there is a need to take sufficiently into account the unique structures of central banks. Some of our member states are subject to onerous transparency requirements in domestic legislation in any case. We appreciate that the paper gives us reassurance that the CBT code will not be an assessment of governance in central banks per se.

Second, there are limits to central bank transparency, and it needs to be balanced against the need for confidentiality and the multiple objectives of central banks. Some countries have so many competing objectives that it will be more complex in other countries. The paper rightly acknowledges this. We believe that when it comes to transparency and, whether it is monetary policy or financial stability, it is not about volume; it is about objectives and clarity.

On next steps, we would also like to better understand the operationalizing of the code and how the assessment process might be worked through and also engagement with our member authorities' central banks. On this, I will just echo the points made by Mr. Inderbinen.

Finally, we would appreciate regular updates as the CBT code is developed.

Mr. Saraiva made the following statement:

We thank the staff for the work and the outreach. We issued a gray statement, and we agree with the general direction of the work so far, the focus on the central bank to avoid overlaps with other standards and codes, and also the broadening of the scope to cover all areas of central bank mandates, policies, and operations. In this sense, the modular approach seems to be very appropriate. It helps provide flexibility. Flexibility is one of the issues that has been raised by most Directors as a requirement in the application of this proposed code. But I have a concern that this is probably the first code that is a single institution code. I have the impression that it could become an irritant in the relationship with our counterparts because no central bank would like to be measured. It seems like it will be ranking central banks. I ask for the staff's view on how to avoid that problem when pursuing the evaluation of the code.

I agree with what Mr. Merk, Mr. Benk, and so many others here have highlighted, which is the need to ensure the voluntary nature of the code. First and foremost, this code is a capacity development tool. It should be demand-driven and basically support efforts to enhance transparency when it is deemed appropriate. In addition, transparency is not a goal, in itself. But we do understand that for central bank communication and accountability, it is ever more important.

The use of the code in surveillance and use of Fund resources should be extremely rare. I would dare to say that this should be like an exception. The case that this is macro-critical needs to be very well made to avoid the supply-side dynamics in which the code assessment would be pushed onto our central banks.

Finally, I want to highlight that the process of the elaboration of the code, itself, will be important. It will be important to have the full engagement of all relevant counterparts. The central banks, themselves, should have the opportunity to participate in the process, conveying their opinions, but also other institutions, like the Bank for International Settlements (BIS), for example. In this sense, we would like to follow the implementation of the advisory group as well.

Ms. Riach made the following statement:

We support the proposed approach in the paper to replace the MFPT code with a CBT code. If our system of standards and codes is to remain a key and a relevant part of Fund surveillance, then we need to have the ability to update the codes in order to keep them relevant.

In the discussions that were set out in the gray statements and in most of the interventions, people have, in different ways and to different extents, touched on the need for the new code to reflect that, in some circumstances, transparency in central banks must be balanced against other objectives. This is something we agree with, and we made the point in our own gray statement. But I do think it is critical not to lose sight of the benefits of central bank transparency in most circumstances.

Notwithstanding the exceptions that have been pointed out, in general, a more transparent central bank is a more effective central bank, since transparency helps to better align expectations for policy. And as Mr. de Villeroché and Mr. Saraiva have pointed out, transparency is also critical for accountability, given the significant delegated authority that central banks have.

As the paper recognizes, the role of central banks has evolved significantly in recent years, and that evolution is likely to continue. The approach to transparency will need to continue to evolve with it. For example, last year, the U.K. finance ministry and the Bank of England agreed on a new capital and income framework to reflect the Bank of England's enhanced policy remit and expanded balance sheet since the crisis. This framework is supported by new governance and coordination processes, which provide more information on the bank's finances and risk exposure. This approach will allow for greater transparency concerning the risks to the bank, while respecting the operational independence of the bank's Court of Directors.

My point is that while transparency is not an end in itself, is an important component of central bank operations, and we needed to update our approach to reflect changes in the bank's activities over the last decade. I suspect that many other countries will also need to continue to revisit their approach to transparency as the role of central banks continues to change. As countries consider this, the Fund will remain a key source of advice and assistance. It is in that context that we welcome the proposed code, which we believe will provide a framework for the staff to facilitate those discussions and to provide advice on a consistent basis.

Clearly, there is more work that needs to be done and details which need to be resolved. Many important issues were raised in gray statements and in the discussion this morning. But it is important to keep that sense of ambition in mind and to keep moving forward as we discuss the next stages of this proposal.

Mr. Mahlinza made the following statement:

We broadly agree with the staff's proposal to replace the MFPT with the CBT framework, which is appropriately calibrated to address gaps in the current transparency assessment framework and eliminate overlaps with other standards. We issued a gray statement and would like to emphasize three points.

First, we concur with Mr. Merk, Mr. Saito, and other Directors, that the new CBT code should be flexible enough to account for diverse country circumstances in institutional setups, while maintaining evenhandedness and explicitly acknowledging legitimate needs for confidentiality in certain central bank activities.

On the next steps, we support the proposed establishment of an international advisory group and underline that it will be essential to compose the advisory group with aspects from different countries and diverse backgrounds to ensure a regional balance and a proper reflection of country experiences.

Going forward, it will be important to extensively consult with the Board and actively engage country authorities in the development of their CBT code and assessment methodology.

We welcome the staff's plan to design a CBT framework that could help support the Fund's surveillance and serve as a diagnostic tool in capacity development. In this context, we encourage the staff's efforts in this respect and feel they should be further strengthened.

Lastly, we believe that the code should be carefully managed in view of the evolving practices in financial and monetary policy.

Mr. Spadafora made the following statement:

There has been a notable emphasis on the tradeoff between confidentiality and transparency. From the answers to Directors' questions, we understand that there is an implementing methodology which has been developed on this.

I just want to note that in some cases, I do not feel that there are tradeoffs because there are legal impediments to central banks disclosing some sensitive information. This is not explicitly recognized in the paper. So maybe staff could comment on this.

It is not an easy task to assess transparency, so we tend to share the concerns raised by Ms. Riach and Mr. Hemingway, that in assessing these tradeoffs, it is difficult to understand whether possible gaps in transparency are a necessary product of dealing with these tradeoffs. Mr. Lopetegui and Mr. Morales highlight the fact that there should not be, on the part of staff, a bias against them and in assessing central banks as less transparent than others.

On the explicit recognition by the staff that the CBT transparency assessments should not pass judgment on the adequacy of central bank mandates, governance, policies, or operations, I wonder if this is possible in practice, because in assessing transparency, the staff could explain why some lack of transparency might emerge from the assessments, and I wonder if this implicitly does not require also a reference to the policies, mandates, and the operational practices of central banks. Perhaps in practice this is not always easy to do.

In fact, one of the explicit goals of the CBT is to facilitate policy objectives. In assessing transparency implicitly, there is a need also to pass judgment on the way that central banks can pursue these objectives.

Finally, on the voluntary nature of the CBT code, I wonder how to reconcile this voluntary nature with the prospective use of the code in the use of Fund resources, for which the CBT code can be a part of conditionality.

Mr. Villar made the following statement:

We broadly agree with the proposal to replace the MFPT with the CBT code. We find that the proposed five transparency pillars provide an appropriate framework to assess central bank transparency. We strongly welcome that the proposed CBT code is not geared to judge the adequacy of existing institutional arrangements, but rather, to evaluate the degree of transparency that underpins those choices.

We also welcome the steps proposed by the staff for the development of the CBT code. However, we would like to underscore that, in addition to the advice of an international group of former central bankers and international experts, it is extremely important to engage with central banks and monetary authorities during the development of the code.

While we agree with the staff's proposal to follow the so-called entity-based approach, we feel that there is certain ambiguity on how the assessment of financial supervision would interact with the CBT code, both when the central bank is the supervisor and when parts of the supervisory and regulatory roles are outside the central bank.

From a different perspective, we would like to highlight the point made by Mr. Saito, Mr. Merk, and other Directors, stating that the CBT framework needs to be flexible enough to consider specific countries' circumstances. In particular, it is important to strike the right balance between transparency and confidentiality so that the ability of the central bank to conduct its operations is not hampered and monetary policy's effectiveness is ensured.

Finally, we consider that the introduction of the new code poses an opportunity to establish transparency standards that consider substance and ensure that compliance is not only a formality. Distinguishing between substance and formalities may be one of the main roles of the proposed advisory group and of the engagement with the central banks on the development of the new code.

Mr. Morales made the following statement:

We thank the staff for the useful paper and their responses to our questions.

Like other Directors, we welcome the staff proposal to replace the MFPT code with the CBT code. This type of assessment is probably more relevant now than before, given the recent evolution of central banking, as described in the paper. We look forward to the next steps on preparing this code, noting that achieving a balancing act on several fronts will be a challenge, as has been highlighted by several Directors.

Having had the opportunity to work with the old code in the past, I can attest that its usefulness is often more evident after the fact than before the assessment takes place, which may explain some reluctance in seeking its application by country authorities. But we believe that the proposed framework, based on five pillars—the alignment with other international standards and policies, and the intention to apply a risk-based, proportional, and country-specific approach—are improvements that could potentially help to highlight the usefulness of this initiative, as explained by Ms. Riach, Mr. Spadafora, and Mr. Villar.

Ms. Gilliot made the following statement:

We would like to commend the willingness of the Fund to establish a definition and a framework for transparency specific to central banks, which takes into account both international standards and the recent developments in central banks' activity, like new instruments and conventional monetary policy or financial stability. Moreover, and important for us, we see no contradiction with the European treaties.

Like many other Directors, we welcome the intention to provide a framework which circumscribes to transparency rather than governance, which allows flexibility, and is tailored to countries or regional specificities, in the case of currency unions.

I will only add three comments for emphasis.

We encourage the Fund to consider national and regional arrangements, as is the case for currency unions. A careful application of the principle of respect of existing governance arrangements without passing judgment—outlined on page 7—is key in this respect. Emphasis should also be put on an evenhanded approach for the membership.

We salute the balanced approach between transparency, autonomy, and accountability presented in paragraph 12. In this respect, the evaluation framework of the CBT will need to differentiate central banks' challenges, depending on the country's category—LICs, emerging countries, and advanced economies.

Finally, we insist on the limitations of a too stringent application of the principle of transparency, for which the definition and scope provided at the beginning of the paper remain broad. The issue of secrecy and confidentiality is only briefly mentioned, and an extensive approach to transparency could be problematic, given the sensitivity of central bank activity.

Mr. Raghani made the following statement:

In the gray statement we have issued, we supported the proposal to replace the MFPT with a new and more focused CBT code and the proposed five-pillar framework to assess the transparency of central banks. We welcomed also that the CBT code can be aligned with Fund surveillance and capacity development.

As many of the additional points that we intended to make have been addressed by many Directors in their interventions, I will limit my intervention to the following points.

Like many Directors, we believe that consideration should be given to strike an appropriate balance between transparency and confidentiality to allow the flexibility that central banks need to effectively implement their mandates. As the scope of the central bank mandate is not uniform in the different jurisdictions, the framework should take into consideration country-specific circumstances. A close engagement with the authorities is key.

Finally, we support the proposed next steps, including setting up an international advisory group to guide staff in the development of the new code and extensive consultation with Directors.

Like Mr. Mozhin and Mr. Tolstikov, we encourage the staff to ensure that the advisory group reflects the diversity of the Fund's membership.

Ms. Pollard made the following statement:

I found it quite interesting, listening to the comments around the table and particularly the point about transparency versus confidentiality. While we would all agree that there are certain issues in central banking where confidentiality is key, I also believe that we should not understate the importance of transparency. I fully agree with the comments that Ms. Riach has made.

It is important to look back at the changes that have occurred in central banking in the past 25 years. I found interesting two quotes by the former Fed Chairman Alan Greenspan. In 1987, he said, "since I have become a central banker, I have learned to mumble with great incoherence. If I seem unduly clear to you, you must have misunderstood what I said."

This was characteristic of the view of central bankers in the 1980s and early 1990s. I will point out that it was not until 1994 that the Federal Open Market Committee (FOMC) actually began releasing its policy decision. At first, it only released a statement when it changed its interest rate target. It was not really until 1999 when it began more fully commenting on its policy. It was not until much more recently that it began holding a press conference after each FOMC meeting—actually, a policy that was in line with what the European Central Bank (ECB) had started.

Just to complete the Greenspan point, in 2002, Greenspan said, "Openness is an obligation of central banks in a free and democratic society." We need to realize that the importance of transparency has changed over time.

As Ms. Riach has said, we will increasingly realize that transparency and more openness have become important.

The same is said for exchange rate intervention. This was once a highly guarded secret and now more central banks will announce that they have intervened.

I also want to give credit to the Bank of Japan. Its intervention data, although incredibly infrequent now, is incredibly timely. We should not underestimate the importance of transparency and should learn from countries where policy has improved because of transparency.

Mr. Gokarn made the following statement:

I wanted to make three basic points, drawing on the comments that have been made in the Board.

The first is that we have to be clear on the view we are taking of transparency itself. Some comments have reflected that. Are we taking an intrinsic view of it, which is, it is good in every circumstance? Or are we taking an instrumental view of it, which is that it helps in some situations—it helps the central banks do their jobs better, to fulfill their missions more effectively?

That is at the heart of this transparency versus confidentiality dilemma. In some situations, transparency will help the bank do its job better. We have to understand what those circumstances are. In some situations, it may hurt.

There are two fundamental questions we have to ask. Are central banks being less transparent than they need to be in order to do their jobs more effectively? Or are they being more transparent than they need to be in order to do their jobs more effectively? That is where this basic framework has to head in order to provide banks useful inputs in terms of how they carry out their missions.

The remit of the advisory group, which we certainly support, should cover this and also many of the questions relating to how the framework is to be used, whether it is to be used as a scoring mechanism or an advisory mechanism. Should it be voluntary or mandatory? These are issues the group has to weigh in on. I do not believe these are decisions that we have to make ex ante before the framework has evolved and its utility and its limitations are understood. I would wait on that judgment until the group has provided some structured inputs.

Finally, the issue of coverage, Mr. Saraiva made the point that by narrowing the focus, we are perhaps achieving more effectiveness in terms of being able to capture the issue that we are looking at, but we are also then risking the absence of comparable transparency in other parts of the system. We need to be coordinating with other institutions but also, more importantly, synchronizing with them so that we get to a point where the overall visibility of the system is reasonably balanced and coherent. Otherwise, we risk having very transparent central banking but a very opaque rest of the financial sector. That is not necessarily a good outcome.

Mr. Sigurgeirsson made the following statement:

I have one brief comment on what was mentioned by Ms. Pollard. I very much agree with the importance of transparency, as was also mentioned by the U.K. Director.

Sometimes in central banking, it is not business as usual. Some of us here have had the unfortunate experience of having to manage capital controls, capital flow management measures (CFMs), or having asset management companies (AMCs) fall into our laps. These are areas where the tradeoffs between confidentiality and transparency are tricky. This will probably not make the work of the consultative body any easier, but these are things that need to be taken into account.

The Director of the Monetary and Capital Markets Department (Mr. Adrian), in response to questions and comments from Executive Directors, made the following statement:[2]

I would like to thank Directors for the insightful gray statements and comments. We will continue to engage closely with the Board, as we have done so far, in order to draft the new code. We are looking forward to working with the Board going forward.

Let me address two broad issues and then pass it on to my staff for additional issues.

The first concerns the broader work on governance. A number of Directors have pointed out that it is useful that this code is focused on transparency issues, as opposed to broader governance issues. The way we look at this is that transparency is one pillar of governance, but there are additional pillars to achieve broader governance perspectives. We are also doing work on these broader governance issues and will come back to the Board over the next year or so on those broader governance questions. Transparency is one pillar. It is an important pillar, but it is only one of the pillars.

Second, many Directors have mentioned the usefulness of the advisory panel. As we noted in the paper, we envision that the advisory panel will reflect the diversity of our membership. It will have representatives from all regions and different country types. We envision employing former central bank governors as well as academics. The academics would provide the outsider's perspective, and those would be academics who have thought deeply about central banking and monetary policy issues, while the former governors bring the experience to the table. We would not envision employing current governors because the code should be used to assess current central banks.

The staff representative from the Monetary and Capital Markets Department (Mr. Shabsigh), in response to questions and comments from Executive Directors, made the following statement:

[2] Prior to the Board meeting, SEC circulated the staff's additional responses by email. For information, these are included in an annex to these minutes.

We are grateful for the comments. They are useful, and we will definitely take them into account as we move forward. In particular, we take note of the call for flexibility and for finding a way to ensure a balance between transparency and confidentiality. These issues have been acknowledged in the paper, but we do recognize the difficulty that we might encounter when we start drafting the actual code and the implementation methodology. We will be looking for guidance from the advisory group and from interactions with the Board as we move forward on these issues. But this is definitely on our minds, and we are focusing on that.

Hopefully, we will be in contact with the Board in a number of ways. We can use the iLab, as we have done before, and we could do meetings. As we move along, we will consult with the Board, and we will reach out to Directors on progress and the issues that we are encountering.

As Mr. Adrian and many Executive Directors noted, this is a transparency code. It does not pass judgment on the governance arrangements. In some cases, there could be an arrangement that is not optimal from a governance point of view, but they are transparent about it. From our point of view, the arrangement is transparent, irrespective of our view of the arrangement, whether it is appropriate or not.

In our deep dive in the case studies that we have done, we have seen examples of that. Obviously, we have not highlighted them or singled them out, but we have seen cases where there were issues from governance point of view, but they were transparent about it up front.

With regards to the issue of how to apply the code in the Fund instruments: In capacity development, this is an area that is demand-driven and the modular approach will help design an engagement on capacity development that is appropriate and targeted to the country’s circumstances.

When it comes to surveillance, we have two surveillance instruments. We have the Article IV consultation, and we have the FSAPs. In the FSAP, the CBT will be treated like in any other code. This is an issue that is discussed with the authorities during the scoping of the mission. If it is agreed to be done wholly or partly, then it becomes part of the FSAP process. Or it could be agreed between the staff of the mission and the authorities during the scoping that this is not particularly relevant at this stage. That is not unusual. We have done that in almost all the other standards that we use in FSAPs.

In the Article IV consultations, we agree that there should be some policy relevance and policy criticalities to raise these issues, but this is something that we will leave to the area departments to discuss with the authorities and come to a judgment on these issues.

Finally, on the issue of the use of Fund resources in program conditionality, if the teams, engaging with the authorities, deem some of these issues as policy relevant or policy critical, they will be treated the same way as any other issues. The issue of conditionality will be discussed extensively with the authorities and with the Board and accordingly implemented.

There was an interesting question on fintech, and how we will address new issues. In fact, this was an explicit question that came, question No. 10 in the gray statements, and we answered it. It will be covered because, if the authorities are taking fintech into account, then that has to come up in their mandate. If they are implementing policies in the fintech areas, like financial inclusion, the payment system, this will also come up under Pillar II. The operational side of it will come up under Pillar III. In fact, one of the issues that is coming up from our work on fintech—this is from the Bali Fintech Agenda—is the need for a cross-agency collaboration on fintech issues. That will come up also in Pillar V.

Mr. Saraiva made the following statement:

Mr. Adrian mentioned that transparency is one of the pillars of the broader central bank governance issue. At this point, are we envisaging specific codes in the work stream of central bank governance?

My other point is a concrete proposal that, in order to enhance the engagement of central banks throughout the process, we should consider establishing a broad consultation mechanism in which we can invite the central bank opinion and analyses of the different drafts that exist, including this one. We should open it to the central bank community, invite their comments, and then we could use this input as part of the elaboration process.

Mr. Sun made the following statement:

Regarding the next steps, we asked whether there will be plans for further engagement with the country authorities. I would appreciate it if the staff could make it clearer.

On the draft press release, in the last sentence of the third paragraph, it says it would also facilitate use of the CBT in Fund surveillance, such as Article IV reviews and FSAPs and in a program context. My understanding is, this is a starting point to develop the CBT. It might be too early in this press release to say that this will be used in Fund surveillance, given that it might prejudge the outcome of our discussions. In addition, many Directors' points also reflected the need to strike the right balance and whether this should be used in Article IV consultations. I would call for a careful interpretation. Especially in terms of communicating to the outside world, we need to be careful not to prejudge.

The Director of the Monetary and Capital Markets Department (Mr. Adrian), in response to further questions and comments from Executive Directors, made the following additional statement:

The first question was whether there would also be a code on governance, and the answer is no. There is only the code on transparency. The work on governance will likely feed into a Board paper, so Directors will have ample opportunity to comment on that. We will also engage with Directors.

Second, we are happy to engage with the central banks of the membership. We could imagine a way to circulate the draft. I do not think it makes sense at this stage, but once we have a draft of the code, we could circulate it to the central banks' three offices.

Finally, concerning the press release and the specific question of whether we should mention that the code would be used in Fund surveillance, we could explicitly say that the future CBT code could be used in Fund surveillance, including the FSAPs and Article IV consultations. That would be in line with the way in which the previous code was used. There is no difference here.

Mr. Sun remarked that it would be more appropriate to say the code would be used in surveillance after it had been developed.

The following summing up was issued:

Executive Directors welcomed the opportunity to consider the staff proposal to update the Monetary and Financial Policies Transparency (MFPT) Code. They noted that the development of financial sector standards by international standard setting bodies and important developments in central bank mandates and activities since the Global Financial Crisis (GFC) contributed to the disuse of the MFPT. Against this background, Directors endorsed the proposal to replace the MFPT with a new Central Bank Transparency (CBT) Code. They generally viewed the proposed CBT as an appropriate framework to remove the overlap on financial policies covered by other FSB standards, and expand the transparency standards to a broader set of activities and practices undertaken by many central banks since the GFC. The CBT would also reorient transparency standards to facilitate risk-based assessments to support policy effectiveness and address macroeconomic risks, in line with the recommendations of the 2017 Joint Review of the Standards and Codes Initiative.

Directors welcomed the proposal's emphasis on ensuring that the CBT is relevant for all member countries, including less-developed and smaller economies, recognizing that central banks operate under a diverse set of circumstances and environments. In this regard, they agreed with the proposed modular approach of the CBT and considered that flexibility would help facilitate a risk-based and proportional application while taking into account country-specific circumstances and needs. Directors broadly concurred that the proposed CBT can serve as a diagnostic tool in capacity development, and help central banks map their transparency frameworks and make informed choices on their transparency arrangements. Many Directors also considered that CBT assessments could help support Fund surveillance. Some Directors underscored the importance of clarifying the voluntary nature of the CBT.

Directors welcomed that the CBT will take as given the mandates, policies, and governance arrangements of central banks. They broadly agreed that the CBT would tie into existing governance work within the Fund and noted that the CBT will not provide a central bank governance framework, nor is it a means to assess or pass judgement on the governance of central banks.

Directors noted that central banks face trade-offs between transparency and the legitimate need for confidentiality. In this regard, they considered that the CBT code should strike the appropriate balance between these needs and preserve flexibility, particularly in the context of market sensitive information and financial stability and policy effectiveness objectives.

Directors supported the staff proposal to convene an international Advisory Group to provide guidance to staff in the elaboration of the new code. Directors noted the importance of selecting the members of the Advisory Group from diverse backgrounds and regions to ensure a broad representation of views and experiences.

Directors emphasized the need for broader consultation on the proposed CBT in due course, including with monetary authorities, other international institutions, and the Executive Board. Directors also asked for more regular updates to the Executive Board as the CBT is developed.

APPROVAL: April 13, 2020

JIANHAI LIN
Secretary

Annex

The staff circulated the following written answers, in response to technical and factual questions from Executive Directors, prior to the Executive Board meeting:

MFPT update and CBT scope

1. ***We would like to know how the current coverage of the MFPT overlaps with other international standards for financial policies.***

- The MFPT "identifies desirable transparency practices for central banks in their conduct of monetary policy and for central banks and other financial agencies in their conduct of financial policies". Therefore, the MFPT overlaps with transparency elements in standards such as those from the BCBS, IAIS, IOSCO, and CPMI-IOSCO. That overlap will be eliminated in the proposed CBT.

2. ***We would appreciate staff elaboration on the rationale for developing a new Central Bank Transparency (CBT) code instead of providing guidance to staff on how to better assess central bank transparency within the Fund's governance framework.***

- The request to update the existing Code was made by the Board in the context of the 2011 and 2017 RSCIs. Additionally, The Fund's governance framework does not consist of clear guidance on central bank transparency, other than the MFPT – which needs to be updated to take the effects of the GFC into account.

3. ***While we agree with the key objectives of the Update, including eliminating overlaps on financial policies covered by other standards, further details on the specific overlaps and how they are addressed by this Update would have enriched our discussion. Staff comment are welcome.***

- Annex III of the Note outlines transparency principles in financial policy standards such as those emanating from the BCBS. For instance, BCP 1 stipulates that the supervisor needs to publish its objectives. This is currently also covered by the MFPT, thereby creating confusion on which standard to apply, and in which context. The proposed CBT removes that confusion by clearly indicating that only the central bank is the object of the CBT. If the central bank is also a supervisor, the BCP would apply. The same holds for the other relevant international standards.

4. ***A key point made in the paper is about the previous code falling into disuse. Even with a narrower focus, the risk of this happening again remains. Could staff elaborate on attributes of the new approach that would mitigate this risk?***

- The proposed CBT provides added value over the MFPT by eliminating overlaps with other international standards, incorporating the lessons of the GFC, and providing broad coverage of important transparency issues at the institutional level. In addition, the flexibility of the CBT design and its risk focus would accommodate diverse set of country circumstances, whether in the context of Fund surveillance or capacity development.

5. ***We would therefore welcome if staff first defines the actual need for such a Code and its purpose, also in view of limited Fund resources. Further comments by staff would be welcome.***

- Staff did not assess the potential demand for the CBT, but the proposal is in line with the Board's request to update the MFPT and provides value added as noted in the question 4. As has been the case with the MFPT, the proposed CBT will be incorporated within the resource envelope that is available for standards assessments and capacity development.

6. ***We appreciate staff's clarification that the new Central Bank Transparency (CBT) code will focus on central bank transparency only and not on the adequacy of its governance, institutional framework, or policies.***

- The proposed CBT takes central bank governance, institutional framework, and policies as a given. Instead, it highlights central bank transparency over whatever choices the central bank and/or its stakeholders may have made, allowing for a neutral form of transparency.

CBT Code framework

7. ***We would appreciate it if staff could elaborate on how the proposed framework of "Five Transparency Pillars" would ensure flexibility and deal with country specific circumstances.***

- The 5-pillar framework is built on different modules. Authorities could select to examine transparency of a single pillar, and/or even one or more components within a pillar, depending on the specific need. For instance, if a central bank has recently updated its legal framework, transparency arrangements regarding pillar 1 would likely be updated already. The central bank could instead choose to focus on transparency of operations (pillar 3).

8. ***We wonder how this evaluation is planned to be translated into the policy advice on transparency considering country-specific circumstances.***

- The proposed CBT could be used in different forms of policy advice. In the context of Article IV surveillance, tailored advice could be provided if components of central bank transparency are considered as macro-critical. The CBT could help the authorities address critical gaps in the context of UFR. In technical assistance, the use of the CBT would more likely be demand-driven, depending on the needs of the authorities.

9. ***While we appreciate the exercise presented in pages 14 through 16, we incidentally wonder how staff would find the appropriate degree of transparency for central banks, noting from Figure 6 that 80 percent seem to be the threshold for distinguishing "transparent" from "less transparent" central banks in a given pillar? Staff's elaboration will be appreciated.***

- Figure 6 is intended for illustrative purposes only and is not intended as an implementation methodology, which will be articulated in the context of the future development of the Code itself.

10. ***We would appreciate if staff could clarify how Fintech issues would be covered in the proposed Five-Pillar Framework?***

- Central bank transparency on fintech issues could take form in different ways: under pillar I the central bank could disclose information on its objectives (if, for instance, the central bank law highlights fintech in one way or another), decision-making structures on fintech, risk management (including on fintech-related cyber-risks), and so on. Under pillar II, the central bank would could report on policies that include fintech components (e.g., financial inclusion, microprudential supervision, etc.) – the same would hold for pillars III (operations) and IV (outcome). Under pillar V, central bank could disclose, for instance, cooperation on fintech issues with other agencies. If a central bank is involved with fintech, transparency on these issues would be covered by the CBT's 5 pillars.

11. ***We are curious to see how the framework would account for the evolution in payment systems architecture and other developments, such as fintech. Staff views are welcome.***

- See question 10. For payment systems architecture the same would hold: transparency could be on, for instance, an explicit mandate or risk management (pillar I), policies / operations / outcome (pillars II, III, and IV), and possible cooperation with other agencies, operators or Financial Market Infrastructures (FMIs) (pillar V).

12. ***We wonder if there may be any evenhandedness concern when, by way of institutional set up, a central bank with multiple responsibilities is assessed much more extensively under the CBT than one with a narrower mandate. Staff's comments are welcome.***

- The adequacy of transparency in any central bank is not necessarily a function of its responsibilities. A single-mandate central bank could conceivably be significantly less transparent over its one objective, than a central bank with multiple objectives. The application of the CBT to a single-mandate central bank, and a central bank with multiple objectives, would simply examine the transparency over the respective objectives.

13. ***In view of the importance of Parliament in the governance framework of many central banks, we would suggest adding a specific section in Pillar V on the transparency of central banks' relations with Parliament. Staff's views would be welcome.***

- The important relationships with Parliament would, for any central bank, involve reporting requirements on outcome. Pillars IV (see Annex II) therefore consists of transparency by means of reporting outcomes to Parliament.

Transparency and confidentiality

14. ***Whilst we acknowledge that transparency is a part of the Fund's overall governance framework as referred to in paragraph 8, can staff clarify how the transparency practices/expectations under the CBT will be different from the coverage of transparency issues under the governance framework?***

- The coverage of central bank transparency issues under the Fund's governance framework are currently limited to the elements of the IMF's Safeguards Assessment for program countries. This is a limited assessment conducted from the Fund's internal risk management perspective (to safeguard the return of Fund resources). The proposed CBT would not only be a source for Safeguards Assessments, but also for surveillance and technical assistance, assuring consistency and alignment of transparency elements in all Fund activities and over broader set of transparency issues.

15. ***Can staff set out how they envisage staff using the code managing the trade-offs between transparency and other objectives?***

- The proposed CBT framework has highlighted the importance of maintaining a balance between confidentiality and transparency. The practical application of this principle will be developed as part of the implementation methodology of the future CBT Code.

16. ***It is not obvious to us whether the tradeoff between transparency and confidentiality is universal. On the contrary, it is probably subject to country-specific and context-specific factors. Based on the case studies presented, could staff comment on whether this tradeoff was visible in some countries? If so, how did it impact the assessment?***

- The trade-off between transparency and confidentiality is country- and context-specific. The staff did not assess the trade-offs in the case studies, as the methodology to do so will be developed in the context of the future development of the CBT Code.

17. ***Even in cases of a formally-expanded mandate, macroprudential policies pose challenges to assess transparency and accountability, arising for example by the lack of quantitative objectives and the possible influence of an inaction bias (i.e., activating a macroprudential measure poses costs that are short-term and visible, while its benefits are long-term and invisible). It might not be a coincidence that the analysis of transparency practices detailed by staff in paragraph 23 finds less transparency especially in the outcome of central banks' operations (Pillar IV). Staff's comments are welcome.***

- We agree that macroprudential policies might pose a challenge, as there is no standing transparency standard in this area. Nonetheless, there are many relevant aspects in the 2013 "Key Aspects of Macroprudential Policies" paper that could be drawn upon, and other issues will have to be considered on case-by-case basis.

18. ***We would have however preferred a more nuanced discussion on how issues of financial policy transparency are going to be incorporated into the Fund's work since they are at least as important as the transparency of monetary policy. Staff comments are welcome.***

- Issues of financial policy transparency are incorporated into the Fund's work by means of their respective international standards, particularly in the context of the FSAPs.

19. ***Could staff elaborate more on transparency not only in an ex ante but also ex post context?***

- The proposed 5-pillar framework covers ex ante transparency (i.e., transparency before operations have taken place), for instance, relating to legal status, mandate, decision-making arrangements, and risk management (pillar I), policies (pillar II), and official relations (pillar V). It also covers ex post transparency (i.e., transparency after decisions have been made), for instance, relating to operations (pillar III) and outcome (pillar IV).

20. ***What would be an optimum level of transparency also concerning policy effectiveness?***

- The framework does not propose an optimal level of transparency. Instead, this would need to be calibrated in the process of drafting the proposed CBT Code.

21. ***On several criteria, the proportion of "non-transparent" central banks is quite high. Is non-transparency randomly distributed across the sample, or concentrated in specific groups of countries?***

- Non-transparency is broadly evenly distributed across central banks from a geographical perspective, though it seems to be more concentrated in functions relating to ELA, consumer protection, and financial integrity.

22. ***It would be useful if staff could assess transparency practices in the same sample but classifying the institutions according to some criteria such as country income groups or financial market development.***

- Transparency practices in the case studies seemed to have been less related to geographical region or income group, and more to allocated objectives and functions. (see question 21).

23. ***Could staff elaborate on how the CBT could contribute to improving transparency in newer areas? Would the forthcoming FSAP review be helpful in this regard in identifying transparency requirements in newer central bank mandates?***

- The breakdown in different pillars would allow for a granular approach to improving transparency, including in newer (policy) areas. Central banks that intend to improve their transparency could use the CBT to focus their efforts.

24. ***We are surprised that central banks lack transparency on consumer protection provisions, given that consumer protection could only be effective if the corresponding regulations are well understood by all parties. Could staff elaborate on this finding?***

- The lack of transparency on consumer protection s noticeable, and would likely not have been as noticeable without the granularity of the CBT's 5-pillar framework. This highlights that consumer protection, in the case studies, may sometimes have been included in the legal framework of a central bank (and the central bank is transparent about this), but it may face difficulties in (or even lack of internal awareness of) transparency on the actual policies, operations, and outcomes. The modular approach of the CBT could therefore assist in creating this awareness for central banks.

Coverage

25. ***Considering the marked disparity in transparency practices between lower- and middle-income countries with emerging markets and advanced economies, the criteria should be set in a way that remains relevant for the heterogenous circumstances of the membership. We wonder how will these differences affect the design and the use of the new CBT code?***

- The modular and risk-based approach of the CBT framework will allow authorities and staff to focus on those elements of central bank transparency that are relevant in the given context, including country specific circumstances such as the level of development. This will be an important consideration for the future drafting of the CBT Code.

26. ***The report shows that LICs and some middle-income countries show lower transparency than more advanced economies, which in fact could reflect, to some extent, idiosyncratic issues rather than a bias toward less transparency. Staff's comments are welcome.***

- Please see the answers to questions 21 and 25.

27. ***Could staff comment on whether consideration was given to the inclusion of currency union central banks such as BCEAO, BEAC or ECCB?***

- Staff selected the central banks for the case studies to ensure a representative sample of central banks across geographical regions, income levels, legal frameworks, language zones, and institutional set-ups – including the existence of a currency union. For the latter in specific, the European Central Bank was included.

28. ***The CBT and related assessment methodology should therefore be flexible enough to cater for differing circumstances and environments, while balancing the need for broad applicability. How do staff plan on addressing this challenge?***

- Please see the answer to question 25.

29. ***While this qualification is welcome, once an aggregate judgement or score is published, comparisons, which may have an impact on capital allocations, will inevitably be made. Avoiding this consequence will require a sophisticated communications strategy. Could staff comment?***

- Comments on central bank transparency have been published by/on numerous central banks under the MFPT. The process of selecting what to publish, when, and how, would remain unchanged, and would often be part of the discussions between the authorities and the Fund. The proposed CBT, however, offers the added advantage that pillar I also examines central bank communication strategies and/or policies, and as such any findings could be used by the central bank to further enhance its communication approach, including in relation to other CBT findings

Resources, synergies, and use of the Code

30. ***Could staff elaborate on the synergies with other workstreams?***

- The proposed CBT would provide guidance to the Fund's good governance work, as well as Fund Safeguards Assessments in the context of program countries. In particular, the CBT would allow the examination of central bank transparency in a consistent manner throughout the variety of Fund workstreams.

31. ***Could staff also comment on the potential resource implications?***

- Drafting of the CBT would be done with existing resources of MCM and other relevant departments (e.g., LEG), as well as review input from all departments. Given that the CBT aims to only fill the gaps left by the existing financial policy standards, the resource implications for future application of the CBT would be covered by MCM and the relevant area teams, if identified as a priority issue.

32. ***Could staff share their preliminary views on the potential resource implications of the new CBT?***

- Please see answer to question 31.

33. ***Do staff anticipate that ongoing assessments of the CBT will require additional resources and/or crowd out other financial sector surveillance work?***

- Please see answer to question 31.

34. ***Does staff envisage resorting to the CB transparency code to establish program conditionality? How does staff see the prospective relation of the CBT and the safeguards assessment?***

- If the country team deems central bank transparency issues in the context of program discussions as macro-critical, the proposed CBT – or specific modules of the CBT – could be part of program conditionality. Similarly, the existing transparency elements of the IMF Safeguards Assessment could benefit from the more granular and modular approach to central bank transparency, as proposed in the CBT framework.

35. ***Can staff indicate the current thinking on how the CBT code is to be applied when "plugged" in the Fund's capacity development, surveillance, UFR and governance framework, in terms of the obligations on members and consequences for non-compliance? How would this compare to the application of the MFPT?***

- The approach for the application of the CBT would be fully similar to that of the MFPT. In the case of an Article IV, staff would need to make a case for macro-criticality of central bank transparency to use (parts of) the CBT; in the case of an FSAP, use of (parts of) the CBT would be normally discussed between the Fund and the authorities; in the case of UFR, the country team would need to see central bank transparency as a priority to have it included in program conditionality; and finally, in the case of capacity development, use of (parts of) the CBT would depend predominantly on demand from the authorities themselves.

36. ***A priori we share the principles laid out in pillar IV, which call for transparency in the engagement with central bank's stakeholders. However, there are some areas of ambiguity that would require clarification, e.g. those regarding implications of not reaching desired targets or other areas of monetary policy. Staff's comments are welcome.***

- The level of desired transparency on central bank outcome (pillar IV) and official relations (pillar V) would need to be developed during the drafting of the CBT code, taking into consideration the necessary balance between transparency and confidentiality as discussed above.

37. ***Given the overarching coverage of the pillars of the CBT, we would like to hear staff's view on how the interaction of the new transparency framework with IMF surveillance and UFR would take place in practice. Particularly, we would like to know how the CBT would interact with the Safeguards Assessment Policy.***

- See questions 34 and 35.

38. ***Overall, the proposed five-pillar framework seems quite ambitious, in particular with regards to its application as a diagnostic tool in capacity development. Further staff comments would be appreciated.***

- It is likely that in the context of capacity development, authorities would focus on specific modules. This would depend, for instance, on the central bank's strategy plan, key issues in the financial sector, risks identified by the central bank, and so on. As such, depending on the specific needs, the specific modules of the CBT could be examined further.

39. ***We would welcome staff comments on the applicability of the current transparency standards related to the financial policies to central banks. Who will be responsible for the assessment of transparency in central banks in such areas – the IMF or other ISSBs?***

- The transparency elements of existing financial policy standards developed by international standards setting bodies will remain applicable for those specific functions (e.g., banking supervision) if these are also conducted by the central bank.

Advisory group and Board engagement

40. ***Could staff provide more information on the composition of the envisaged international advisory group?***

- The proposed international advisory group would likely consist of reputable former central bankers and/or academics, representing the diversity among Members.

41. ***Could staff share criteria and procedures for selection of advisory group members?***

- Please see answer to question 40.

42. ***Could staff provide further comments on the envisaged composition, size and concrete tasks of the advisory group, also given that staff's proposed five-pillar central bank transparency framework appears to be already quite well-advanced.***

- Please see question 39. The size of the group has not been determined yet and will depend on an assessment of the type of expertise needed to advise on the future drafting of the CBT Code.

43. ***We note that the MFPT was elaborated in cooperation with the Bank for International Settlements, and in consultation with relevant international and***

regional organizations. Will this also be the scope of the international advisory group of the CBT?

- Yes, input will also be sought from the BIS and other involved international organizations, likely separately from the international advisory group.

44. ***We would appreciate staff elaborating on the timeline for the proposed steps.***

- Staff expects the drafting of the CBT, including internal review, and outreach to external stakeholders as mentioned above, to continue throughout FY2020.

45. ***We would appreciate more information on the proposed timetable and the foreseen format of discussions at the Board.***

- Please see the answer to question 44. Discussions with the Board could take place in different forms, varying from more informal iLab sessions (as conducted prior to the current Board meeting), to informal Board meeting.