

Financial Independence and Accountability for Central Banks

4-day intensive residential programme
18 – 21 September 2012

Christ's College, Cambridge

Course adviser:

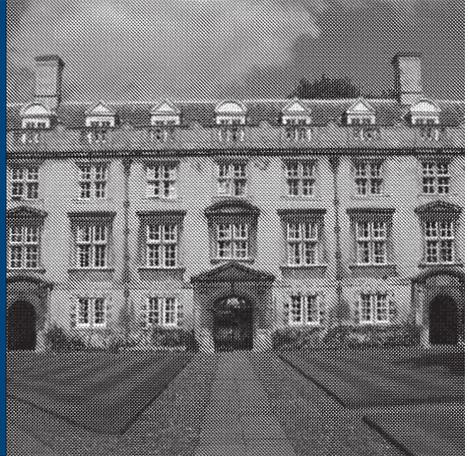
Kenneth Sullivan

Senior Financial Sector Expert
International Monetary Fund

Series adviser:

Charles Goodhart, CBE

Professor Emeritus
London School of Economics
Financial Markets Group



Dear Delegate,

"One of the determinants of rendering accountability is the quality of accounting standards and of financial reporting and disclosure."

Duvvuri Subbarao, Governor, Reserve Bank of India,
May 2011

In 2012 central banks continue to feel the income and balance sheet impacts of the policies put in place to deal with the financial crisis. Policies implemented by the central banks themselves or from other jurisdictions.

The headwinds are strengthening.

Gains and losses on emergency operations, both realised and unrealised, coupled with volatility in foreign exchange and gold holdings, are causing swings in income and shifts in the asset-liability make-up. Negative spreads in balance sheets, initially seen as temporary, are looking to have a longer medium term duration, raising questions about appropriate balance sheet structures and capital adequacy.

As central bankers prepare for this turbulence, they need to ensure they have a solid framework for accountability and transparency in place. Increasingly they recognise the need to revisit arrangements for profit-and-loss sharing and capitalisation with government to achieve and maintain financial independence.

They acknowledge, too, that at a time of pressure on public finances they must not only ensure they are using public funds wisely, but demonstrate this.

Here, the financial reporting standard is the key.

Yet, the debate has only intensified as to whether standards for financial reporting, governance and internal controls developed for commercial entities are applicable in central banks. While policymakers would like central banks to comply with these standards, can they be applied to reflect the unique

risks and responsibilities associated with their role as national monetary and supervisory authorities? How should profit be recognised and how can distribution arrangements be strengthened? How can central bank financial statements address issues of transparency, accountability and help explain a bank's functional performance?

This course is designed to equip delegates in charge of the financial reporting function to tackle these challenges.

Key highlights include:

- The effect of the crisis on central bank financial strength and independence
- Defining central bank capital needs
- Central bank reporting frameworks: ESCB vs. IFRS
- New developments in IFRS and what these mean for central banks
- Managing and reporting financial and operational risk

We are delighted to once again welcome Kenneth Sullivan, a former CFO of the Reserve Bank of New Zealand and a leading authority on financial reporting for central banks, as chairman.

This format, as more than 3,500 central bankers and regulators can attest, encourages delegates to quiz panellists, raise issues and discuss solutions to the specific challenges they face.

We look forward to welcoming you to Cambridge in September.

Yours sincerely,



Robert Pringle
Chairman
Central Banking Publications



“ Good, professional training programme ”

Simona Lambrinoc, Legal Counsel, ECB

Tuesday 18 September

Post-crisis financial strength and independence

Introduction

Led by the chairman **Kenneth Sullivan**, Senior Financial Sector Expert, International Monetary Fund

In this introductory session the chairman will outline the main themes of the seminar and encourage participants to talk about the steps they have taken to improve financial accountability of their central bank, the obstacles they have encountered and the key objectives that they wish to achieve in the future. This discussion will enable later sessions to target the specific concerns of participants.

Lessons from the crisis

Grace Koshie, Secretary to the Board, Reserve Bank of India (invited)

In their operations, central banks traditionally favoured an uncomplicated approach. Operations conducted in a limited range of high-quality securities, with a select group of counterparties, were the order of the day. No longer. The financial crisis has forced central banks to broaden the range of assets and counterparties they deal with, exposing their balance sheets to new risks and contingent liabilities. The speaker will draw on the Reserve Bank of India's experience in dealing with the crisis to identify lessons for the sector broadly and look at how the policies and practices of central banking have changed in the past 2-3 years and how, crucially, these changes have impacted balance sheets and independence.

How has the crisis impacted central bank financial strength and independence?

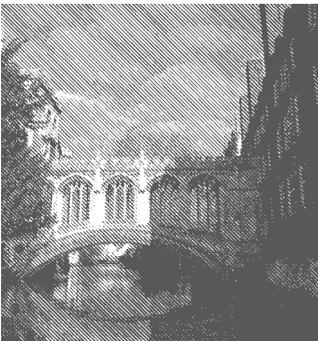
Kenneth Sullivan

While the media has focused on the massive liquidity injections resulting from the government bond purchases in quantitative easing, central banks have seen the crisis affect their financial performance in different ways. Exchange-rate appreciation, material declines in earnings, rises in policy costs and the need to provide liquidity support to the banking system, have led to significant changes in balance sheets and income statements. This session will draw on participants' experience with how the crisis impacted their banks' financial strength, independence and discuss how central banks are responding.



“ The best course I have ever attended! ”

Domenico Urso, Bank of Italy



About the course chairman

Kenneth Sullivan has been a senior financial sector expert with the International Monetary Fund since 1999. Previously, he spent seven years at the Reserve Bank of New Zealand as chief manager of both accounting and corporate services where the bank won accounting prizes for the transparency of its published financial statements. Starting in 1993 he served as accounting expert on Fund missions, providing accounting technical assistance to central banks in Europe, Asia and South America and participated in Financial Sector Assessment Program and Safeguard Assessment missions.

Wednesday 19 September

Building the reporting framework

IFRS adoption – pros and cons/the impact on the financial position

Marisa Minzoni, Deputy Head, Accounting and Finance Department, Central Bank of Brazil

The number of central banks adopting International Financial Reporting Standards (IFRS) or modelling their financial statements on its basis is rising. The benefits of this are clear: IFRS provides the assurance and comparability of a well-understood reporting framework. In this session, the speaker will share with the group the reasons for adopting IFRS and the issue faced in implementation. She will then reflect on how well IFRS meets the central bank's reporting obligations and its impact on the financial position.

Central bank reporting frameworks: ESCB case study

Ian Ingram, Former Director Internal Finance, European Central Bank

Currently, the only international accounting standard specifically designed for central banks is the Eurosystem's accounting rules. These allow central banks who join the euro to report according to a common framework, but they hold lessons that can be applied beyond the single currency area. In this session, the speaker will discuss where the European System of Central Banks framework can add value for central bank reporting, including, notably, the treatment of realised profit and unrealised losses on the profit and loss statement.

Central bank accountability and transparency: the state of the art

David Schickner, Senior Manager, KPMG

There is no binding set of global standards for central bank financial reporting, indeed many central banks are empowered to define for themselves a set of accounting rules. The speaker will present themes identified in a recent study of accountability and transparency in central banks. Group discussion will look to identify good practices in key areas drawing on the material in the report and experiences of participants.

Reporting performance: alignment with functions and policy

Henrik Gardholm, Head of Accounting Division, Sveriges Riksbank

Financial statements prepared from a profit-maximiser's perspective are a poor fit for reporting central bank performance. A decline in profits, for example, may be due to foreign exchange reserves "falling" in value due to domestic currency appreciation. Increasingly, policymakers acknowledge that central banks need to develop reports that explain their financial results with reference to their mandate and policies, and which attribute costs to functions. With a lack of transparency may have been acceptable in the past, today, ongoing analysis and transparency about sources of expenditure as well as income – are demanded by external stakeholders. In this session, the speakers will discuss the reasons for our functional reporting and what should central banks report about performance and how to do it.

How much capital does a central bank need? (And how can this be ensured?)

Friedrich Karrer, Director of Accounting, National Bank of Austria

At times of heightened uncertainty in financial markets, the central bank's balance sheet becomes the chief weapon in a policymaker's armoury. Yet if financial buffers are used to cover losses and interest income is low, central banks may find they have limited ability to create provisions. Moreover, finance ministers still expect dividends. Central banks can and do function with negative net worth, but this can undermine financial independence and threaten policy effectiveness. The IMF supports the concept of positive capital but has no specific formula for it on a risk-adjusted basis. Rather, it has a dynamic capital-adequacy framework that links concepts of statutory capital, revaluation reserves, accounting, distributions and recapitalisation to provide a framework that maintains capital buffers while ensuring an agreed distribution of realised earnings to government. This session explores how to determine a sufficient level of capital for central banks and what arrangements can be put in place with government to protect this.

Thursday 20 September

Fundamentals of financial independence

A central bank perspective on new IFRS amendments

Andrew Hawkins, Partner, PricewaterhouseCoopers

IFRS is designed with profit-maximising institutions in mind, which central banks are not. Furthermore, evolution of IFRS and its convergence with US GAAP has produced material changes to the standards that impact on central bank financial statements. This session will review those recent or pending IFRS amendments and analyse them from a central bank perspective. This session will focus in particular on IFRS 9, including impairment, the changes to “other comprehensive income”, and issues of consolidation.

Reporting the Fund’s position on a central bank balance sheet

Robin Darbyshire, Former Financial Accountant, Bank of England

The balance sheets of central banks across the world are changing as institutions grapple with ongoing market difficulties. A particular issue is how to report the IMF position and, in this session, the chairman, an experienced IMF official, will facilitate a discussion about how central banks can go about responding to the challenge.

Financial risk management and reporting

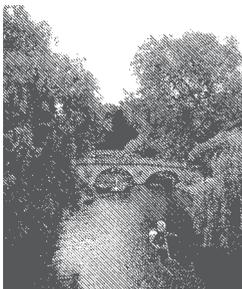
Andrew Hawkins

The crisis has reinforced the importance of appropriate risk disclosures in central bank financial statements. Here central banks face a delicate balancing act. While the standards define the framework, central banks need to adapt them to meet their own particular needs. Inappropriate disclosures may pose risks to policy outcomes while the unique nature of central bank balance sheets presents particular risks. This session will explore some of the important fault lines, drawing on the speaker’s work with central banks around the world.

Central bank financial independence

Robin Darbyshire

Central banks need financial resources to be able to perform their functions. To support their operational independence a central bank needs free access to these resources. Yet central banks are public bodies and, typically a source of revenue for the state. This discussion will cover both balance sheet and income elements of financial independence, including functional balance sheets and budgeting.



“ Well planned, co-ordinated and greatly resourceful workshop with neatly selected and balanced world class professionals on subject matter ”

Lerato Khaka, Central Bank of Lesotho

Friday 21 September

Reporting operational costs and risks

Managing and reporting operational risk

Rudy Wytenburg, Deputy Chief Financial Services, Bank of Canada

Central banks' operational risk exposure is highly complex given their diverse roles and functions. Moreover, while the chances of a high-impact event may be small, the potentially devastating effects it could have on the central bank and the financial system more broadly means it must be reported. This session examines how a leading central bank reports operational risks and their management to senior management and the board.

IT – Alignment with financial and operating reporting

Tony Obisesan, Senior Accounting Expert, Financial Reporting and Policy, European Central Bank (invited)

Central bank's policy focus produces their own versions of IT challenges. While generally processing small volumes of transactions (except in banking and payments systems) the bank often undertakes large value transaction that requires complex and specialist software. This is particularly so in the reserve management and market operations areas. The IT systems further need to meet information requirements for policy decisions, statistics and financial reporting, which creates a special set of demands that financial management information systems must meet. In this session, the speaker will discuss how central banks can tackle these challenges.

Lessons and action points

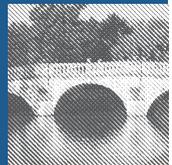
Led by the chairman

In this session, the chairman will review the key lessons from the presentations and discussions throughout the course. Delegates will be asked to reflect on how the lessons learnt over the four days can be applied at their home institutions and how emerging risks can best be managed.

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- How to Regulate Islamic Financial Markets and Products
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- Human Resources: Engaging People and Facilitating Performance
- Government Debt Management: New Trends and Challenges
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- Risk Management for Central Banks
- New Challenges in Financial Market Supervision and Regulation
- The Changing Framework of Monetary Policy Operations
- Maximising the Value of Economic Analysis and Forecasting for Central Banks
- IT Governance for Central Banks

For detailed programmes and a fax-back registration form for each of these key courses, please visit: www.centralbanking.com/events



Booking details

Course fee: £3,000

(VAT at 0% for delegates employed by government in furtherance of its sovereign activities)

4-day (3 nights) residential course

Course fee includes: en-suite accommodation, meals, refreshments, course documentation and a complimentary copy of the most recent issue of the Central Banking journal. Substitute delegates can be accepted should the registered delegate be unable to attend; please let us know prior to the event.

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website: www.centralbanking.com/events



The venue

Christ's College is one of England's oldest university colleges and traces its origins back to 1439 when it was founded by William Byngam as "God's house" and adopted by King Henry VI.

The college is conveniently situated in the heart of Cambridge surrounded by all the historical sites, and is one hour by train from London.

About Central Banking Publications

Central Banking Publications' events division is the leading independent organiser of public policy seminars/training courses for the official sector. Since 1997, CBP has hosted roundtable seminars and training courses for over 3,500 senior policymakers from central banks, ministries of finance and financial regulatory agencies around the world. Senior officials from more than 120 countries have attended these meetings over the past ten years.

Financial Independence and Accountability for Central Banks

**CENTRAL
BANKING**
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