Transparency and the Bank of England's Monetary Policy Committee

Review by Kevin Warsh

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Foreword

Transparency is the watchword for monetary policy, and greater openness the hallmark of the modern central bank.

Before it was fashionable, the Bank of England (Bank) was an early pioneer in the pursuit of transparency. In 1993, the institution became the first among its peers to publish an inflation report.

The Bank renewed its transparency efforts after it was granted operational independence from Her Majesty's Government in 1997. The newly created Monetary Policy Committee (MPC) was determined to build a strong public constituency in support of its price stability mandate.

In the aftermath of the global financial crisis, the Bank's policies and practices were subjected to even greater scrutiny, not least in the realm of transparency.

In its 2014 Strategic Plan, the Bank reaffirmed its commitment to openness and accountability, and expressed its aspiration to enhance its transparency further.

And other stakeholders, including the House of Commons Treasury Committee, financial market participants and the public at large, continued to seek more information about the Bank's affairs.

It is in this context that Governor Mark Carney, on behalf of the Bank of England, asked me to undertake a Review of the Bank's transparency practices.[1]

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At a hearing before the Treasury Committee in March 2014, the Bank confirmed its long-standing practice of recording live discussions of its monthly MPC meetings. These recordings were created to help ensure the accuracy of the published minutes, and were deleted following the minutes' release.

There is a striking resemblance between the events in Parliament and those that unfolded in the United States Congress more than 20 years ago. In 1993, upon probing from Henry B. Gonzalez (Chairman of the House Banking Committee), Alan Greenspan (Federal Reserve Chairman) acknowledged that a form of transcripts of the Federal Open Market Committee's (FOMC) discussions existed.

Amid substantial pressure, the Fed agreed to publish transcripts of its monetary policy meetings with a five-year delay. That policy prevailed during my tenure as a member of the Fed's Board of Governors and FOMC from 2006 to 2011. And it continues to this day.

The publication of transcripts, however, is not the *sine qua non* of transparency.

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[1] The official commissioning of the Review and the assigned remit is reproduced in Annex 1.

Fortunately, the Review's remit requires not only consideration of the advisability of creating and disseminating MPC transcripts, but also a more comprehensive evaluation of the MPC's transparency practices. Are other reforms advisable? If so, should any proposed MPC reforms be applicable to the other policy committees of the Bank?

In conducting the Review, I listened to recordings of MPC meetings. I interviewed all current members of the MPC and those who served on the Committee since 2007. I also heard the views of senior members of Bank Staff, members of the Bank's Court of Directors, and officials, past and present, of Her Majesty's Treasury (HM Treasury). In addition, I consulted with many current and former central bankers from around the world.

Outside of the official sector, I conferred with leading members of the academic community and participants in the financial sector. I also reviewed the practices of central bank peers, and assessed academic research on organisational decision-making.

Information was principally gathered during several visits to the Bank beginning in the late spring of 2014. I received full cooperation from Bank leadership and Staff. I benefitted tremendously from their candour, diligence, and varied perspectives.[2] Likewise, I learned much from the analysis, judgment, and perspective from individuals unaffiliated with the Bank, who were no less generous with their time.

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The Bank, while operationally independent of HM Treasury and Parliament, is a creature of government remit. The Bank's institutional authority, including that of the MPC, is a function of its hard-earned credibility – credibility to make the best decisions possible, to explain the prevailing and dissenting views in a manner that affirms its legitimacy, to be accountable for its judgments, and to convey economic lessons learned to future generations of policymakers.

I hope that the Review proves a worthy input to the ultimate judgments that must be made by the Bank and its stakeholders.

Kevin M. Warsh[3]

[2] I was provided with exceptional counsel and support from three staff members of the Bank: Lea Paterson (the Bank's Independent Evaluation Director), Amar Radia (Economist, Monetary Analysis), and Pat Morgan (Executive Assistant, Secretary's Department). I thank each of them for their extraordinary professionalism, diligence, and insight. The observations and errors contained herein, however, are my own.

[3] Distinguished Visiting Fellow, Stanford University (Hoover Institution), Lecturer (Graduate School of Business). Previously, Governor, Board of Governors, Federal Reserve System, 2006-2011.

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Executive summary

The United Kingdom is generally well-served by the independent conduct of monetary policy by the Bank of England (Bank). The primary objective of the Monetary Policy Committee (MPC) is to maintain price stability – low inflation – and, subject to that, to support the Government's economic objectives, including those for growth and employment. With the broad grant of authority possessed by the Bank's MPC, however, come important obligations owed to the Court of Directors of the Bank (Court), members of the House of Commons Treasury Committee (Treasury Committee), and, not least, the citizens of the United Kingdom (UK).

Transparency and the objectives of monetary policy

The existence of MPC transcripts should not be the sole, or even the predominant, measure of the Bank's transparency. A broader assessment of the MPC's transparency practices is required. Indeed, the remit of the Review requires "consider[ation of] the relative merits of alternative ways of improving the transparency of monetary policy discussions and decisions."

Transparency is an essential best practice for central banks the world over. But more transparency is not always and everywhere a good thing. If it were, the Review – and the publication of MPC transcripts – would be a simple and straightforward endeavour.

If designed effectively and implemented successfully, transparency is a powerful tool to help the MPC achieve its objectives. But a transparency regime, if ill-considered or ineffectively pursued, could prove detrimental to the conduct of monetary policy and the interests of the UK economy.

Take, for example, an extreme case of broadcasting the monthly meetings of the MPC live on television. Such a real-time feed of MPC proceedings may, in some sense, constitute maximum transparency. But, in practice, it runs the risk of quashing the genuine deliberation that is an essential feature of sound policymaking.

Transparency is not necessarily a virtue unto itself. But it is virtuous if used in pursuit of important policy objectives. The Review identifies four such strategic transparency objectives, which it terms the 'Big 4'.

- **Objective 1: sound policy decisions.** Chief among the Bank's responsibilities is to make the best possible decisions in conducting policy. The MPC is tasked with a constant 'search for truth' in gauging the proper monetary medicine, amid myriad uncertainties and imperfect gauges of real economic variables and financial market developments. The MPC's deliberative process is an essential asset to the Bank's charge. Ensuring high-quality deliberations does not guarantee optimal decisions. But the conduct of monetary policy is a repeatable series of choices; over the long run, therefore, there is no viable substitute to a high-quality deliberative process.

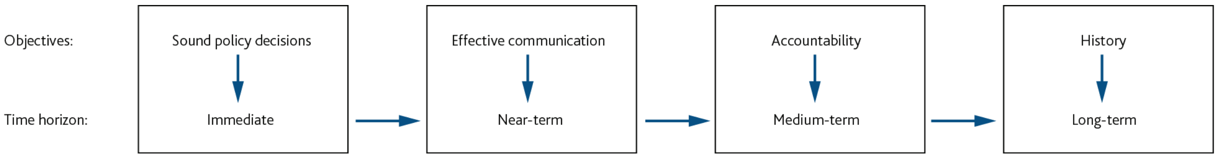
- **Objective 2: effective communication.** Effective communication is essential to the successful implementation of monetary policy. Note the emphasis is on 'effective' communication. All communication – queries, utterances, interruptions, and devil's advocacy – is not created equal, nor should it be understood that way. The goal is to transmit effectively so that the signal from communications takes precedence over the noise.

- **Objective 3: accountability.** The Bank must be accountable for its decisions. If the Bank systematically errs in its assessment of inflation risks, for example, the public has a right to know. This accountability brings added rigour and discipline to the Bank's deliberations. A central bank's power comes not simply because of access to the proverbial printing press. Its power emanates from its credibility to marshal its tools to achieve defined economic objectives. And this credibility can only be earned (or foregone) if its stakeholders can hold it to account.

- **Objective 4: history.** The Bank has a responsibility to economic history. As a 320-year old institution at the centre of the UK economy, the cause of history is well-served by ensuring that a fair and accurate depiction of events today can be understood over the horizon. Economic history may teach more than economic theory about the practice of policy and the consequences of decisions.

These Big 4 objectives may – at first blush – seem in conflict, but only if they must be achieved simultaneously. They can each be achieved if due regard is given to the time period for their attainment. **Figure 1** provides a simple schematic to convey the relevant time period for attainment of each of the Big 4 objectives.

Figure 1: Time horizon to achieve Big 4 objectives

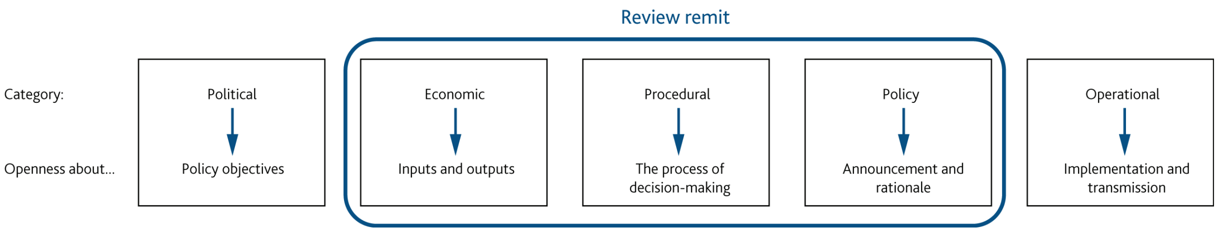


The objective of effective communication, for example, is relevant and achievable shortly upon a policy decision being made. By contrast, the objective of accountability is more of a medium-term issue, not least because it takes time to assess whether policymakers' decisions were sound. And the history objective is, by construction, a long-term goal.

Transparency, defined

To conduct that assessment, the Review employs a framework developed by Sylvester Eijffinger and Petra Geraats (Eijffinger and Geraats, 2006), and subsequently updated and expanded by Dincer and Eichengreen (2014). Eijffinger and Geraats consider five categories of monetary policy transparency, as shown in **Figure 2** below.

Figure 2: What is monetary policy transparency?



Source: based on Geraats (2002).

The Review is primarily concerned with three of these five categories: economic, procedural and policy transparency (Section 4).[4]

As set out in Section 4, the Bank compares well to its international peers by most measures of transparency. The peer comparison helps to inform the Review's consideration of proposed reforms, but is not dictated by the practices of other central banks. The most transparent central bank is not necessarily owed a gold star. That distinction is owed to the central bank which makes the best

[4] The remaining two categories – political and operational transparency – are largely outside the scope of the Review. Political transparency is about objectives, such as the inflation target, assigned to the Bank by Government. Operational transparency, which includes the issue of forecast evaluation, was addressed by Stockton (2012) and Winters (2012).

decisions, effectively communicates those decisions, is held to account for its actions, and provides the fairest and most accurate historical record.

Proposed reform package

After due consideration, the Review recommends that the Bank adopt reforms in five broad areas in service to the Big 4 objectives. The Bank's traditions and modes of communication are worthy of considerable deference. Substantive reforms, however, can potentially better equip the Bank to achieve its mission while enhancing the deliberative process at the core of its decision-making. These reforms are proffered in the sequence in which they would take effect following meetings of the MPC.

1. Recommendation: publish policy decision and rationale as soon as is practicable; reduce number of policy meetings from twelve to eight

Among its peers, the Bank stands alone in not routinely offering a contemporaneous explanation of its policy decision. Typically, the Bank issues only an abbreviated press release stating the outcome of the MPC policy meeting upon its completion. A somewhat more detailed post-meeting assessment is issued only when there has been a 'change in policy', or, very occasionally, otherwise. But the decision not to change policy is itself a policy choice, and herein exists a significant opportunity for enhanced transparency to serve the Bank's objectives.

The Bank should make public a concise summary of its policy decision and rationale as soon as is practicable upon the meeting's conclusion. This summary should encapsulate the MPC consensus. And the votes of individual Committee members should be stated in the policy summary.

This reform would further the Bank's objective of communicating its policy judgments effectively. It would provide a fair representation of the true balance of the policy debate. It would also liberate individual members to communicate their own policy judgments in a timely manner in subsequent speeches and interviews. Under current arrangements, members often find themselves in the uncomfortable position of necessarily obfuscating their views in public until the minutes are released two weeks hence.

As Section 3 sets out, favourable Committee dynamics – along with high-quality inputs and an unconstrained space for deliberation – are crucial pre-requisites for an effective decision-making process. Much of the current MPC framework is highly conducive to sound decision-making. The size of the MPC approximates the 'optimal' range as validated by leading organisational decision-making literature and my own analysis. And the MPC's composition, including both internal and external members, helps ensure a broad range of experiences and perspectives. Moreover, the Bank's culture and institutional design reinforce the best antidote to group-think: the one-member, one-vote principle.

The Committee's effectiveness could be still further improved, however, by revisiting the frequency with which the Committee formally meets to consider policy action. The MPC currently meets about every four weeks, a frequency which the Review judges to be sub-optimal. Under the current monthly cycle, Staff time is consumed with the processes surrounding the MPC meeting. This gives less opportunity for reflection by Bank Staff and MPC members alike.[5]

Monetary policy works with considerable lags, and policymakers face great uncertainty. Changes in the outlook for policy typically require persistent changes in tracking data. Rarely would a single four-week period be sufficient to change economic assessments. The current monthly schedule unnecessarily heightens market expectations, and prods the MPC to refine judgments and policies more frequently than economic analyses often make prudent.

[5] Stockton (2012) also observes that the monthly cycle could potentially be consuming time that could be better spent on more substantive, longer-term issues.

The MPC would be well-advised to meet eight times per year, rather than the twelve meetings as currently scheduled. An extra two-week interval between MPC meetings better strikes the balance between timeliness and probity. It could well improve the ability of the MPC to make sound decisions, and to communicate its judgments more effectively to the public. This reform would also make the Bank's practice more consistent with peer central banks, including the US Federal Reserve, and, beginning in the coming year, the European Central Bank.

Of course, in certain circumstances, economic and financial developments will demand that a MPC meeting be called. The Governor should therefore maintain the right to call supplemental meetings at his discretion.

2. Recommendation: enhance MPC minutes to better capture Day 1 deliberation

The MPC releases detailed minutes of its policy discussions about a fortnight after each meeting. These minutes compare favourably with those of the MPC's international peers, both in terms of timeliness and clarity. The minutes are also subject to a robust quality assurance process prior to publication: MPC members agree on the text, line-by-line. Nevertheless, there is scope to enhance the minutes in service to the Big 4 objectives.

The MPC meets over a two-day period, typically the Wednesday afternoon (Day 1) and Thursday morning (Day 2) on the first full week of each month. Day 1 is primarily deliberative in nature. Day 2, by contrast, is the decision-making day, with each MPC member explaining his or her policy view. Currently, the first part of the minutes largely provides a factual description of economic and financial developments, while the second part primarily summarises the Day 2 policy views advocated by MPC members.

The Review recommends that the first part of the minutes could be usefully enhanced to capture more of the crux of the Day 1 deliberation. For example, if the Day 1 deliberation focused on the signal to draw from a series of recent surprises in inflation, the minutes should encapsulate the essence of the debate. It could set out alternative hypotheses under consideration, and provide a sense of the weight attached by Committee members to competing narratives. If, to cite another example, the Committee were debating the appropriate monetary policy strategy given the current economic circumstances, then the minutes should capture the trade-offs considered between an 'an early but gradual' tightening cycle and one in which policy tightening could be 'later, and potentially quicker'.

Enhancing MPC minutes along these lines should aid effective communication of the Bank's evolving views on the appropriate monetary policy stance. It would also bolster accountability and benefit the historical record.

3. Recommendation: make Day 2 transcripts public with deferral period of five to ten years

The first day of the MPC's discussions and the second day differ markedly, both in form and substance.[6] The differences between these two 'go-arounds' are as striking as they are informative. Day 1 is *deliberative*, and is focused firmly on inquiry, testing and evaluation. The discussion is free-flowing and open, with alternative hypotheses readily discussed, amended, advanced or dismissed.

Day 2, by contrast, is largely *decisional*, and is focused on members' explanation and advocacy of their recommended stance of policy. Committee members are individually called upon to make their

[6] Annex 2 describes the MPC process in more detail.

decisions, and detail the rationale for their individual policy choices. When compared with the ad-hoc informality and cross-talk of Day 1, the Day 2 meeting is orderly, almost formal in comparison.[7]

A sound basis exists for publishing the transcripts of the Day 2 policy discussions with a reasonable delay.[8] With few exceptions, the deliberations are nearly complete, policymakers are heard, and their judgments tallied. There is a manageable risk that ultimate publication of Day 2 transcripts would materially impair the deliberative process that is essential to sound policy decisions, as long as an appropriate deferral period is established.

Publication of the Day 2 transcripts would also buttress the individual member accountability that forms the bedrock of UK monetary policy. The ultimate release of these transcripts – together with individual speeches, interviews, and testimony before the Treasury Committee – would ensure that MPC members were held to account for their views.

The academic literature also suggests a possible 'discipline effect' from transcript publication that would ensure rigorous preparation for the meeting itself. While the Review found no lack of careful preparation or seriousness of purpose by incumbent MPC members, this reform could ensure that prospectively – even in more benign periods of the policy conjuncture – the level of engagement does not dissipate.

There is no precise means of identifying the optimal delay period for Day 2 transcript publication. The Review favours a deferral period of sufficient length to avoid MPC members (and Bank Staff) feeling unduly constrained in modifying their views, as needed, based on incoming information. As Section 5 sets out, there are a range of methods for establishing what a reasonable delay might be – including looking at lengths of business and financial cycles, as well as MPC tenure. While the Bank will ultimately choose the deferral period, the Review would judge a reasonable passage of time to be between five and ten years.[9]

The marked difference between the Day 1 and Day 2 MPC discussions calls for a different judgment with respect to transcript creation, retention and release. The first day of discussion by the MPC is marked by critical thinking, deep exploration of alternatives, a conflict in perspectives, and a genuine search for truth, all amid significant professional respect among discussants. Creating a safe space for true deliberations is among the most critical indicia of organisations that make good decisions, according to the leading academic and empirical literature and my own observation.[10] Should the transcripts of these Day 1 deliberations be made public, the Bank would risk a 'chilling effect' on the quality of deliberations, and hence risk material damage to its ability to make sound policy decisions. The Review therefore recommends that Day 1 policy discussions should neither be recorded nor transcribed.

4. Recommendation: publish key inputs to the MPC policy meeting alongside Day 2 transcripts with identical deferral period

Members of the MPC benefit immeasurably from extensive, high-quality Staff briefings on economic and financial market developments in advance of each formal policy meeting. A high standard of inputs – in this case, policy briefings – is a pre-requisite for a robust and effective decision-making process across complex organisations, including central banks.

[7] If the Bank were to restructure its discussions, the notion of treating deliberations and decisions differently with respect to transcripts should remain in force.
[8] As described more fully in Section 5, the MPC should formalise parameters that would allow for some limited redactions of the actual transcript consistent with the public interest.
[9] As described more fully in Section 5, the Bank may also wish to consider whether the original audio recordings of the Day 2 policy discussion be preserved, and released after 20 years.
[10] The importance of deliberation to the decision-making process is discussed in more detail in Section 3.

Greater transparency of the inputs into the deliberation and decision process would improve MPC accountability. A discipline effect might even enhance the quality of the briefing material. The Review recommends that the Bank publish important materials that are formally sent to the MPC by Bank Staff. These materials often establish the foundation for deliberations and policy decisions.

The deferral period for key official inputs is recommended to be five to ten years – the same as for Day 2 transcripts. By releasing the Day 2 transcripts and key official inputs to the policy meeting together as a package, the Bank should be able to provide its stakeholders with a fuller picture of the nature and context of the policy discussions.

5. Recommendation: strengthen authorities of Secretariat; enhance Archive policy and practices

The Bank bears a responsibility to ensure that the historical record captures the sentiments and judgments that once resided in the institution. At present, the Bank's Archive is a valuable repository of information. In relation to monetary policy, the Bank should be commended for agreeing voluntarily to subject itself to the '20-year rule', consistent with best practice of other public bodies, including all central government departments.[11] Consequently, the Bank obliges itself to publish all archived material after 20 years unless that material meets one or more of a set of well-defined redaction criteria (see Annex 2).

The Bank should establish a strengthened Secretariat of the MPC, comprising senior Bank Staff, whose responsibilities would be broadened beyond the preparation of MPC minutes. In particular, the Secretariat would oversee both the production and release of Day 2 transcripts, and the collection and release of the associated key briefing materials. In addition, this strengthened Secretariat would work with the Bank's Archive to ensure that it is, as far as practicable, at the forefront of best practice transparency for historical records.

Figure 3: Transparency scorecard: do particular transparency reforms serve the Big 4 objectives?

	Sound policy decisions	Effective communication	Accountability	History
Publish rationale with policy decision?	Yes	Yes	Yes	Yes
Reduce meeting frequency?	Yes	Yes	–	–
Enhance minutes?	Yes	Yes	Yes	Yes
Publish Day 2 transcripts with five to ten-year lag?	Maybe	–	Yes	Yes
Publish key inputs with five to ten-year lag?	Maybe	–	Yes	Yes
Strengthen archives policy?	–	–	Yes	Yes
Publish Day 1 transcripts with appropriate lag?	No	–	Maybe	Yes

In sum, the Review judges that the adoption of this reform package would materially advance the Committee's attainment of its Big 4 strategic objectives (**Figure 3**).

[11] The Bank's Archive is currently in transition from the 30-year rule to the 20-year rule (Annex 2). Consistent with these recommendations, the key inputs and Day 2 would both be released after five to ten years, and the remainder of records of historical value would be released after 20 years.

Implications for Financial Policy Committee and Board of the Prudential Regulation Authority

The Big 4 objectives are common to all three policymaking committees of the Bank. The central question, however, is whether the proposed reforms to the MPC are appropriate and efficacious if applied to the Financial Policy Committee (FPC) and the Board of the Prudential Regulation Authority (PRA). The Review judges that grafting the MPC transparency reforms onto the PRA would be ill-advised. Moreover, there are good reasons to pause before imposing MPC transparency reforms onto the FPC, not least that the field of macroprudential policy is at an early stage of development.

PRA

The stark differences between the MPC and PRA are readily apparent. MPC policies are directed at the broad contours of the UK economy, and its deliberations generally involve analysis of aggregate data. The PRA's judgments, by contrast, are largely directed at particular financial institutions, and the data employed are proprietary and institution-specific. The MPC operates by the principle of one-member, one-vote; the PRA Board operates by consensus.

Would, for example, creating and publishing PRA transcripts, or releasing key internal briefing documents into the public domain, prove useful in service of the Big 4 objectives? Quite unlikely. The task of making sound decisions regarding the safety and soundness of a particular bank could be undermined if internal deliberations were made public. Moreover, effective communication in the PRA context generally involves the regulator's communications to the financial firm itself rather than to the public at large.

Of course, the PRA must ultimately be accountable for its decisions, and historians should be able to assess its role with the benefit of time and reflection. These objectives, however, are better served through other means. For example, public accountability appears reasonably well-served by the regular appearances by the chief executive of the PRA at the Treasury Committee, and by publication of the detailed PRA *Annual Report*.

FPC

The FPC and MPC, at least aspirationally, are more kindred policymaking committees. But the FPC's policy instruments, tools, and objectives are nascent in their development relative to our understanding of the conduct of monetary policy. The FPC is tasked with important new responsibilities, namely to promote financial stability by establishing macroprudential policies that mitigate tail-risks from harming the real economy. But, the FPC, like its counterpart in the United States, the Financial Stability Oversight Council, is necessarily learning about its toolkit and objectives during these early, formative years of macroprudential supervision.

Other differences are worthy of consideration. The MPC makes policy with a greater focus on the modal distribution of policy; that is, the most likely economic outcomes. The FPC is decidedly more focused on 'tail-risks' – those things that are unlikely to transpire; but if so, would have a materially negative effect on financial stability. So, if FPC members perform their jobs with aplomb, they would most likely have their greatest fears uncorroborated by events. Moreover, the concentrated nature of the UK banking sector means that the FPC policy discussions are replete with bank-specific, confidential supervisory information. In this regard, it is more comparable to the PRA.

So, would the application of MPC transparency reforms to the FPC advance the Big 4 objectives? It is premature to make any such conclusion. At present, making sound policy decisions could be impaired if FPC discussions were made public through transcript release. The FPC benefits from an unconstrained space for open discussion and deliberation as its members seek to advance the new discipline.

Moreover, effective communication appears reasonably well-served through the publication of statements, records of its meetings, speeches by FPC members and the semi-annual *Financial Stability Report*. And since the Committee is tasked with acting by consensus, there appears little near-term need to enhance individual accountability.

In the light of these considerations, the Review recommends that these threshold questions of transparency be reconsidered three to five years from now. As the FPC's understanding of its new discipline advances, there may be scope for adoption of greater transparency reforms.

In the interim, however, the Bank should ensure that archives policies and procedures are updated to ensure that historians are ultimately able to understand these important transition years of the PRA and FPC. Once the strengthened Secretariat of the MPC is established, the Bank should readily consider comparable structures for its other two major policymaking committees.

Conclusion

The cause of transparency is not an affront to the world's leading central banks. It is an opportunity. The opportunity can best be seized by reforming the Bank's practices without jeopardising its strongest assets.

The five broad areas of transparency reform, if implemented, would, place the Bank at the forefront of international best practice. No less important, these recommendations, if implemented, would help the Bank to meet its strategic objectives more effectively, and support its mission to promote the public good.

1. Context: history, recent trends, and key definitions

A brief history of central bank transparency

Central bankers today are decidedly recognisable public figures, but they would be thoroughly unrecognisable to their peers who presided during most of the 20th century. Not only is the profile of central bankers different, so too are their tactics and monetary policy strategies.

Those in the business of conducting monetary policy are pulling back the proverbial curtain, showing their wares and sharing their views with an increasingly demanding public. Transparency is the watchword for monetary policy, and greater openness the hallmark of the modern central bank.

For the better part of the last century, central banks considered their relative obscurity a virtue, their secrecy a necessary condition for success. The approach was perhaps best personified by Montagu Norman, the Governor of the Bank of England from 1920 to 1944: "never explain, never excuse," he is said to have declared (Boyle, 1967).

As an academic, Ben Bernanke (2004), one of the leading experts on the Norman era, states: "Norman was hardly unique. Central bankers long believed that there was a certain 'mystique' attached to their activities; that making monetary policy was an arcane and esoteric art that should be left solely to the initiates; and that letting the public into the discussion would only usurp the prerogatives of insiders and degrade the effectiveness of policy."

As a practitioner, in his role as Chairman of the Federal Reserve, Bernanke pursued a new policy regime. The 'never explain, never excuse' maxim of the Norman era was superseded by a widely-held, new consensus in the central banking community; put plainly, talking is useful. As Blinder et al. (2008) affirm: "…communication policy rose in stature from a nuisance to a key instrument in the central banker's toolkit."

To some, transparency became not only a virtue unto itself, but also a newly sharpened arrow in the central bank's quiver, an essential means to achieving its monetary policy ends. Woodford (2005) puts it starkly: "For not only do expectations about policy matter, but, at least under current conditions, very little *else* matters." This approach, while not universally agreed, became the dominant policy formulation. Increasingly, policymakers chose to emphasise not simply the current choice of policy rates – but also the expected future path of policy – in order to change broader monetary conditions.

The global trend towards heightened transparency did not materialise abruptly, nor did it happen in an academic vacuum. It coincided with several other important and inter-related developments during the last twenty to thirty years.

First, monetary policy gained greater independence from the fiscal authorities. New powers were granted to unelected central bankers. These new responsibilities were complemented, understandably, by new demands for greater accountability to the public, and its democratically-elected representatives.

Second, central bank credibility improved, bolstered in no small measure by the seemingly improved macroeconomic performance – steady economic growth and low and stable inflation – that marked the 'Great Moderation' in the decade or so prior to the global financial crisis.

Third, the democratisation of capital facilitated the deepening and broadening of the capital markets. Central bankers found themselves increasingly in the spotlight, their words dissected by a burgeoning army of finance professionals, businesses and households with excess savings – all searching for clues on the future direction of policy.

Hence, leading central bankers adopted new means to communicate their views on the outlook for the economy and the stance of monetary policy.

The Bank, like many of its peers, clarified its goals and policy approach, and provided regular information about the likely outlook for the economy, and the associated risks. Indeed, the Bank was an early innovator in the realm of monetary policy transparency. The launch in 1993 of its *Inflation Report* and trademark 'fan charts' on the range of plausible outcomes spawned many followers in the central bank community.

Though a centuries-old institution with a rich history, the Bank only became an operationally independent central bank in 1997.[12] When the Government reconstituted the Bank as an operationally independent entity, it sought to guard against an overconcentration of authority in any single person. Certain institutional features arose from its independence, including the selection of external MPC members and, perhaps most important, the one-member, one-vote principle. The Government also required greater transparency. Detailed and timely minutes of each MPC meeting were published. The Governor and other members of the MPC offered regular testimonies to the Treasury Committee and speeches by MPC members explaining their thinking on the proper conduct of monetary policy became standard fare.

Blinder (2002) captures the essence of the bargain: "An independent central bank in a democracy must be accountable and, to be accountable, a central bank must be transparent."

The global financial crisis marked yet another important milestone in the march toward enhanced transparency. Central banks engineered massive responses. In many countries, interest rates were slashed to near zero, unconventional – and controversial – tools of monetary policy were deployed, and immense public funds were deployed to shore up crisis-plagued banks and liquidity-constrained markets.

In the United Kingdom, for example, policy rates were cut to 0.5%, the Bank bought £375 billion of government debt (albeit with an indemnity from HM Treasury) and supplied over £60 billion in liquidity assistance to two of the country's biggest banks.[13]

This unprecedented, emergency response required central banks to bolster their efforts to explain unfolding events, and put forth a compelling rationale for their counter-measures. With huge losses of economic output and employment, there were also heightened obligations for accountability. Political figures, and the public at large, rightly demanded to know more about the facts, good and bad, that precipitated central bank action. Many central bankers also feared that the wider political pressures would lead some to question their much-cherished and much-needed independence. Greater transparency and openness in the post-crisis environment served as a useful and important buffer to guard against intrusions into the independent conduct of monetary policy.

The need to explain was not only about defending institutional credibility. It was also strongly motivated by a desire to improve policy efficacy. That is, if the aggressive, unconventional monetary tools deployed were to succeed, then financial markets and the public alike needed to be persuaded that the antidote befitted the economic ills.

Heightened communication was particularly important in the United Kingdom. Following increases in VAT and commodity prices, and the sharp decline in sterling, inflation rose to a peak of more than 5% – more than double the inflation target. If the Bank were to succeed, it would need to persuade a sceptical public that price stability would not be squandered in the name of financial stability.

[12] The Bank was owned by its shareholders until it was nationalised in 1946.
[13] Emergency Liquidity Assistance (ELA) supplied to RBS and HBOS reached an intra-day peak of £61.6 billion in October 2008. To safeguard the public interest, the assistance was provided immediately, and then disclosed in November 2009. The ELA provided by the Bank in 2008-09 was the subject of an external review by Ian Plenderleith (Plenderleith 2012).

In the aftermath of the financial crisis, the UK Government redesigned the former 'tripartite framework' for banking supervision. It awarded the Bank new responsibilities to establish macroprudential policies and to regulate individual financial firms, each of which would be conducted alongside the Bank's traditional monetary policy responsibilities. That new, expanded grant of authority to the Bank re-opened the question of the Bank's accountability and transparency to its stakeholders. Hence, scrutiny of the Bank's transparency practices, including its policies with respect to transcripts, should not be unexpected.

Transparency, defined

What is meant by transparency?

In a broad sense, transparency is "the conduct of business in a fashion that makes decisions, rules and other information visible from outside" (Hood 2010). It is, however, not an altogether straightforward concept.

The Review utilises insights from a range of economic literature to consider different aspects of transparency in the context of monetary policy. In particular, the Review draws heavily upon a framework originally devised by Petra Geraats (Geraats, 2002), further developed by Petra Geraats and Sylvester Eijffinger (Eijffinger and Geraats, 2006), and subsequently updated and expanded by Barry Eichengreen and Nergiz Dincer (Dincer and Eichengreen, 2014).

Eijffinger et al consider five distinct categories of monetary policy transparency: political, economic, procedural, policy and operational. They establish a set of criteria and a scoring methodology to create an overall transparency index (Section 4 replicates and updates this index for a selection of peer central banks). Their five categories are briefly explained below, and summarised in **Figure 4**.

1. **Political transparency** concerns the objectives of monetary policy. Examples of political transparency include the establishment of formal and quantitative objectives for which policymakers are responsible. The 2% CPI inflation target set by the Chancellor of the Exchequer for the Bank's MPC is a notable example.

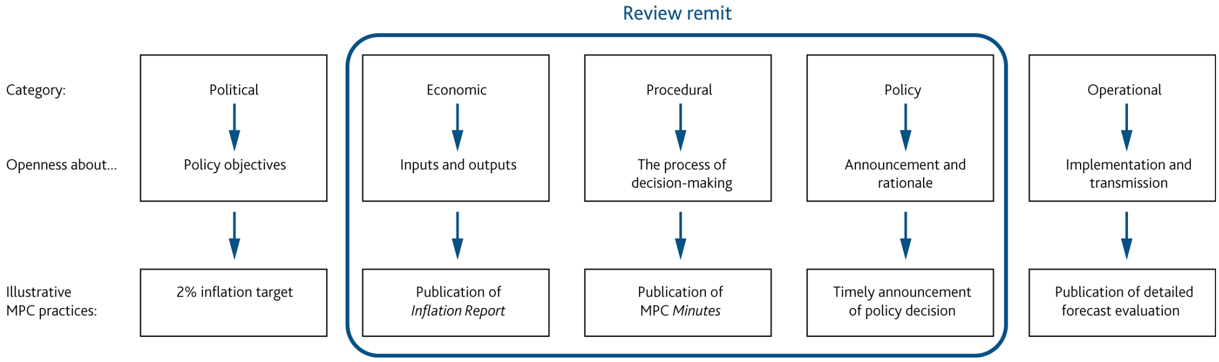
2. **Economic transparency** concerns the economic information that forms the key inputs to the formulation of policy. It includes the publication of economic forecasts and the disclosure of the economic models used to make those forecasts. The MPC's *Inflation Report*, which includes details of its forecast projections, is a good example.

3. **Procedural transparency** concerns openness about how decisions are made. Examples include publishing the minutes and voting records of monetary policy meetings. This is the type of transparency most directly implicated in considering publication of transcripts.

4. **Policy transparency** concerns timely and comprehensive openness about the decisions themselves. Examples include the announcement and rationale of a policy decision. By example, the US Federal Reserve issues a policy statement and explanation alongside its policy decisions shortly after the close of each meeting.

5. **Operational transparency** concerns the implementation and transmission of the central bank's policy decision. It includes *ex post* evaluations of the policy decision. Examples of operational transparency include published evaluations of forecast performance.

Figure 4: Monetary policy transparency and illustrative MPC practices



Source: based on Geraats (2002).

The three middle categories in **Figure 4** – economic, procedural and policy transparency – correspond to the remit of the Review, and are within the authority of the Bank to take action, if it so chooses.

A principle task of the Review is to assess the advantages and disadvantages of publishing transcripts of the MPC's policy meetings. Transcripts fall into the category of procedural transparency because they relate to the way in which decisions are made. The remit of this Review, however, also requires assessment of "the relative merits of alternative ways of improving the transparency of policy discussions and decisions".[14] So the Review considers, for example, whether Staff inputs into the MPC process should be made more transparent (economic transparency), and the advisability of the MPC regularly making public its policy decision and rationale (policy transparency).

The two other categories of transparency identified by Eijffinger and Geraats (2006) – political transparency and operational transparency – are largely outside the scope of the Review. Political transparency – being clear about the objectives of policy – primarily rests with the Government. In the UK, the MPC is required by statute to maintain price stability, and subject to that, to support the economic policies of the Government. And the Chancellor of the Exchequer confirms, each year, in writing to the Governor of the Bank what is meant by 'price stability'. Since 2004, it has been defined as a target of 2% for annual CPI inflation.[15]

Operational transparency is largely related to the implementation and evaluation of policy. UK monetary policy implementation is achieved through the Bank's Sterling Monetary Framework (SMF), which was the subject of an external review following the financial crisis.[16] The topic of forecast evaluation was covered by the 2012 Stockton Review,[17] and the Bank subsequently implemented many of the Stockton Review's recommendations. More generally, the Bank created the post of Independent Evaluation Director to assist its Court of Directors in its obligation to evaluate the Bank's policy performance.[18]

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[14] See Annex 1.
[15] See http://www.bankofengland.co.uk/monetarypolicy/Pages/framework/framework.aspx
[16] Winters (2012).
[17] Stockton (2012).
[18] Carney (2014).

2. Framework: analytical underpinnings

What is the central bank trying to achieve? The Big 4 objectives

The trend towards greater transparency in monetary policy is a means to an end, not an end in itself.

The aim of a central bank is to optimise its decision-making processes to meet the policy objectives established by the democratically-elected authorities. Enhanced transparency – in the right circumstances, in the right way – can serve as a powerful tool. But the interplay between this overarching policy goal and its design features is not simple. It requires an in-depth understanding of both the nature of a central bank's goals, and the potential impact of transparency initiatives on policymaking itself.

The Review identifies four core strategic objectives to help the central bank fulfil its mission (the Big 4 objectives). These are as follows:

- **Objective 1: sound policy decisions.** The overarching aim of a central bank is to formulate sound policy decisions in light of its democratically-set objectives and the information available. If a central bank is to maximise its chances of making optimal policy, it needs a rigorous decision-making policy framework, high-quality inputs to inform policymaking, and healthy institutional dynamics of its decision-making body, including – at its core – genuine deliberation (**Figure 5** below, and Section 3). Transparency initiatives can either enrich or disturb each of these essential indicia of sound decision-making.

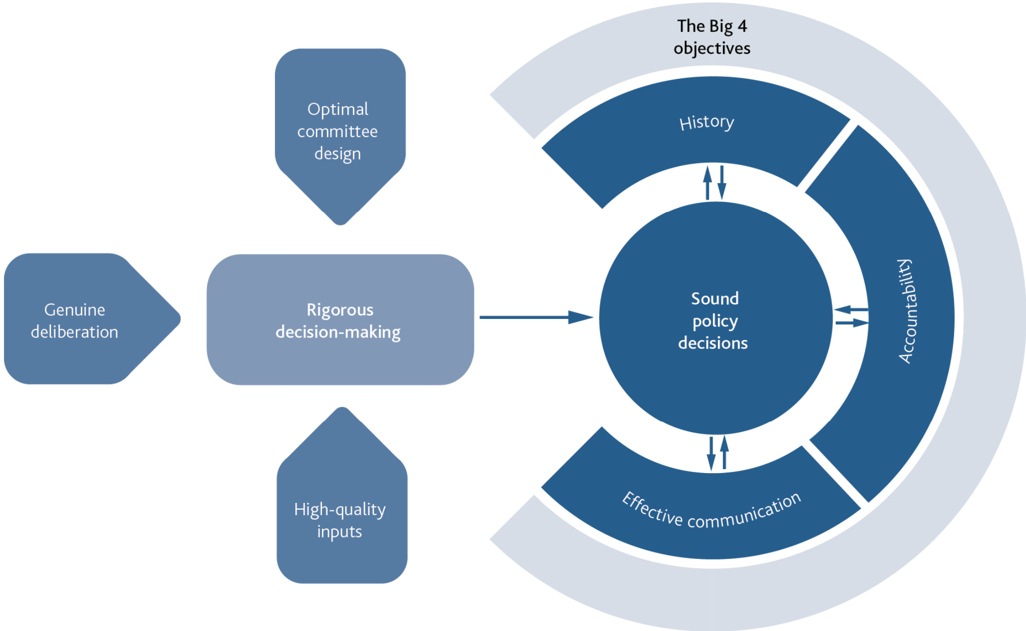
- **Objective 2: effective communication.** Once a policy judgement is reached, it should be communicated effectively. The effective communication of the immediate policy decision is important; so too is communication about the prospective contours of the economy and policy stance. A well-communicated policy is one which helps economic agents – households, businesses, financial markets – to understand the likely reaction function of policymakers to incoming information. Communicating 'more', however, should not be confused with communicating 'better': communications can distract or inform. It is effective communication which the Review seeks to optimise.

- **Objective 3: accountability.** An independent central bank's authority comes, in part, by way of its charge from its government. And its credibility is a function of its ongoing standing with stakeholders. Central bank authority and credibility can only be evaluated if it is accountable for its actions, not least to the people whose lives are affected. Transparency should be designed to facilitate the ability of the wider public to hold the central bank to account. This is not merely a political imperative, but an economic one. Accountability can also reinforce the rigour and discipline of policymakers' thinking, and thereby make for better policy judgments.

- **Objective 4: history.** As a 320-year old institution, the Bank of England has a duty to be transparent to economic historians, a responsibility to create a record of its policy discussions and judgments. Central bankers today are still wrestling with the lessons from the successes and failures of our predecessors. A more robust historic record should be conveyed to future policymakers so that they can deliver better on their policy objectives.

These Big 4 objectives need not work at cross-purposes. Indeed, they should be self-reinforcing. As **Figure 5** shows, sound policy decisions that are effectively communicated, and for which the central bank is fully accountable, should lead to the creation of an accurate historic record that will help make for sound policymaking in the future.

Figure 5: The Big 4 objectives of policy making



Is more transparency better?

A well-established body of academic literature – and real-world experience from practitioners – runs counter to the proposition that more transparency is invariably better.[19] Greater transparency is not a policymaking virtue if crudely structured, out-of-context, misunderstood, poorly timed, or constraining of genuine deliberation.

As Cheryl Schonhardt-Bailey (2013) states in her comprehensive work on deliberation in US monetary policy making: "The question is how much transparency is needed to allow the public to understand the rationale behind and mechanisms that underpin policy-making, without undermining the policy decision itself."[20]

Consider a stark scenario in which MPC meetings are available immediately on television and/or streamed in real-time on the internet. The purpose of the straw man is not to make for easy fodder for critique; it is to illustrate that greater transparency is almost assuredly to change behaviour of those subjects being monitored.[21] These behavioural responses must be calibrated prior to recommending substantive transparency reforms.

In some superficial sense, this scenario of maximum transparency would constitute the most information released at the earliest moment. It might strengthen incentives for MPC members to prepare thoroughly for policy meetings. It would provide immediate communication of views expressed. It might provide ostensible evidence of MPC members' accountability to the public. And it would immediately be part of the Bank's historical record.

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[19] The observation that central bank communication can, in some circumstances, mislead or distract private sector participants is described in, among others, Woodford (2005), Sibert (2006), Dale, Orphanides & Osterholm (2011).

[20] Full disclosure: Schonhardt-Bailey's research and book on the subject was accomplished with the assistance and advice of Andrew Bailey, her husband, who currently serves as Deputy Governor for Prudential Regulation and Chief Executive Officer of the PRA at the Bank of England.

[21] This idea is not unique to economics. See, e.g, the theory in physics known popularly as the Heisenberg Uncertainty Principle.

The real-time feed of MPC discussions, however, would most likely impair the genuine deliberation that is essential to good decision-making. Committee members would likely find themselves reading from pre-prepared, heavily caveated scripts. And they might hesitate to engage in the full-throated, rigorous debate on the central economic questions to which discussants are necessarily uncertain.

Viewers of the real-time feed might witness a caveated, bland policy discussion that offers few insights. Alternatively, the act of televised policy meetings might make participants more inclined to 'play to the cameras' with aggressive critiques of their colleagues, making for good watching but cacophonous communication. Over time, this could change the culture of the Bank and even the selection of MPC members.

Neither conformity nor cacophony is synonymous with effective communication. In the lexicon of the academic literature, the 'signal to noise' ratio could well be impaired in both of these scenarios.

Accountability might also falter. Informal meetings would be more likely to transpire prior to televised MPC meetings. Factions could develop, and real deliberations could be hidden from public view – all under the auspices of greater transparency. And the historic record might not capture the real nuances and uncertainties that hid beneath the surface.

So, this maximum transparency scenario would not be consistent with the Review's Big 4 objectives. More important, the scenario indicates that transparency reforms must consider the second- and third-order implications on personnel and the institution to optimise total, long-run efficacy.

A view from the academy: maximising discipline, minimising conformity

The academic literature provides useful background to consider the benefits and risks associated with certain transparency initiatives. A particularly valuable insight examines the relationship between the degree of transparency and the quality of policymakers' deliberations.[22]

Public scrutiny of the deliberation process leads policymakers to focus more on so-called 'career concerns'. That is, policymakers seek to bolster their standing in the eyes of influential external stakeholders, thereby improving their future career prospects.[23] According to the literature, this impacts policymakers' behaviour in two ways.

A more public deliberation process will tend to strengthen the 'discipline effect'. Those taking part in the deliberation process will face stronger incentives to prepare thoroughly for the debate so that they may be viewed as making effective and well-informed interventions.

A more public deliberation process may also strengthen something less constructive, the 'conformity effect'. Confronted by uncertainty about the likely evolution of the economy and the appropriate policy response, participants face incentives to conform to the majority view, rather than to stake out a divergent opinion and risk being exposed as wrong.[24] As Meade and Stasavage (2008) put it: "Advisors can face incentives to withhold private information if accurate revelation would lead principals to infer that they have a low level of expertise."

The net impact of greater public scrutiny on the effectiveness of the deliberation process depends upon which of these two effects – discipline or conformity – dominates. In their study of these effects in the deliberations of the US Federal Reserve, Hansen, McMahon and Prat (2014) state:

[22] Deliberation quality is foundational to decision quality. See, for example, Hansen, McMahon and Prat (2014), which draws in part on earlier arguments advanced in Prat (2005), Meade and Stasavage (2008) and the career concerns literature particularly associated with Holmstrom (1982, 1999).
[23] Another variant, more consistent with my experience, has policymakers motivated to impress a broader range of stakeholders so that they may ultimately persuade their colleagues of a preferred policy approach.
[24] See also, for example, Scharfstein and Stein (1990).

"Policymakers should explore ways to structure the deliberation process in order to maximise the discipline effect, and minimise the conformity effect."

Maximising discipline and minimising conformity is an important goal of the recommendations of the Review.

Time horizons and transparency trade-offs

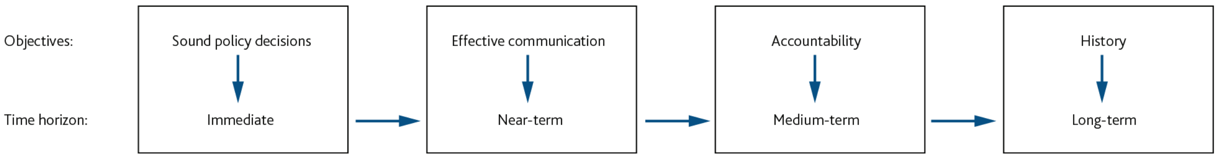
The stylised example of a televised MPC meeting in real-time illustrates the apparent trade-off between increasing transparency and inhibiting deliberation. According to Meade and Stasavage (2008): "A general assessment of when private deliberation is preferable . . .would depend upon weighing the costs of transparency in terms of reduced quality of deliberation against the observed benefits in terms of increased accountability and, in the case of monetary policy, increased effectiveness."

At core, the Review recognises that the optimal timeframe for transparency varies across the Big 4 policymaking objectives (see **Figure 1** and **Figure 6**). This insight leads the Review to favourably consider different timeframes for particular transparency initiatives, thereby maximising the welcome disciplining effects of transparency, and minimising the adverse effects associated with greater conformity.

If policymakers adopted a transparency initiative to enhance the effective communication of a policy judgment, it would be most operative in the near term.

If policymakers, however, adopted a transparency initiative which aimed to enhance the accountability of policymakers to the public, it would likely be most operative in the medium term. After all, considerable time needs to have elapsed before an accurate assessment can be made of whether policy decisions were sound.

Figure 6: Time horizon to achieve Big 4 objectives



Transparency initiatives aimed at delivering an accurate historical record of the Bank's policy formulations are, by construction, directed at the long term.

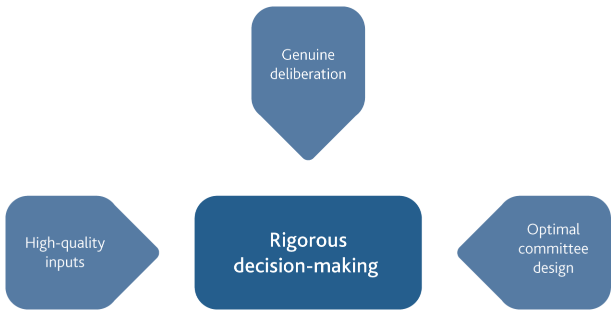
Economic historians are principally concerned about the accurate preservation of primary source material for future use, as was confirmed by the discussions with leading UK economic historians conducted as part of the Review. So transparency initiatives aimed at history should focus on the preservation of key records, and facilitating access to these by historians of the future, rather than simply expediting document release.

What about transparency initiatives aimed at improving the process by which policymakers make sound judgments? This is perhaps the most consequential question of all, which the Review takes up in more detail in Section 3.

3. Institutional design: deliberation and committee dynamics

Rigorous and robust decision-making processes are essential for the formulation of sound policy decisions. This Section draws on academic literature to identify the pre-requisites for good decision-making, notably high-quality inputs, favourable dynamics of the decision-making body, and most important of all, genuine deliberation (**Figure 7**). As such, the deliberative process of the MPC should be enhanced – or, at least not undermined – by proposed transparency reforms.

Figure 7: Key ingredients to rigorous decision-making



Decision-making and organisational success

Why do some organisations succeed and others fail? The question is hotly debated by scholars and practitioners in the field of management and organisational design.

Mellahi and Wilkinson (2004), describe two broad models that bear on the question of organisational failure. One identifies 'external factors' as the predominant force – failure of individual organisations is seen predominantly a symptom of an industry-wide decline of which management's control is limited.[25] An alternative theory emphasises the importance of 'internal factors', that is, the quality of management decisions.

The literature identifies numerous inter-related theories that link internal management inadequacies to organisational failure. These include:

- Janis' canonical 'Groupthink' theory (1972; 1982), which highlights the tendency of small, homogenous management teams to make suboptimal decisions.
- Hambrick and Mason's (1984) 'Upper Echelon' theory, which links organisational achievements to the composition and background of an organisation's senior management team.
- Staw, Sandelands and Dutton's 'Threat Rigidity Effect' theory (1981), which explains the tendency of management groups to stick rigidly to tried and tested techniques at times of threat and challenge, thereby increasing the risk of organisational failure among incumbents at times of secular change.

The common finding is the need to design decision-making processes, and structure decision-making groups, so that is genuine deliberation prevails amid incoming information and the need to choose among alternative courses of action. This is particularly important in times of rapid change.

That genuine deliberation should play a central role in decision-making is rooted in classical liberalism. John Stuart Mill (1859), for example, championed the importance of free speech and discourse to

[25] As Mellahi and Wilkinson (2004) note, classic industrial organisation literature traces the roots of industry-wide decline to Schumpeterian 'creative destruction' (Schumpeter 1942).

intellectual progress. He advanced the belief that truth would emerge through the free competition of ideas in public discussion and debate. As Mill wrote in his classic *On Liberty*: "The general or prevailing opinion in any subject is rarely or never the whole truth; it is only by the collision of adverse opinions that the remainder of the truth has any chance of being supplied."

A core aim of deliberation is to achieve consensus among different parties; but, as noted by Barabas (2004) and others, deliberative processes should accomplish more than merely achieving consensus. Barabas defines 'desirable' (or genuine) deliberation as that which succeeds not only in achieving consensus, but also in delivering intellectual progress: "Submissive consensus is clearly undesirable…To be desirable, deliberation should improve knowledge so that participants come not only to a consensus, but also to an enlightened view of the problem at hand."

Genuine deliberation is, therefore, the process by which participants not only share information, but also learn from and influence one other. It is the crux of good decision-making processes within both the public and private spheres, the 'special sauce' to optimise policy.

As Schonhardt-Bailey (2013) describes in her work on US monetary policy: "Effective deliberation among…unelected experts who are being held to account is thus one of engagement and reciprocity where participants talk to one another and take up others' points."

Identifying genuine deliberation: inquiry vs advocacy

What does effective deliberation look like in practice? A thorough assessment of the nature and importance of rigorous decision-making processes is provided by Garvin and Roberto (2001). For the purpose of the Review, Garvin and Roberto make a particularly useful delineation – between the process of 'inquiry' and that of 'advocacy'.[26]

Inquiry is essential for successful decision-making, and organisational success. As Garvin and Roberto put it: "Inquiry is a very open process, designed to generate multiple alternatives, foster the exchange of ideas, and produce a well-tested solution. . . . A process characterised by inquiry rather than advocacy tends to produce decisions of higher quality."

Garvin and Roberto highlight the ways in which inquiry and advocacy differ:

- **Open and balanced sharing of information.** People engaged in inquiry typically share information widely, typically in raw form, and allow participants to draw their own conclusions. Participants in an advocacy process, in contrast, often present information selectively, buttressing their arguments while withholding relevant conflicting data.

- **Critical thinking and assumption testing.** Inquiry processes are ones of testing and evaluation. Effective decision-making groups step back from their arguments in order to confirm their assumptions by examining them critically. Participants do not shy away from asking hard questions. These indicia of critical thinking are not typically present in processes of advocacy, in which the discussions tend to be characterised by persuasion and lobbying.

- **Deliberation of multiple alternatives; encouragement of dissension.** Inquiry cultivates and values minority views, and participants are comfortable raising alternatives. Inquiry processes tend to be characterised by thoughtful analysis of multiple alternatives, and usually avoid settling on the easy, obvious answer too quickly. Advocacy, by contrast, tends to supress new ideas. Participants are passionate about their preferred solutions; that passion tends to harm their objectivity, limiting their ability to pay attention to opposing arguments.

[26] The Review treats 'inquiry' and 'deliberation' as largely synonymous.

- **Conflict is constructive, not personal.** 'Cognitive' conflict relates to the substance of the issues at hand. 'Affective' conflict tends to be personal. Cognitive conflict is constructive, and often characterises inquiry processes. It allows people to express differences openly and challenge underlying assumptions; participants in inquiry tend to be accepting of constructive criticism. Affective conflict, by contrast, harms the decision-making process. It more often involves personal friction, rivalries and clashing personalities, and diminishes people's willingness to cooperate.

- **Active listening.** Genuine listening and attentiveness to alternative points of view are typical of inquiry-making processes. Asking questions, probing for deeper explanations, and showing patience when participants explain their positions, are all identified as evidence of active listening, and are found in well-designed decision-making processes.

The Garvin and Roberto study echoes many of the themes advanced by Fishkin (1991) in his pioneering work on deliberation and 'deliberative opinion polling'.[27] In particular, Fishkin identifies five characteristics of productive deliberations:

- **Informed:** arguments should be supported by appropriate and accurate claims;

- **Balanced:** arguments should be met by contrary arguments;

- **Conscientious:** participants should talk and listen with civility and respect;

- **Substantive:** arguments should be considered solely on their merits, rather than being given weight (or not) based on how they are made, or by whom they are made;

- **Comprehensive**: all points of view held by significant portions of the population should be given attention.

Fishkin used these principles to design a range of experiments conducted in both the United States and the United Kingdom. He demonstrates empirically that well-designed deliberative processes can lead to better outcomes.

Barabas (2004) also stresses the need for deliberation processes to be well-designed if they are to advance intellectual progress, singling out criteria such as the quality and breadth of information provided to decision-makers, and the degree of open-mindedness of participants, as important contributors to success. He concludes: "Deliberation increases knowledge and alters opinions, but it does so selectively based on the quality and diversity of the messages as well as the willingness of participants to keep an open mind."

Deliberation and the MPC

How do MPC meetings fare according to these indicia of inquiry? Is the MPC an exemplar of genuine deliberation?

As set out more fully in Annex 2, the MPC policy meeting is conducted over two days each month. It typically begins on a Wednesday afternoon (Day 1), and continues into the Thursday morning (Day 2).

When listening to recordings of MPC meetings, I was struck by the similarities between the Day 1 deliberations, and the indicia of 'inquiry and evaluation' set out by Garvin and Roberto (2004). No less

[27] A deliberative opinion poll takes a random representative sample of people and engages them in deliberation on policy issues through small-group discussions and informed impartial moderators to try to create a more informed public opinion. The concept was pioneered by Professor Fishkin of Stanford University.

revealing was the way in which the Day 2 policy decision-making session tended to match the Garvin-Roberto advocacy criteria.[28]

During the Day 1 discussions, MPC members discuss different areas of the economy – financial markets, the international economy, demand and output, and so on – in turn. The discussion is informed by a short pre-prepared agenda. The debate is free-flowing and open, the tone usually courteous and informal.

On Day 1, members exhibit behaviour typical of inquiry and evaluation processes. They work collectively to test, dismiss, or advance competing hypotheses to solve puzzles in the economic data. The discussion is marked by balanced arguments among participants, who seem genuinely open to alternative theories of the case. Participants also appear willing to accept constructive criticism of their proffered analysis. Advocacy is infrequently observed in Day 1 discussions.

On Day 2 of MPC meetings, members explain their individual views on the appropriate stance of policy. Most members have already considered the economic data, and heard judgments of their colleagues. While Day 1 is deliberative, Day 2 is decisional. And when compared with the *ad hoc* informality of Day 1, Day 2 is orderly, almost formal in comparison.

On Day 2, most members exhibit patterns of behaviour more akin to advocacy processes. Most strive to persuade others of the merits of their case. Members defend their positions, and marshal particular, sometimes selective, data to buttress a policy stance. So, they tend to devote their speaking time on Day 2 to advocating their positions, seeking to influence the views of their colleagues in anticipation of future policy decisions.

Overall, the Day 1 MPC deliberations exhibit many of the criteria of a genuine deliberation, a crucial ingredient for successful policymaking. In considering a range of transparency reforms, the Review considers it essential that such high-quality deliberation is upheld. So, certain transparency reforms, including publishing transcripts, would necessarily be required to overcome a high bar.

Day 2 discussions, by contrast, are largely set-pieces about explanation and/or advocacy. The impact of transcript publication, as a result, is likely to be far less threatening to the underlying dynamics of discussions on the policy decision day.

Group decision-making in monetary policy: when do committees succeed?

The trend toward committee-based decision-making in the conduct of monetary policy means that decisions are more frequently made by groups than by individuals.

There is a large and growing literature on optimal design of monetary policy committees (see, for example, Sibert (2006) and Maier (2010)). And there is an emerging consensus that well-designed committees tend to make better-quality decisions than individuals. Perhaps the best known research on this question in the monetary policy arena is that of Blinder and Morgan (2005), which shows that groups tend to outperform individuals in a simple monetary policymaking game. The Blinder and Morgan work was replicated in the United Kingdom by Lombardelli, Proudman and Talbot (2005).

Maier (2010) summarises several hypotheses from the academic literature to explain the rationale for the superiority of committee decisions. These include the potential gains from the pooling of information from different sources, and the advantages of processing information from a group comprising different skills and experiences. Other benefits of committee-based decision-making include the provision of 'insurance' against the extreme preferences of any one individual.

[28] See Annex 2 for a more detailed discussion of these two 'policy go rounds' of the MPC policy process.

Committee decision-making, however, is not without potential drawbacks. These include the inefficiency of sharing and processing information among large groups, and the risks of the emergence of groupthink. In addition, committee-based decision-making is also often described as prone to inertia, although the empirical evidence is less clear-cut.[29]

Given that committee-based decision-making processes incur both benefits and costs, much of the relevant economic literature is focused on optimal committee design. The preference for smaller committees with committee members of diverse experiences is a recurring theme. As Sibert (2006) states: "[M]onetary policy committees should have a clear objective, publish individual votes and not have many more than five members. They should be structured so that members do not act as part of a group, perhaps by having short terms in office and members from outside the central bank." Similar assertions are made in Maier (2010), whose conclusions on optimal committee design are summarised in **Figure 8** below.

Figure 8: Elements of optimal committee design, as outlined by Maier (2010)

Clear objectives and independence	• Clearly defined goal and efficient instruments • High degree of central bank independence
Size	• Not much larger than five members
Measures to avoid free-riding	• Easy identification and evaluation of individual contributions
Polarisation and group-think	• Institutional encouragement of independent thought • Diversity of backgrounds and experiences • Mix of internal and external members • No fixed speaking order to avoid information cascades

Source: based on Maier (2010).

Committee design features and the MPC

The MPC meets many of the criteria for an optimal monetary policy committee, including its relatively small size (**Figure 9**). Membership of the MPC is drawn from a diverse group – five of the nine members are 'internal', typically with extensive central banking experience; the remaining four are 'external', appointed by the Chancellor of the Exchequer. The four externals serve a maximum of two three-year terms, and are typically drawn from varied backgrounds, including academia, business and financial markets.

More generally, the one-member, one-vote structure of the MPC, and the associated strong ethos of individual accountability on the committee, ensure that it is possible to identify and evaluate individual contributions, as recommended by, among others, Sibert (2006).

Other ways in which the MPC's processes facilitate effective deliberation include the relatively small number of people in attendance at the policy meeting. There are typically around fifteen people present at the MPC's monthly policy meetings – the nine Committee members, a representative of HM Treasury, and five senior Staff members of the Bank's Monetary Analysis area, who are charged with preparing the MPC *Minutes* and the *Inflation Report*.

Many aspects of the MPC's structure are praised by external commentators. Sibert (2006) notes: "The solution to groupthink is to get group members to stop thinking and behaving as group members and to encourage outside examination of the group's decision-making process. The Bank of England's Monetary Policy Committee is an example of how this can be done."

[29] Blinder (2002) finds that committees are no more inert than individuals when making decisions.

Figure 9: Comparison of committee design at peer central banks

	Bank of Canada	Bank of England	Bank of Japan	European Central Bank	Federal Reserve	Norges Bank	Reserve Bank of Australia	Reserve Bank of New Zealand	Sveriges Riksbank	Swiss National Bank
Frequency of scheduled meetings (per year)	8	12	14	8[a]	8	6	11	8	6	4
Number of decision-makers (or voting members)	6	9	9	21[b]	12	7	9	1[c]	6	3
Decision-making protocol	Consensus	Vote	Vote	Vote	Vote	Consensus	Vote	Governor	Vote	Consensus
Principals[d]/others in attendance	6/approx. 5	9/6	9/approx. 15	25[b]/approx. 25	19/approx. 60	7/10	9/approx. 5	n/a	6/approx. 20	3/10

Source: Warsh Review

[a] The ECB has announced its intention to move to 8 monetary policy meetings per year rather than 12, as is current practice.
[b] As of January 2015.
[c] Monetary policy decisions at the RBNZ are made by the Governor.
[d] The number of principals is defined as the number of members of the committee who participate at meetings.

As Maier (2010) puts it: "In many ways, the Bank of England's committee structure follows best practice: it has a clear goal, it is made up of diverse members (academics, business representatives and central bankers) and it is not too big. Also individual contributions can be identified and evaluated, and its members are encouraged to think for themselves."

Proposed reforms should be favourably considered if they strengthen further the MPC's committee dynamics.

4. Peer review: comparison of central banks

Central banks around the world have been making advances in transparency in recent years. Benchmarking the Bank's practices against its peers is instructive but not determinative. The Review also draws on published academic research and summarises the findings of its own data and analysis.

Survey data from the external academic community

As set out in Section 1, this Review draws on the analytical framework for transparency established in Eijffinger and Geraats (2006). In that paper, the authors construct a 'transparency index' for monetary policy by scoring central banks in each of five categories of transparency: political, economic, procedural, policy and operational. For each category, Eijffinger and Geraats establish three criteria, and award central banks a score of 0, ½ or 1 depending on the extent of transparency. Under this scoring system, the maximum score awarded to any central bank is 15 (a maximum score of three in each of the five categories). Full details of the scoring criteria used can be found in Annex 3.

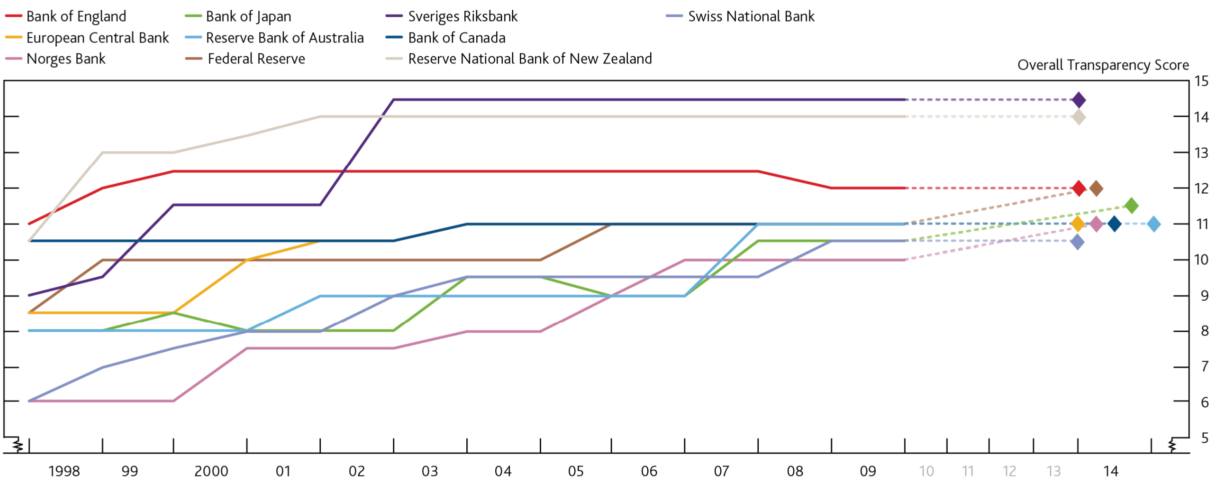
The Eijffinger and Geraats' (2006) scoring system is used to calculate transparency indices for nine major banks based on practices that existed prior to publication of their paper (up to 2002). Dincer and Eichengreen (2014) extend the Eijffinger-Geraats measures to over a hundred central banks and updated the transparency indices for practices as of 2010. The Review reports updated scores for 2014 (drawing upon preliminary updates to 2014 provided to us by Dincer and Eichengreen).

Any scoring system of this nature is bound to be imperfect, and alternative judgments can be made on the scores assigned. Nevertheless, it is instructive to highlight the insights of existing research. And the broad scoring patterns may be a reasonable approximation of central bank standing.

Given large differences in the conduct of policy across countries, the quantitative assessment should be considered a starting point for consideration, rather than an end-point to determine reform recommendations. The ultimate goal of the Review is not necessarily to achieve the highest transparency score; the goal is to design a transparency regime that enables the MPC to best achieve its own policy objectives.

Figure 10 provides an annual transparency score for each central bank, based on detailed time series data kindly provided by Dincer and Eichengreen from 1998 to 2010, and updated for 2014 as appropriate. The scores are shown for a selection of ten peer central banks. This subset of central banks covers all independent central banks in the major advanced economies.

Figure 10: Comparison of transparency at peer central banks over time



Source: Dincer and Eichengreen (2014) and Warsh Review calculations.

Note: the solid lines show data based on Dincer and Eichengreen (2014) for 1998 to 2010. The diamonds show 2014 updates based on preliminary data kindly provided by Dincer and Eichengreen and Warsh Review calculations.

A few observations from **Figure 10** are worth highlighting:

- The overwhelming trend is towards greater transparency by most central banks.
- The Bank's aggregate transparency score for 2014 is surpassed by only two of its peers, the central banks of Sweden and New Zealand.
- The Bank's aggregate score is found to be closest to that of the US Federal Reserve.
- Finally, since 1998, the Bank's absolute transparency scores, as measured, increased more slowly than its peers.

Figure 11 disaggregates the 2014 scores across the five types of transparency for each peer central bank in our subsample.

Figure 11: Comparison of transparency at peer central banks across five categories

	Political	Economic	Procedural	Policy	Operational	Total
Sveriges Riksbank	2.5	3	3	3	3	14.5
Reserve Bank of New Zealand	3	3	3	3	2	14
Bank of England	2.5	2.5	3	1.5	2.5	12
Federal Reserve	2	2.5	3	3	1.5	12
Bank of Japan	2.5	3	3	1.5	1.5	11.5
European Central Bank	3	3	1	2	2	11
Norges Bank	2.5	2.5	1	3	2	11
Bank of Canada	3	3	1	2	2	11
Reserve Bank of Australia	3	2.5	2	2	1.5	11
Swiss National Bank	3	3	1	2	1.5	10.5

Source: Dincer and Eichengreen (2014) and Warsh Review calculations based on data provided by Dincer and Eichengreen.

In one of the five categories, the Bank receives full marks.

Procedural transparency yields the highest scores in light of the MPC's timely and comprehensive account of policy deliberations, published individual voting records, and explicit monetary policy framework. The absence of transcripts does not diminish the Bank's standing, as it is not included in the Eijffinger-Geraats scoring criteria. We address this issue in the Review's own analysis, set out below.

The Bank scores very well in three of the other categories: political, economic and operational transparency.

The Bank's high political transparency score reflects the clarity of its formal objectives, including the inflation target, and its operational independence.

With respect to economic transparency, the Bank publishes quarterly medium-term forecasts for inflation and output, and discloses in some detail the macroeconomic models employed. And, in association with other authorities in the United Kingdom, it publishes most – though not all – of the key economic data relevant for the conduct of monetary policy. In terms of operational transparency, the Bank regularly evaluates the implementation of policy and its forecasting record. The Bank, however, does not explicitly evaluate the appropriateness of the monetary stance itself *ex post*, and so does not receive full marks in this area.

The Bank performs less well in the category of policy transparency, scoring the same, or lower than, its peers. Points are foregone because the Bank does not reliably provide a timely rationale for its policy decisions, and does not systematically provide an indication of likely future policy actions.

The Review's independent survey

Comparing central banks according to the Eijffinger and Geraats (2006) criteria is a useful starting point in understanding international best practice in the area of monetary policy transparency. But it is not sufficient. The criteria were designed to capture transparency practices across a wide range of central banks. They produce reasonably similar results for all the central banks in our peer group, which are clustered together with relatively high scores.

It is therefore instructive to probe more deeply into the three aspects of transparency that are central to the Review's remit: economic, procedural and policy transparency.

Economic transparency

In the case of economic transparency, the Review analysed additional information relevant to the Bank's peers, namely advanced economy central banks. In particular, the Review surveyed:

- The amount of information released about the published forecast;
- Whether the central bank publishes the code supporting its main economic model(s);
- Whether other key inputs to the policy process are made public; and, if so, the deferral period before the information is made available.

The results are reported in **Figure 12** below.

Figure 12: Comparison of economic transparency at peer central banks

	Bank of Canada	Bank of England	Bank of Japan	European Central Bank	Federal Reserve	Norges Bank	Reserve Bank of Australia	Reserve Bank of New Zealand	Sveriges Riksbank	Swiss National Bank
Publish forecast	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Number of variables published[(a)]	12	23	3	22	5	19	6	32	approx. 40	1
Publish model code	No	No	No	No	Yes	No	No	No	Yes	No
Publish other key inputs	Sometimes, upon request	Yes	Yes	Yes	Sometimes, upon request	No	Yes	No	No	Yes
Time delay (years)	n/a	20	10	30	5	n/a	20[(b)]	n/a	n/a	30

Source: Warsh Review.

(a) Number of variables published based on most recent forecast publication.

(b) Unless requested earlier under Freedom of Information.

Transparency around the MPC's forecast ranks among best practice. The Bank publishes substantial of detail, including a large number of forecast variables. Although a relatively crude measure of forecast transparency, the data nonetheless suggest that the Bank compares favourably to its peers. More generally, the way that the Bank conveys its forecast detail in its *Inflation Report* remains at best practice, for example, by using its projections to illustrate the MPC's Key Judgments.

The Bank's current practice in this area results, in part, from reforms implemented during the past couple of years following the Stockton Review.[30] The Bank appears somewhat short of best practice, however, in that it does not currently publish the code associated with its principal macroeconomic models.

Practices with respect to the release of Staff analysis vary widely among central banks. For the MPC, staff analysis is a key input to the policy process. Papers sent to the MPC by Staff often establish the context and foundation for the deliberations and policy decisions. So greater transparency about the inputs to the deliberation and decision process might help to improve public accountability and provide a more complete historical record.

Procedural transparency

In the case of procedural transparency, the Review surveyed:

- The timeliness of the release of minutes;
- Whether views are ascribed to individuals in the minutes;
- Whether transcripts of meetings are made public; and
- If so, the length of the deferral period prior to publication.

The results are reported in **Figure 13** below.

Figure 13: Comparison of procedural transparency at peer central banks

	Bank of Canada	Bank of England	Bank of Japan	European Central Bank	Federal Reserve	Norges Bank	Reserve Bank of Australia	Reserve Bank of New Zealand	Sveriges Riksbank	Swiss National Bank
Minutes	No	Yes	Yes	Yes(a)	Yes	Historical(b)	Yes	No	Yes	Historical(c)
Time delay (days, unless otherwise stated)	n/a	13	approx. 30	tba	21	12 years	14	n/a	14	30 years
Views attributed	n/a	No	Yes	tba	Yes	No	No	n/a	Yes	–
Transcripts	No	No	Yes	No	Yes	No	No	No	No	No
Time delay (years)	n/a	n/a	10	n/a	5	n/a	n/a	n/a	n/a	n/a

Source: Warsh Review.
(a) The ECB has announced its intention to publish 'accounts' of its eight monetary policy meetings from 2015. Currently, minutes are produced for internal purposes and are to be released after 30 years as historical records.
(b) Released after 12 years.
(c) Minutes are produced for internal purposes and released after 30 years as historical records.

The Bank also performs relatively well in the area of procedural transparency. It publishes minutes of its policy meetings, which are reasonably effective at providing a clear narrative for the Committee's decision and explaining the views of dissenting voters. Before publication, the minutes are subject to a thorough quality assurance process, ensuring the diversity of views is represented (Annex 2). And the

[30] See McKeown and Paterson (2014).

timeliness of the MPC's minutes compares very well with its peers: no other central bank in our sample releases minutes as promptly.

To date, the MPC does not publish meeting transcripts. The only exceptions among advanced-economy central banks are the US Federal Reserve, which publishes transcripts with a five-year lag (see Box 1), and the Bank of Japan, which publishes transcripts with a ten-year lag.

Policy transparency

In the case of policy transparency, the Review surveyed:

- Whether the central bank provides a rationale for its policy decision contemporaneously;
- If so, whether that statement publishes the vote tally, and reveals the likely bias of future policy; and
- Whether press conferences are held, and, if so, their frequency.

Figure 14: Comparison of policy transparency at peer central banks

	Bank of Canada	Bank of England	Bank of Japan	European Central Bank	Federal Reserve	Norges Bank	Reserve Bank of Australia	Reserve Bank of New Zealand	Sveriges Riksbank	Swiss National Bank
Contemporaneous rationale	Yes	No[(a)]	Yes	Yes[(b)]	Yes	Yes	Yes	Yes	Yes	Yes
Policy inclination	Yes	n/a	No	n/a	Yes	Yes	Yes	Yes	Yes	Yes
Voting record revealed immediately	n/a	No	Yes	No	Yes	n/a	No	n/a	Yes	n/a
Regular press conferences	Yes	Yes[(c)]	Yes*	Yes	Yes	Yes	No	Yes	Yes	Yes
Frequency (per year)	4	4	14	8[(d)]	4	6	n/a	4	6	2

Source: Warsh Review.
* Erratum – please note: the original publication incorrectly stated that the Bank of Japan does not conduct regular press conferences.

(a) The Bank of England publishes statements when it changes its policy decision or, very occasionally, otherwise.
(b) The ECB provides a rationale in the form of the President's opening statement at the press conference that follows its monetary policy decision.
(c) The Bank of England holds press conferences quarterly to coincide with the publication of its *Inflation Report*, a week after its policy meeting.
(d) The ECB has announced that it intends to move to eight monetary policy meetings of the Governing Council per year. It currently meets twelve times per year.

The MPC's current practice differs most markedly from its peers in this area. The MPC does not routinely explain its policy decision publicly around the time of the decision itself. Indeed, among its peer institutions, the Bank is alone in not systematically providing a contemporaneous rationale for policy decisions, either through a statement or regular press conference. While issuing a substantive statement on the same day as the decision is the norm among its peers, the MPC publishes a statement only when it changes Bank Rate or the stock of purchased assets, or only occasionally otherwise. In practice, a statement has been issued on fewer than 5% of occasions in which there has been 'no change' in policy.

Box 1: case study – the US Federal Reserve

As one of the two peer central banks that publish transcripts of its monetary policy meetings, the Federal Reserve's experience provides a rich case study. The Fed's policy transcripts have been widely studied in academic research. I will offer perspectives on the academic literature, and my own observations as a member of the Federal Open Market Committee (FOMC) of the Federal Reserve. I will also highlight the meaningful differences between the FOMC's and MPC's practices, procedures and operating environment.

Background

The Fed's long-standing practice was to assemble transcripts of the meetings of the FOMC in order to assist with the production of the FOMC minutes. In 1993, upon probing from Henry B. Gonzalez (then Chairman of the House Banking Committee), Alan Greenspan (then Fed Chairman) publicly acknowledged the existence of a form of transcripts of FOMC discussions. This came as a surprise not just to most Fed observers, but to many FOMC participants as well. While some believed that a tape recording was capturing the discussion around the table, most FOMC participants believed that their words would never be made public.

Following significant congressional scrutiny and public pressure, the Fed agreed to publish lightly-edited transcripts of FOMC meetings with a five-year delay. And, by ultimately releasing transcripts dating to 1976 – when participants had virtually no expectation that verbatim transcripts would ever see the light of day – the Fed created a useful natural experiment.

In order to judge the benefits and risks of transcript publication by the MPC, the Fed's ready experiment is worth careful evaluation. Was the nature of the FOMC discussions prior to 1993 fundamentally different from the post-1993 era? And if so, were the differences due to transcript publication?

My judgment is consistent with much of the evidence from the academic literature: transcript publication contributed to the changing nature of the FOMC meeting, including less robust deliberation and increased use of prepared speeches by participants. But other factors related to the operating dynamics of the FOMC are also likely to have been associated with less robust deliberations – for example, the greater perceived deference by members to the views of the Chairman.

The FOMC and the MPC share many similarities. But their practices also differ in important respects. Indeed, as described in Section 3, the MPC is endowed with certain historical and institutional characteristics which lend themselves particularly favourably to robust deliberation. A healthy dose of caution should therefore be applied before presuming a direct read-across from the experience of the Fed with transcript publication to the prospective experience of the Bank of England, or indeed of any other central bank.

Schonhardt-Bailey (2013) describes the policy process thus: "[M]onetary policy made in a committee setting like the FOMC involves the aggregation of individual preferences of policy makers into a collective decision." As we seek to distil lessons from the publication of FOMC transcripts, it is important to consider how the 'aggregation of individual preferences' differs between the FOMC and the MPC.

Transcript publication and FOMC dissent

One simple way of assessing the potential impact of transcript publication on the deliberative process is to look at trends in dissent; that is, the number of Fed members who voted against the majority policy stance.[1]

Comparing the number of dissenting votes by FOMC members in the pre- and post-1993 era is one means of judging the effects of published transcripts According to Chappell, McGregor and Vermilyea (2005), less than 8% of the total votes cast were dissents in the decades prior to the Fed's new transcript-release policy. This ratio of dissents declined somewhat further in the post-1993 era. Of course, there could well be other reasons for the decline in dissents beginning in the mid- to late-

1990s, including structural changes in the macroeconomic environment and changes in the leadership of the Fed.

I strongly concur with the preponderance of academic work that judges that 'counting the votes' is far too crude a means of evaluating the impact of published transcripts (Schonhardt-Bailey (2013); Blinder (2002); Chappell, McGregor and Vermilyea (2005)). Among other reasons, FOMC participants in the deliberations include Reserve Bank presidents, only some of whom actually cast votes at each meeting. More important, the conduct of monetary policy is not a simple, binary choice made in isolation between tighter or looser monetary policy. It involves a process of continuous decision-making by central bankers based on changing assessments of historical and contemporaneous data, forward-looking forecasts, and changing understandings of the transmission channels of monetary policy.

For these reasons, study of the actual deliberations by policymakers is essential. So scholars have sought other means of evaluating the potential impact of transcript release.

Transcript evaluation

A more rigorous and constructive means of judging the effects of the Fed's new transcript policy can be found by evaluating the text of the transcripts themselves. With studies seeking to make sense of millions of spoken words, this is a daunting and imperfect exercise.

Still, recent academic research meaningfully advanced our understanding of the Fed's deliberations. New research techniques were employed to distil more careful assessments of the FOMC participants' preferences, including systematic textual analysis, language mapping algorithms, and other more subjective coding of transcript data. No surprise, Fed policymakers far more often reveal their differing judgments on economic variables in their discussion around the table than in their actual votes. Nor should we be surprised that the academic research is divided on the effect of transcripts on the FOMC's dynamics.

Meade and Stasavage (2008) find evidence that the Fed's new (post-1993) transcript policy led to deterioration in the quality of FOMC deliberations. In their formulation, policymakers are motivated to achieve two goals in the policymaking process: making optimal policy decisions, and garnering a good reputation in public (often associated with conformity with the prevailing consensus). The existence of public transcripts, even with a lag, caused FOMC participants to voice less dissent in the meetings themselves, and be less willing to change policy positions over time. For example, the number of dissenting opinions expressed by voting members fell from 48 (between 1989 and 1992) to 27 (between 1994 and 1997).

Another important phenomenon may have also contributed to greater conformity in the FOMC's deliberations: the growing reputation of Chairman Greenspan during the period. This is not inconsistent with the authors' formulation, of course – participants may well care how they are perceived. But, it is less obvious whether the more stifled debate is owed largely to the changed transcript-release policy.

Schonhardt-Bailey (2013) provides a comprehensive assessment of policy deliberations in the conduct of U.S. monetary policy. She subjects the transcripts to rigorous quantitative and qualitative textual analysis, and conducts in-depth interviews with many FOMC participants. In addition, she takes account of the environment in which the deliberations occur. This includes the 'quality of deliberations'; that is, whether the committee discussions consist of 'argued reasoning' and a 'reasonably frank exchange of views', or 'pre-prepared, canned' remarks.

Schonhardt-Bailey concludes that the publication of transcripts likely had some impact on FOMC deliberations: "[O]ur results provide support for a conclusion that over time a greater emphasis emerged on set-piece interventions by members. This could be a result of the publication of the transcripts after 1993, as the knowledge of the expected publication of the transcripts drove the real deliberation out of the FOMC meetings and into unrecorded 'pre-meetings', with the FOMC becoming the place for reading of prepared texts. If so, then we have evidence to support the negative impact of what we might call 'extreme transparency' of policymaking. We do, however, observe that the timing of the shift in the nature of deliberation in the FOMC does not readily fit with the surprise decision in 1993 to publish the transcripts…Our overall conclusion here is that while the decision on the publication of the transcripts quite possibly contributed to a change in the style of deliberation, other causes also seem to have been at work."

What other factors might be involved? Both Schonhardt-Bailey's research and my own experience suggest that there are other key variables that influence the nature and quality of deliberations. The tone-at-the-top set by the Chairman surely impacts the discussion inside the committee room. It is worth considering whether the leader of the committee crowds-in or crowds-out the discussion. The collegiality of the members themselves also matters. This is not just a matter of amity. The deliberative process is enhanced when participants believe they are able to influence the judgements of their colleagues. The willingness to entertain unorthodox views, and to hear perspectives from participants with dissimilar backgrounds, also can prove fertile ground for deliberation.

Hansen, McMahon, and Prat (2014) find evidence that published transcripts drive both greater discipline (i.e., stronger preparation to make contributions to meetings) but also greater conformity (i.e., herding of views to minimise reputational harm). They conclude that "the net outcome of these two effects appears to be positive… [we] therefore find that the evidence from the 1993 natural experiment points toward an overall positive role for transparency."

The authors' results are more supportive of the benefits of transcripts than previous studies. Their conclusion rests in part on identifying the effect of transcripts by comparing the contributions of inexperienced FOMC members ('rookies') – who are likely to feel the discipline and conformity effects more sharply because less is known about their abilities – before and after 1993. They assume that the power of the discipline and conformity effects on behaviour is related to the number of years of experience on the FOMC. This assumption is not wholly consistent with my assessment. Rookie-status and the associated risk-aversion and/or eagerness to impress do not tend to last long at the FOMC. After an introductory period, most quickly achieve whatever comfort and influence they will in the institution's environment. Those that are comfortable breaking with consensus do just that, while others tend to conform to the prevailing views.

Hansen, McMahon and Prat (2014) are cognisant of the risk that public transcripts may drive some of the FOMC's deliberations outside of the formal FOMC meeting. So the authors make an understandable assumption: "We take as a given that the whole FOMC does not meet outside of the meeting to discuss the decision." In my experience, there is no attempt by FOMC members to avoid the transcripts *per se*, but policy deliberations happen on a rather continuous basis. Given the large number of FOMC participants (19) and the even larger number of staff in attendance (approximately 60) at meetings, some discussions inevitably happen more routinely in small groups. While the Government in the Sunshine Act is diligently followed, hallway discussions by two or three members of the Committee are not uncommon.[2] Moreover, the Board of Governors (as distinct from the FOMC) typically meets bi-weekly to discuss, among other things, the state of the economy and the establishment of so-called discount rates. While distinct from the FOMC's policy decision, these discussions by the Board of Governors are not totally unrelated to FOMC policy discussions.

The authors' normative conclusions, however, are quite on point: "[P]olicymakers – and future research – should explore ways to structure the deliberative process in order to maximize the discipline effect and minimise the conformity effect." And it is this important idea that motivates some of the Review's ultimate recommendations.

[1] By both tradition and practice, the bar for lodging a dissenting vote is high at the FOMC. Neither Chairman Greenspan nor Chairman Bernanke ever cast a vote in the minority. In contrast, the Governor of the Bank of England has been outvoted on nine occasions since 1997. Governors of the Federal Reserve (a title given to all presidential appointees to the Board of Governors), unlike Reserve Bank Presidents (who are selected by the regional reserve banks' boards), only rarely dissented in casting of votes. In the past decade, for example, there has been only one instance of dissent by a sitting governor. This represents an important difference with the MPC, where the one-member, one-vote principle is diligently respected by both internal and external members of the MPC. Indeed, approximately half of MPC meetings to date have included at least one dissenting vote.
[2] See http://www.federalreserve.gov/aboutthefed/boardmeetings/sunshine.htm for more.

5. Recommendations: MPC reform package in detail

The analysis contained in the body of the Review indicates that there is scope to adopt a series of transparency reforms in service to the MPC's Big 4 objectives: sound policy decisions; effective communication; accountability; and history. The recommended five reforms are detailed below.

1. Recommendation: publish policy decision and rationale as soon as is practicable; reduce number of policy meetings from twelve to eight

Among its peers, the Bank currently stands alone in not routinely offering a contemporaneous explanation of its policy decision. Typically, the Bank issues only an abbreviated press release stating the outcome of the MPC policy meeting upon its completion. A somewhat more detailed, post-meeting assessment is issued only when there has been a change in policy, or very occasionally otherwise. But the decision not to change policy is a policy choice in itself. Herein exists a significant opportunity for enhanced transparency to serve the Bank's objectives.

The Bank should make public a brief summary of its policy rationale along with the policy decision as soon as is practicable. The statement should be brief – perhaps half a dozen paragraphs. Topics that should be addressed include: global economic and financial developments; domestic economic developments (including growth and inflation); prospects for growth and inflation; the balance of risks; and the Committee's monetary strategy and reaction function.

The proposed policy summary should capture the consensus of MPC members and the prevailing rationale for the Committee's decision. The views of dissenting members should be briefly and proportionately summarised, but not ascribed to individuals.

In addition, the votes of Committee members should be stated in the policy summary, rather than being revealed with a two-week lag, as is current practice. The MPC is alone among voting committees at major central banks in not revealing the vote along with the decision.

Publishing the details of the vote contemporaneously would bolster individual members' independence and accountability. One of the great traditions of the Bank is the one-member one-vote principle. Those votes should be made public as quickly as practicable. Committee members would then be able to communicate the rationale behind their own policy judgments in a timely manner in subsequent speeches and interviews.

Under current practice, members often find themselves in the uncomfortable position of necessarily obfuscating their views in public in the two-week gap between the policy meeting and the publication of the minutes. This also leads to a blizzard of communications from MPC members in the short period between the release of the minutes and the 'purdah' period for the next policy meeting that begins after the Friday 'pre-MPC' briefing for the Committee by Bank Staff. This period is frequently as compressed as ten days or so. The interests of effective communication are not well served by a flurry of speeches and op-ed articles from different MPC members with different perspectives in such a compressed period.

Effective communication, and indeed the Committee's effectiveness more broadly, could be further enhanced by revisiting the frequency with which the Committee formally meets to consider policy action. The MPC currently meets about every four weeks, a frequency which the Review judges to be sub-optimal.

Outside of crisis periods, the economic landscape tends to change rather slowly. It is rare indeed that the economy changes so rapidly that adjustments to monetary policy are needed at four-week intervals. Monetary policy works with considerable lags. This is most often considered to be lags between policy execution and effects. But the conduct of monetary policy also should recognise that most economic data are deeply uncertain. Changes in forecasts and associated judgments most often require persistent changes in tracking data. Rarely would a single month be a sufficient period to change assessments.

Moreover, effective policymaking requires time for reflection. Under the MPC current monthly cycle, intensive preparation is required by Committee members and Bank Staff alike. For the Bank Staff, for example, time is consumed with the preparation of materials for the meeting, framing of key issues for the actual deliberation, and then documenting the discussion that transpired to arrive at the meeting's decision.

MPC members spend many hours reading and digesting the comprehensive briefing given to them by Bank staff, familiarising themselves with the latest developments in the economic conjuncture, and formulating their views on the appropriate policy stance. After the policy meeting, assiduous preparation and review of the minutes is needed. And no sooner has this process finished that the preparations for the next policy meeting begin.[31]

Transparency is most valued when data and developments are poised to be effectively gauged and communicated. The current monthly schedule unnecessarily heightens market expectations, and prods the MPC to refine judgments and policies more frequently than economic analysis often makes prudent. An extra two-week interval between MPC meetings better strikes the balance between timeliness and probity.

The MPC would be well-advised to meet eight times per year, rather than twelve, as currently scheduled. This reform would make the Bank's practice more consistent with other leading advanced-economy central banks, including the US Federal Reserve and, from 2015, the European Central Bank. Of course, in certain extraordinary circumstances, economic and financial developments will demand that a MPC meeting be called. The Governor should maintain the right to call supplemental meetings at his discretion.

2. Recommendation: enhance MPC minutes to better capture Day 1 deliberation

The MPC releases detailed minutes of its policy discussions about a fortnight after each meeting. These minutes compare favourably with those of the MPC's international peers, both in terms of timeliness and clarity. The minutes are also subject to a robust quality assurance process prior to publication. As set out in Annex 2, MPC members agree on the minutes line by line, and there are robust processes are in place that allow Committee members to challenge – and to change – drafts produced by Bank Staff if they believe that their individual views are not fully captured.

Nevertheless, there is scope to enhance the minutes in service to the Big 4 objectives. Currently, the first part of the minutes covering the Day 1 discussion largely provides a factual description of economic and financial developments. The minutes provide a coherent and compact summary of the various topics on financial markets, the international economy and nominal and real-side developments in the domestic economy discussed by the Committee. Data and analysis provided by Bank Staff are accurately summarised, as are the conclusions of the Committee's deliberations. But there is relatively little space devoted to the key questions being deliberated. Herein lies an opportunity for reform.

The Review recommends that the minutes are enhanced so that they capture more of the crux of the Day 1 deliberation. If the Day 1 debate focused on what signal to draw from a series of recent surprises in inflation, for example, the minutes should encapsulate the essence of the debate: for example, setting out the alternative hypotheses under consideration, and giving a greater sense of the weight attached by Committee members to competing narratives. And if the Committee is weighing the appropriate monetary strategy response to the current outlook – for example, the strategic

[31] Stockton (2012) also observed that the monthly cycle could potentially be consuming time that could more valuably be used for deeper, longer-term issues.

challenges of making policy decisions close to the zero lower bound – then the minutes should reflect the tenor of that deliberation.

Such a reform would aid effective communication of the Bank's evolving views on the appropriate monetary policy stance. It would also bolster accountability and benefit the historical record. Given the importance of preserving Day 1 as a safe, transcript-free, space for deliberation (see below), it is vital that the minutes allow more light into those deliberations.

3. Recommendation: make Day 2 transcripts public with publication deferral period of five to ten years

A central question for the Review is the degree to which publication of transcripts might interfere with the deliberations that occur as a part of the overall decision-making process. Creating a safe space for true deliberations is among the most critical indicia of organisations that make good decisions, according to the leading academic and empirical literature and my own observation (Section 3). The Review, therefore, seeks to balance the need to ensure a safe space for genuine deliberation with the potential benefits that may flow from transcript publication, including those associated with improved accountability of the Bank and its policymakers to the wider public.

A striking feature of the MPC's policy meetings is the distinction between the Day 1 free-form deliberations and the more formal discussion of policy options that occurs in the Day 2 decision-making sessions (Section 3 and Annex 2). Day 1 is a genuine deliberation, characterised by inquiry and evaluation. On Day 2, by contrast, members' remarks are largely explanatory, with Committee members setting out the case for their preferred policy option. They have already wrestled with the economic data, and heard the arguments of their colleagues. So, they tend to devote their speaking time on Day 2 to explain the rightness of their position. The discussion is neither the genuine deliberation that occurs on the prior day, nor is it always equivalent to the more balanced public speeches often delivered in the weeks following the meeting. On Day 2, most Committee members are seeking to influence their colleagues, if not to change the immediate policy decision, but to lay the predicate for subsequent decisions.

The different nature of the Day 1 and Day 2 discussions require different approaches to transcript publication. Should the transcripts of the Day 1 deliberations be made public, the quality of the deliberative process would risk being materially impaired, to the detriment of sound policymaking. Hence, the Review recommends that the Day 1 policy discussions should no longer be recorded nor should they be transcribed. If additional personnel are required to ensure that the minutes accurately capture the discussions, that would be far preferable to recordings.

In the absence of Day 1 transcripts, the Bank should implement other enumerated reforms to enhance the transparency of its Day 1 deliberations – in particular, the proposed enhancement of the minutes, and the proposed publication of key Staff briefing papers that inform the Day 1 deliberations (see below).

The Review's concerns about potential chilling effects of transcript publication are considerably less pronounced with respect to Day 2 of the MPC's meeting. With few exceptions, the deliberations are nearly complete by Day 2, policymakers are heard, and their judgments tallied. Strong grounds therefore exist for publishing the transcripts of the Day 2 policy discussions with a reasonable delay. There remains a risk that that ultimate publication of Day 2 transcripts could negatively impact the discussions inside the room, but the Review concludes that the risk is limited and manageable, as long as an appropriate deferral period is established.

There is no precise means of identifying the optimal deferral period for Day 2 transcript publication. As Box 2 sets out, there are a range of methods for establishing a reasonable deferral period, including assessing lengths of business cycles and Committee members' typical tenure. The Review favours a deferral period of sufficient length to avoid MPC members (and Bank Staff) feeling unduly constrained in modifying their views based on incoming information. While the Bank will ultimately choose the deferral period, I would judge a reasonable delay period to be between five and ten years.

There should be a presumption that the Day 2 transcripts are full and unedited records of the meetings. But the MPC should formalise some parameters to allow for some limited redactions consistent with the public interest. If information revealed is personal in nature, for example, or continues to be proprietary, confidential, and under active consideration by the MPC at the time of publication, then limited redaction may be appropriate.

The Bank should also consider whether the original audio recordings of the Day 2 policy discussion be preserved, and released after 20 years, consistent with best practices for the retention and release of public records in the United Kingdom. By instituting a policy that involves the eventual release of the original recordings – the primary source – the integrity of the transcripts would be assured. And it is quite possible that technological advances mean that such audio material might one day serve as a richer source material for historians and scholars. A couple of decades ago, few would have imagined the uses of computational linguistics and textual analysis tools to analyse the FOMC transcripts (see Box 1).

In addition to providing a valuable historical record, publication of the Day 2 transcripts would also buttress the individual member accountability at the bedrock of UK monetary policy. The ultimate release of these transcripts – together with individual speeches, interviews, and testimony before the Treasury Committee – would ensure that MPC members are held to account for their views. The academic literature also suggests that a possible discipline effect from the publication of transcripts would ensure rigorous preparation for the meeting itself. While I found no lack of careful preparation or seriousness of purpose by incumbent MPC members, this reform could ensure that prospectively – even in more benign periods of a policy conjuncture – the level of engagement does not dissipate.

Box 2: judging the appropriate deferral period for Day 2 transcripts

Making sound policy decisions is essential to the long-term health of the UK economy and the long-term credibility of the Bank. The institutional arrangements, including transcript policy, should be designed to encourage that members make their best decisions possible at each meeting of the MPC.

Sound policy decisions often require calibration and reassessment during economic cycles, business and financial alike. This behaviour – changing views when facts and analyses change – is something that should be encouraged, not made more inertial, in crafting transcript deferral policy. If transcripts were made public amid a tightening cycle, for example, members might well hew to an anchoring bias of views previously expressed.

So an evaluation of UK economic cycles and indicators provides some useful guideposts (**Figure 15**). The average business cycle in the UK since 1955 lasted around six years. The average period of upswing lasted just under three and a half years and the typical downswing lasted almost two and a half years. In the most recent cycle, the pre-crisis economic expansion lasted around six years.

Yet, as the global financial crisis made clear, it is a mistake to ignore the financial cycle when conducting economic policy. The financial cycle can be defined, however imperfectly, by studying the evolution of credit and asset prices over time (Borio, 2012).[1] It is longer and has greater amplitude than the traditional business cycle. Financial cycles in the UK have lasted around thirteen years on average since 1880 (Aikman, Haldane and Nelson, 2014).

Financial cycles, however, do not tend to be the driving force for consideration by most policymakers, at least as of yet. Still, the Review judges that while it is probably unnecessary to await the conclusion of a financial cycle before releasing transcripts, its length should be accorded some weight when considering the appropriate deferral period.

The Review also requires consideration of another transparency objective: accountability.

MPC members should be individually accountable for their decisions, given the responsibilities embedded in the Committee's one-member, one-vote principle. That is the rightful rationale currently for publishing votes after meetings, testifying periodically before the Treasury Committee, and individually submitting annual reports to the Treasury Committee. The MPC also bears an institutional burden of accountability. A look at MPC term limits and historical data pertaining to years of service on the Committee is informative for both individual and institutional accountability.

By statute, external MPC members serve a three-year term, subject to the prospect of one reappointment period, thereby possibly extending tenure to six full years. The Governor of the Bank (as Chairman of the MPC) is appointed to a single, non-renewable, eight-year term. Deputy Governors can serve a maximum of two five-year terms. In practice, since the formation of the MPC in 1997, the average actual tenure of all MPC members has been around five years.[2] That means, however, that 40% of MPC members served five or more years, so transcript policy might want take into consideration the tenure period of this substantial minority of MPC members.

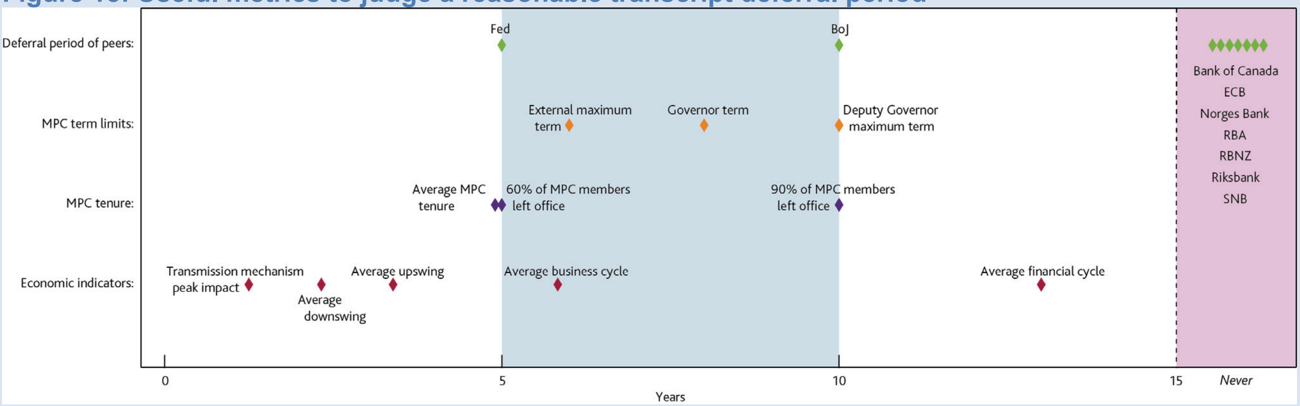
In the conduct of monetary policy, accountability often can be best measured once the economic cycle is complete. It so happens that the average length of MPC service (around five years) roughly corresponds to the average length of the business cycle (around six years). If transcripts were to be published somewhere in the five to ten year range, many Committee members would be readily held accountable for their spoken words, either because their public service continued or their reputations still mattered to them upon their formal departure from the Bank. And a five to ten year deferral period would also ensure that sufficient time had passed for a reasoned judgment to be made on the appropriateness, or otherwise, of members' policy decisions.

The full range of individual judgments on Day 2 may approximate the collective judgment of the MPC. That collective judgment is forged into the consensus, among other places, in the Bank's quarterly *Inflation Report*. As such, the MPC's institutional accountability is of great importance as well.

The Bank's stakeholders can best evaluate the conduct of the MPC as a whole after a reasonable amount of time and perspective, corresponding roughly to the business cycle and, perhaps, some portion of the financial cycle.

In light of these metrics and peer practices, the Review finds that a transcript deferral period of somewhere between five and ten years is most appropriate. Adopting a deferral period in this range would put the Bank in high standing among its peer institutions.

Figure 15: Useful metrics to judge a reasonable transcript deferral period



Source: Bank of England website, Aikman, Haldane and Nelson (2014) and Warsh Review

[1] More broadly, the financial cycle "denote[s] self-reinforcing interactions between perceptions of value and risk, attitudes towards risk and financing constraints, which translate into booms followed by busts." (Borio, 2012)

[2] The legislation in force in the earlier years of the MPC allowed for longer maximum terms than the current statute permits.

4. Recommendation: publish key inputs to the MPC policy meeting alongside Day 2 transcripts with identical deferral period

Members of the MPC benefit immeasurably from extensive, high-quality Staff briefings on economic and financial market developments in advance of each formal policy meeting. A high standard of inputs – in this case, policy briefings – is a pre-requisite for a robust and effective decision-making process across all complex organisations, not least central banks. The Review judges that the MPC's Big 4 objectives would be well-served if, alongside the Day 2 transcripts, the Bank published the Staff briefings that informed that meeting's policy decisions.

Greater transparency about the inputs into the deliberation and decision process would safeguard, and – perhaps even enhance – the quality of the briefing material sent to the MPC. The so-called discipline effect identified by the academic literature should ensure that the high standard of briefing material does not decline. The publication of key Staff inputs should also enhance the Bank's reputation for high-quality and independent analysis, further strengthening its credibility, and hence its effectiveness.

Publication of Staff inputs would also improve MPC accountability. Staff analyses often establish the context and foundation for the deliberations and policy decisions. By releasing the key inputs to the MPC meeting and meeting transcripts together, the Bank could provide its stakeholders with a fuller picture of the policymaking process, thereby ensuring a better understanding of the context of the MPC discussions. Publication of the Staff briefing materials that informed both the Day 1 deliberations and the Day 2 decisions would also serve to ensure accountability in the absence of Day 1 transcripts, as recommended above.

Adoption of an appropriate delay period should mitigate the risk that greater public scrutiny leads to a chilling effect regarding the advice given by Bank Staff to the MPC. The delay should be long enough so that Staff offer their unfettered views to the MPC, and do not 'pull their punches'. But the delay should not be so long that it fails to serve the objective of ensuring accountability to the Bank's stakeholders.

Hence, the Review recommends an identical period of deferral for key official inputs – five to ten years. By releasing the Day 2 transcripts and key official inputs to the policy meeting together as a package, the Bank should be able to provide its stakeholders with a fuller picture of policy discussions.

5. Recommendation: strengthen authorities of Secretariat; enhance Archive policy and practices

The Bank is responsible for ensuring that the historical record captures the sentiments and judgments that once resided in the institution. In service to its objective of establishing an accurate record for future historians, there is additional scope for the Bank to reform the practices of the Bank Archive.

The Bank's Archive is an extraordinarily valuable repository of information. At present, in relation to monetary policy, the Bank has voluntarily agreed to subject itself to the 20-year rule, consistent with best practices of other public bodies, including all central government departments (see also Annex 2).[32] That is, the Bank is expected to release all archived material after 20 years unless that material meets one or more of a set of well-defined criteria for closure. These criteria are mainly concerned with ensuring that the Bank complies with legal requirements such as those governing the disclosure of personal data or customer business.

In the coming years, material relating to some landmark economic events in the United Kingdom's recent history is due for release. For example, records relating to the creation of the UK inflation-

[32] Along with central government departments, the Bank's Archive is currently in transition from the 30-year rule to the 20-year rule, which involves the opening of two years' worth of files each year. See Annex 2.

targeting framework in 1992 are due to be released in 2018; the first records relating to the newly-formed MPC in 1997 are due to be released in 2020. This would therefore seem an opportune moment for the Bank to strengthen its practices in this area, particularly given the challenges for records management posed by the digital age.

The Review, therefore, recommends that the Bank establishes a strengthened Secretariat of the MPC. The Secretariat would be charged with overseeing the production of transcripts, management and release of the key inputs to monetary policy and the eventual release of other historical records by the Bank's Archive.

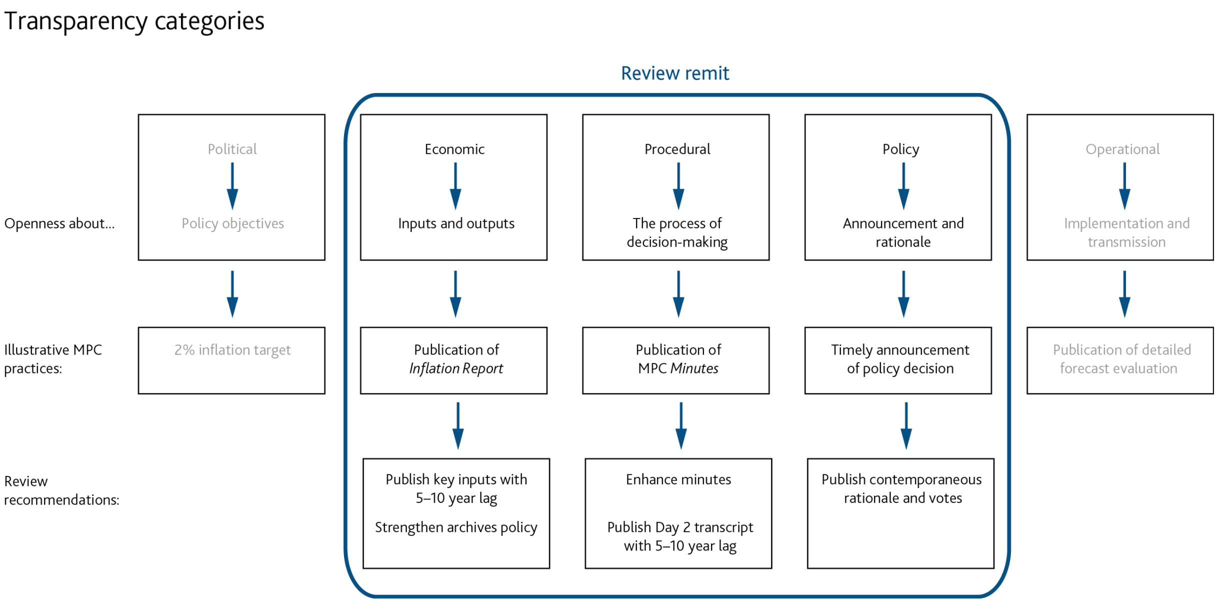
In particular, the new Secretariat should:

- oversee the production and release of Day 2 transcripts, including circulating drafts to participants to ensure the integrity of the written word; take primary responsibility for pro-actively identifying and collecting key briefing materials that would be released alongside Day 2 transcripts with a five to ten year delay;
- recommend appropriate standards to govern redactions in extraordinary cases, consistent with the public interest. Redactions may be appropriate, for example, if the information remains proprietary, confidential, and/or under active consideration by the MPC. There should, however, be a strong presumption in favour of full disclosure;
- ensure that archival records relating to monetary policy are stored appropriately within the Bank's records management system, transferred to the Archive at the appropriate juncture, and made readily accessible to the public after 20 years.

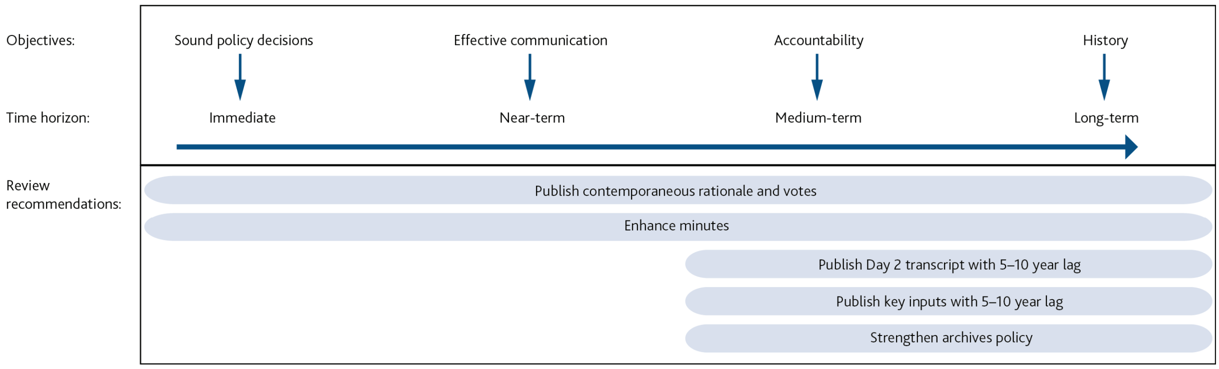
Summary

The Review concludes that reforms in these five broad areas would best equip the MPC in its pursuit of the Big 4 objectives. **Figure 16** shows these five recommendations in the context of the framework developed in the Review.

Figure 16: Review recommendations and transparency



Big 4 objectives



Source: based on Geraats (2002).

6. Implications: PRA and FPC

The Big 4 transparency objectives are common to all three policymaking committees of the Bank. The question, however, is whether – and if so, to what extent – the proposed reforms to the MPC should be applied to the Board of the Prudential Regulation Authority (PRA) and the Financial Policy Committee (FPC).

PRA

The PRA, which is responsible for the prudential regulation of UK banks and insurers, was established as a wholly-owned subsidiary of the Bank by the Financial Services Act of 2012. It shares the Bank's overall mission to promote the good of the people of the United Kingdom, and seeks to maximise the complementarities between its work and that of the Bank's other policy committees. Though the PRA shares a common sense of purpose with the MPC, it is very different in form, responsibilities and structure. Hence, transparency reforms that are applicable to the MPC are not, in the main, appropriate for the PRA.

First, the PRA is responsible for the safety and soundness of banks, major investment firms, building societies, credit unions, and insurers. It is focused on micro-prudential supervision, a bottom-up exercise. The PRA's judgments are focused on individual financial institutions, particularly those that pose the greatest risk to financial stability. As a consequence, the data upon which the PRA bases its regulatory and supervisory judgments is overwhelmingly proprietary and institution-specific.

By contrast, the MPC is tasked with the macroeconomic objective of ensuring price stability as a condition precedent to the pursuit of other policies. MPC policies are top-down, and its goal is to evaluate the broad contours of the UK economy. As such, MPC deliberations and decisions generally involve analysis of aggregate, macroeconomic data.

Second, the PRA's deliberation and decision-making process is altogether different from that of the MPC. The PRA's most significant supervisory decisions are taken by its Board – currently comprising four Bank staff and five independent non-executive members.[33] Unlike the one-member, one-vote tradition of the MPC, the PRA Board strives to achieve consensus, taking due consideration of the views expressed.

The PRA Board meets twice-monthly, more frequently than the MPC. That reflects the large number of supervisory judgments that the PRA Board makes, and the speed with which action is required.[34] By contrast, the MPC is largely making a unitary decision each month about the appropriate stance of monetary policy. This typically occurs amid a fairly slow-moving macroeconomic environment.[35]

How do these distinctions affect the application of MPC reforms to the PRA? An assessment of the Review's Big 4 objectives provides some important insights.

The first objective in assessing any transparency initiative is to evaluate its effect on making sound decisions. What if the internal debate at the PRA Board regarding the most appropriate levels of capital and liquidity of a particular firm were made public? The task of making sound decisions and ensuring the safety and soundness of a particular bank or insurer could well be undermined. Public

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[33] These independent members include the chief executive of the Financial Conduct Authority (FCA). The FCA is a separate institution from the Bank of England, and is responsible for promoting competition, ensuring that relevant markets function well and regulating the conduct of all financial services institutions,

[34] The PRA as a whole is responsible for the prudential regulation of around 1,700 firms. Day-to-day decisions are taken by PRA senior management at the twice-weekly meeting of the Staff's Supervision, Risk and Policy Committee (SRPC). The most important judgments – for example, many of those affecting the largest ('Category 1') institutions – are escalated to the PRA Board.

[35] Indeed, as set out elsewhere in the Review, the MPC is probably meeting more frequently than optimal.

communication, for example, through transcripts could prove destabilising to the firm, especially if remedial action were being debated or requested.

Effective communication involves the PRA's assessment of the financial firm's financial wherewithal. And should the firm disagree, it should respond with facts and analysis. Given the bottom-up nature of its work, the focus of PRA communications is, by necessity, with the individual firms themselves. That is in marked contrast to the MPC, where the communication of its views to a wide and diverse audience – financial markets, households and companies – is a key channel through which monetary policy is transmitted.

Does this mean that the PRA should not be held accountable? Of course not. The PRA should rightly be held to account for its decisions. But the proposed transparency reforms to the MPC – publishing policy statements contemporaneously, enhancing minutes, publishing transcripts of decisions and Staff inputs – are not obviously consistent with the sound policymaking of a bottom-up microprudential supervisor. Moreover, the institutional accountability of the PRA is different from the accountability that the Bank's stakeholders demand of each MPC member.

In what ways should the Bank ensure the accountability of the PRA? The Bank should ensure its broader stakeholders are aware of the standards and expectations for which the PRA is holding its regulatees to account. The PRA should also be accountable for its general approach to supervision – the nature of its oversight, its interactions with and expectations for firm-level senior management and boards of directors. These types of PRA policy transparency are best accomplished through periodic reports and testimonies to the Treasury Committee, rather than contemporaneous policy statements and meeting transcripts.

Finally, does the PRA owe an obligation to history? Yes, indeed. If the Bank adopts the Review's recommendation with respect to a strengthened Secretariat function for the MPC, it should consider a similar model for the PRA. An expanded Secretariat function could ensure that the PRA establishes robust rules and procedures for what constitutes archival documents, and ensures that these documents are made available under the Bank's recently adopted 20-year rule. This would help historians better understand the decisions made by the PRA, and more generally the evolution of the United Kingdom's post-crisis regulatory framework.

Grafting the rest of the MPC's reform proposals on to the PRA, however, seems ill-advised.

FPC

The Financial Services Act 2012 also established an independent Financial Policy Committee at the Bank.[36] The Committee is charged with a primary objective of contributing to financial stability by identifying, monitoring and taking action to remove or reduce systemic risks. Its purpose is to protect and enhance the resilience of the UK financial system.[37]

The FPC's remit and that of the PRA are complementary. The FPC evaluates the safety and soundness of the financial system as a whole; the PRA evaluates the safety and soundness of individual firms.

As such, the FPC sits on a continuum somewhere between the PRA and the MPC. It strives to enact policies that serve the long-term macroeconomic interest, but its data and analysis is derived, in part, from evaluations of some of the largest financial firms that do business in the UK.

[36] The FPC existed on an interim basis between February 2011 and March 2013; the Financial Services Act 2012 came into force on 1 April 2013.
[37] The FPC has a secondary objective to support the economic policy of the Government.

Figure 17: Key characteristics of the Bank's policy committees

	MPC	FPC	PRA Board
Membership	9 members of which: 5 internal, 4 external	11 members of which: 5 internal, 6 external	9 members[(a)] of which: 4 internal, 5 external
Statutory objectives			
Primary	To maintain price stability	To contribute to financial stability	To promote the safety and soundness of PRA-regulated firms, and for insurers, to contribute to an appropriate protection of policyholders
Secondary	To support the economic policy of the Government	To support the economic policy of the Government	To promote competition in the markets where PRA-regulated firms operate
Date created	Interim basis from 6 May 1997 Statutory basis from 1 June 1998	Interim basis from 17 February 2011 Statutory basis from 1 April 2013	1 April 2013
Decision-making protocol	One-member, one-vote	Consensus (one-member, one-vote if consensus cannot be reached)	Consensus
Policy meeting frequency	Monthly	Four times per year	Twice per month
Considers specific institutions	Rarely	Often	Almost always

Source: Bank of England website.
(a) As of December 2014. Will increase to 11 in May 2015.

To a certain extent, the FPC and MPC are, at least aspirationally, more kindred macro-driven, policymaking committees than the micro-driven, firm-level judgments undertaken by the PRA. Both the MPC and FPC are focused on the broad contours of the UK economy. Each is striving to implement policies to help ensure long-term economic prosperity and resiliency. But there are nevertheless some key differences between the two policymaking committees. As a result, it would be imprudent to presume that there is a direct read-across from the proposed MPC transparency reforms to the FPC.

First, the FPC's policy instruments, tools, and objectives are nascent in their development relative to our understanding of the conduct of monetary policy. There is little economic literature or policy practice in macroprudential oversight to provide informed guidance.

The FPC, like its counterpart in the United States, the Financial Stability Oversight Council, is necessarily learning about its tool-kit and objectives during these early, formative years of macroprudential supervision. The Bank appears to be making substantial progress in its new monitoring regimes. But, the task of identifying bubbles and assessing vulnerabilities is daunting. Suffice it to say that that the new macroprudential policy tools are still a subject of considerable debate among policymakers.

Second, the MPC policy is largely directed at the modal distribution of policy; that is, the most likely economic outcomes. So, the proposed MPC transparency reforms – contemporaneous statements and rationale, enhanced minutes, lagged release of Committee transcripts and key Staff inputs – are intended to explain and corroborate events that transpire. In contrast, the FPC is decidedly more focused on 'tail-risks' – those things that are unlikely to transpire, but if so, would have a materially negative effect on economic stability. So, if FPC members perform their jobs with aplomb, they will most likely have their greatest fears uncorroborated by events. Fully revealing the discussion that led to the identification of tail risks might not promote accountability and could cause unnecessary confusion in financial markets.

Third, the FPC's discussions and dynamics to date appear quite different from the MPC. There are no readily distinguishable policy 'go-arounds' that distinguish deliberations from decisions. With the benefit of time and experience, the FPC may evolve into a model closer to that of the MPC, but it is premature to assume or precipitate such a move.

While the FPC may aspire to be more like the MPC over time, there are two aspects of the FPC that overlap substantially with the PRA at present. This overlap also weighs against applying MPC practices to the FPC, at least for a time.

Like the PRA, the FPC makes considerable use of data and analysis that is derived from particular financial firms. In part, that is because the UK financial system is reasonably concentrated. So if, for example, transcripts of the FPC were made available to the general public, even with a lag, they would likely reveal privileged, firm-specific details, including PRA judgments about the resilience of these firms.

Second, like the PRA Board, the FPC seeks to make decisions by consensus. Its members constitute five Bank staff, the Chief Executive of the Financial Conduct Authority (FCA) (one of five external members), four other external members appointed by the Chancellor, and a non-voting representative of the Treasury. Members of the FPC are expected to support the consensus decision in their public statements, in contrast to the individual accountability of the MPC. It is especially important that the members speak freely at meetings and bring alternative perspectives, even if these alternatives are not adopted or are modified in arriving at the consensus.

Overall, would the application of MPC transparency reforms to the FPC advance the Big 4 transparency objectives? It is too early in the maturity cycle of the FPC to make such a conclusion with any conviction.

The importance of this new macroprudential remit to the Bank, and the distance between its promise and its full attainment, suggests some additional degree of care and discretion should be given before imposing new strictures.

At present, making sound policy decisions could be impaired if FPC discussions were made public through transcript release, even with a lag. The FPC very much needs an unconstrained space for open discussion (including of confidential information) and deliberation as its members seek to advance its new discipline and find consensus.

Moreover, effective communication – among the other Big 4 objectives – would not necessarily be well-served by applying the MPC standards to the FPC as macroprudential policy is being developed. Ensuring FPC accountability for tail-risk judgments that are unlikely to transpire also seems a difficult task. In addition, the consensus-driven decision-making of the FPC makes it less important that individual views are expressed and attributed.

Institutional accountability is more in demand. And the FPC appears reasonably well-served through existing accountability arrangements: the publication of statements, a published record of its formal policy meetings, speeches, testimonies to Parliament and the issuance of the Bank's bi-annual *Financial Stability Report*.

In sum, the Review finds that it is premature to recommend that the proposed reforms of the MPC be applied to the FPC. It is recommended, however, that the Bank and its stakeholders revisit this question during the next three to five years. Time is required for the FPC to find its way in developing its tools, instruments, and objectives in the conduct of the new field of macroprudential regulation. That should give the FPC sufficient opportunity to navigate its way in service to its new objectives. By that time, as the FPC's understanding of the new discipline advances, there may be scope for additional transparency reforms.

In the interim, however, the FPC should periodically review its communications policies, and look for opportunities to increase its transparency in service to the Big 4 objectives. The Bank should also ensure that archive policies and procedures are updated to ensure that historians are ultimately able to understand these important years of maturation for the FPC. Once the strengthened Secretariat of the MPC is established, the Bank should consider a comparable structure for the FPC, as well as the PRA, to ensure that archives are created, secured, and made available, subject to the Bank's 20-year rule.

Annex 1: remit of the Review

News Release – Transcripts of Monetary Policy Committee meetings

30 April 2014

The Bank has commissioned a review of practices and procedures in its consideration of making permanent recordings and transcripts of Monetary Policy Committee (MPC) meetings. The Bank has appointed Governor Kevin Warsh, a former member of the Board of Governors of the Federal Reserve System and member of the Federal Open Market Committee, to undertake the review.

MPC meetings are currently recorded by those responsible for writing the MPC minutes as a back up to their written notes. This helps to ensure that the published minutes are accurate. No transcript is made and the recordings are erased once the official minutes have been published. At a recent Treasury Committee hearing the Bank was asked to consider making and keeping full transcripts with a view to releasing them after a number of years. Transcripts of monetary policy discussions in some other central banks are, or will be, published. Those of the Federal Open Market Committee in the United States are published after five years. In the euro area, records of ECB Governing Council meetings will be published after thirty years.

Governor Warsh's review will consider:

1. The possible benefits and costs of retaining and, in due course, publishing a full transcript of MPC policy discussions and decisions.

2. If a delayed publication were to be adopted, the appropriate length of delay.

3. Whether publication would require any further changes to be made to the procedures of the MPC.

4. The relative merits of alternative ways of improving the transparency of policy discussions and decisions.

5. The applicability of any recommendations to the Financial Policy Committee and to the Board of the Prudential Regulation Authority.

The review will take account of recent academic work on policy transparency, views and practices among other major central banks, and the views of the Bank's key stakeholders.

Governor Warsh will be supported by a review team drawn from the Monetary Analysis Divisions and the Secretary's Department. The Bank expects to publish a report from Governor Warsh by the end of the year.

Mark Carney, Governor of the Bank said: "The Treasury Committee has asked an important question and I am delighted that Governor Warsh has accepted our invitation to undertake an independent review. His broad knowledge of central banking and his experience as a member of the Federal Reserve Board will be of particular value in addressing the question. I and my fellow Governors look forward to gaining his perspectives on this important issue."

Governor Warsh said: "It's a privilege to serve the Bank of England in this capacity. The objective is to evaluate if changes in the practice of conducting monetary policy would serve the long-term interests of the UK economy".

Notes to Editors

1. Kevin M Warsh serves as Distinguished Visiting Fellow at Stanford University's Hoover Institution and as Lecturer at its Graduate School of Business.
2. In addition, he advises several companies, including serving on the board of directors of UPS.
3. Governor Warsh served as a member of the Board of Governors of the Federal Reserve System from 2006 until 2011. He served as the Federal Reserve's representative to the Group of Twenty (G-20) and as the Board's emissary to the emerging and advanced economies in Asia. In addition, he was Administrative Governor, managing and overseeing the Board's operations, personnel, and financial performance.
4. Prior to his appointment to the Board, from 2002 until 2006, he served as Special Assistant to the President for Economic Policy and Executive Secretary of the White House National Economic Council. Previously, he was a member of the Mergers & Acquisitions department at Morgan Stanley & Co. in New York, serving as Vice President and Executive Director.
5. Governor Warsh was born in upstate New York. He received his A.B. from Stanford University, and his J.D. from Harvard Law School.

Annex 2: existing MPC processes

This Annex sets out the MPC's existing practices, as I observed them directly or understood them from multiple interviews with participants. It includes key events in the monthly monetary policy cycle,[38] the MPC's existing transparency practices and the longer-term arrangements to make materials available to the public as historical records.

Pre-MPC

The MPC meets every month to form a judgement on policy, as required by statute. These monthly meetings typically take place during the first week of each calendar month. They are preceded by a period of intense preparation, both by Bank Staff and by Committee members themselves.

The monthly cycle kicks off in earnest on the Friday morning preceding the MPC meeting. During the course of the morning, Staff deliver a series of six to ten set-piece presentations to the MPC. The presentations each cover different aspects of the economy – financial markets, the international economy, money and credit, costs and prices, and so on – and are intended to brief the Committee on important economic developments. MPC members typically ask questions, which may be answered on the spot by presenters or other staff in the room, or as part of a follow-up briefing. The meeting takes place in a relatively small lecture theatre, and is attended by Bank economists, a representative of HM Treasury, a representative of the Office for National Statistics (ONS), and typically a small number of other outside observers (for example, non-executive members of the Bank of England's Court of Directors, or visiting colleagues from international central banks). All in all, there may be a hundred or so people in the room.

A large amount of written material is prepared each month by Bank Staff for the MPC. These papers analyse the latest economic developments, and are categorised as 'background', 'recommended' or 'essential' reading for the policy meeting. Many of these topics are discussed at the pre-MPC meeting.

In the run-up to the MPC meeting itself, Committee members spend time considering the analysis presented at pre-MPC, asking follow-up questions, and preparing for the policy meeting itself. On the Monday of the week of the policy meeting, the Bank's Chief Economist circulates to the Committee a short proposed agenda for the Wednesday afternoon discussion. The agenda is not intended to be exhaustive; it serves simply to set out a few key topics for discussion.

The MPC meeting

The MPC's policy meeting takes place over two days, typically the Wednesday afternoon (Day 1) and Thursday morning (Day 2) of the first full week of each month. Before going on to describe the format of the meeting, it is worth noting the differences between the two days of the MPC's discussions, both in form and substance. The contrasting nature of Day 1 and Day 2 was a recurring theme of my consultations with current and former MPC members. It was also apparent when I listened to recordings of selected MPC meetings.[39]

The MPC meeting normally begins at 3pm on the Wednesday afternoon. As discussed in Section 3, the set-up is well designed to facilitate an effective deliberation: the room is small, and there are only a few others present in addition to the Committee members – typically five senior Bank staff, a non-

[38] An in-depth account of the entire MPC process can be found in Lambert (2005), much of which appears still valid.

[39] I listened to recordings of the MPC meetings in a secure setting at the Bank of England after the *Minutes* for that meeting had been released but before the subsequent meeting. As these policy meetings commenced, the Governor reminded his MPC colleagues that I would be listening to the recordings.

voting representative of HM Treasury, and often a non-executive director of the Bank of England's Court as an observer. A true deliberation ensues.

Each topic on the agenda is introduced by a designated MPC member. The Committee discusses financial markets (introduced by the Deputy Governor for Markets and Banking); the international economy (introduced by the Deputy Governor for Financial Stability); money, credit demand and output; supply, costs and prices; and, finally, monetary strategy (introduced by a combination of the Deputy Governor for Monetary Policy and Chief Economist). The introductory remarks on each topic aim to highlight the topic by summarising that month's news and offer an interpretation of developments in that area, including airing alternative perspectives and flagging risks.

The Committee then discuss each topic in turn. The discussion is informed by the short pre-prepared agenda, but appears not to be constrained by it. Committee members readily advance topics for discussion that have not been covered either in the agenda or in the opening remarks by the MPC member 'lead'. The debate is free-flowing and open; the tone courteous and quite informal. The Committee engages in a search for truth, exploring the economic landscape with no shortage of intellectual curiosity. Members seem to be testing out ideas and advance alternative hypotheses, which are then rigorously deliberated, debated, and, often, dismissed. This is a genuine deliberation, and one that plays a key role in guiding the Committee's decision the following day.

Section 3 of this Review sets out in more detail the important role of genuine deliberations in the decision-making process.

The MPC meeting continues on Thursday morning. But the tone and purpose of Day 2 is very different. While Day 1 is deliberative, Day 2 is largely decisional. And when compared with the *ad hoc* informality and cross-talk of Day 1, Day 2 is orderly, almost formal in comparison. Overnight, MPC members reflect on the previous afternoon's discussion. By morning, they will each settle individual policy conclusions, which they then often advocate.

The extent of the preparation for the Day 2 meeting varies, and depends upon the preferences of the individual Committee member and demands of the prevailing economic situation. But, in most cases, members arrive at the meeting with written statements prepared. The Governor invites each member to present his views and votes. The Deputy Governor for Monetary Policy always speaks first and the Governor last; in between, the seven other members are called upon, seemingly in a random order, by the Governor. Each member typically speaks for five to ten minutes, explaining the key judgments underpinning their policy decision, arguing the wisdom of his or her position. Occasionally, members express a preference to hear others' views before they themselves cast their vote.

The announcement

The Bank announces the MPC's decision at midday on the Thursday (Day 2) shortly after the conclusion of the policy meeting. The announcement takes the form of a short press release, which simply states the outcome of the meeting, typically without explanation. The names of individual voters are not disclosed. The announcement aims to communicate the MPC's verdict to financial markets clearly, and in a timely manner.

In months where the MPC decides to change policy, or on the rare occasions when the Committee feels compelled to explain its views if policy is unchanged (on average, around 4% of the 'no change' meetings), it issues a short statement to accompany its decision. These statements are intended to provide more guidance than is customary as to the MPC's assessment of the economy and its policy rationale.

The minutes

The minutes of the MPC meeting – typically, the first opportunity for the public to hear the outcome of the policy vote, and to be given a detailed rationale of the policy decision – are published at 9:30am on the Wednesday two weeks following Day 1 of the policy meeting. The production of the minutes is overseen by the existing MPC Secretariat, a small group of senior Bank Staff, three of whom attend the policy meeting each month. The Secretariat's task is to summarise several hours of discussion, some of it very free-flowing and open-ended, into about a dozen pages of text.

The Secretariat circulates a first draft of the minutes to the MPC and some senior Bank staff by the Tuesday of the week following the MPC meeting. MPC members are then provided an opportunity to offer comments, and a second draft is circulated. On the Monday of the following week, two days before the minutes are published, the MPC and Secretariat participate in a live drafting meeting.

The Committee members review the content of the minutes in great detail. Members can, and not uncommonly do, challenge the draft of the minutes provided by the Secretariat if they do not believe that their views have been accurately captured. The final version of the minutes is agreed by the Committee prior to their release. This process ensures that the final minutes fairly represent the discussion of the meeting.

The final published minutes amount to around a dozen pages of tightly drafted prose that follows a fairly set format.

They first describe the MPC's view of the data flow based on their discussions on Day 1, covering in turn: financial markets; the international economy; money, credit, demand and output; and supply, costs and prices. The text describes risks and counter-arguments. It presents the conclusions of the committee's deliberations, rather than the content of the deliberation itself. Views or comments are not attributed to individuals by name.

The minutes then describe the discussion on Day 2 – this largely is covered in the section of the minutes called 'The Immediate Policy Decision'. This section draws together the Committee's view of the economy as a whole and their policy conclusions. It explicitly reports differing views, although these are not attributed to individuals but rather to different camps ("For some members…"). Finally, the minutes report the votes of each member.

Figure A1: A stylised timeline of the MPC's monthly cycle

Weeks leading up to and following the MPC meeting	Day	Event	Description
-1	Friday morning	Pre-MPC	Set of 6–10 presentations given to the MPC each month by staff ahead of their policy meeting. Staff update on the data and present new analysis. The meeting is open to all Bank staff, as well as some outsiders (eg an HM Treasury representative) — there are typically around 100 observers.
0	Wednesday afternoon	MPC meeting (Day 1)	MPC members deliberate the economy. A fixed set of topics is discussed in turn, each of which is introduced by a different member: Financial Markets (introduced by the Deputy Governor Markets and Banking); International (Deputy Governor Financial Stability); Demand and Output, Costs and Prices, Monetary Strategy (shared between Deputy Governor Monetary Policy and Chief Economist). In addition to the MPC, there are typically 6 or 7 others in the room (3 members of the MPC Secretariat, the Head of the Inflation Report Division, the Director of Monetary Analysis, an HM Treasury representative, and sometimes a non-executive Director of the Bank's Court).
	Thursday morning	MPC meeting (Day 2)	Members summarise their policy positions and vote. Deputy Governor Monetary Policy votes first, and the Governor last, with other members chosen in a random order.
	Thursday 12pm	MPC decision announced	News release at noon stating the decision. Accompanied by a somewhat longer statement only if policy is changed, or very occasionally otherwise.
2	Monday	Minutes drafting meeting with MPC	The MPC meets together with the Secretariat and finalise the drafting of the minutes.
	Wednesday 9:30am	MPC minutes published	The minutes follow the format of the meeting, describing Day 1 and Day 2, revealing the vote at the end. Views are not attributed to individuals.

Interaction with the *Inflation Report*

In the months in which the MPC produces forecasts of the economy and publishes its *Inflation Report* (February, May, August, November), there are additional processes and practices in place. These are described in more detail in Stockton (2012).

For *Inflation Report* months, a series of meetings take place in the three weeks preceding the policy meeting, during which the MPC develops its consensus economic projections. These projections are a key input to the formation of policy. They are formally agreed at the policy meeting itself, and published a week later as part of the *Inflation Report.* So, in a forecast month, the MPC communicates its views on policy and the economy through a sequence of three events: first, the announcement on the day of the policy meeting itself; second, the publication of the *Inflation Report* and associated press conference six days later; and third, the publication of the minutes and vote a further week after that.

Following David Stockton's *Review*, the Bank implemented a series of reforms to enhance the transparency of its forecasts (McKeown and Paterson, 2014). These reforms include providing more clarity about the key judgments underlying the MPC's forecast; monitoring those judgments through a set of near-term indicators; publishing more detail about the forecast itself, including projections for a much wider range of variables; and performing a more detailed evaluation of its forecast. The intellectual framework underlying these reforms is similar to that adopted in this Review – namely that the focus should be on effective, rather than maximum, transparency.

Historical MPC records

As part of the continuous policy process described here, a large volume of written material is produced inside the Bank – briefings for the MPC, internal memos, presentations, and so on. Together, these materials form a body of source material that is potentially of considerable historical interest.

The Bank's practices surrounding historical records on monetary policy appear consistent with the policy of government departments. In particular, 'records' are made available to the public through the Bank's Archive after a period of 20 years (the 20-year rule). The 20-year rule is the latest incarnation of the UK's public records policy, which has been revisited a number of times since being first established in the 1950s. Following a review commissioned in 1952, the government announced that public records would be opened to the general public after a period of 50 years, with some exemptions. This was legislated in the Public Records Act 1958, and came into force in 1959. In 1967, following Prime Minister Harold Wilson's call to "let some light and air into our public records", the closure period was reduced to 30 years.

Despite a series of subsequent reviews, the 30-year rule remained intact until 2007, when Gordon Brown, then Prime Minister, stated that "it is time to look again at whether historical records can be made available for public inspection much more swiftly than under the current arrangements", and announced a fresh review. The *30 Year Rule Review*, chaired by Paul Dacre, recommended a further reduction of the closure period to 15 years. In 2010, the government announced a reduction in the rule, albeit to 20 years rather than 15. In coming to their recommendation, Paul Dacre, Sir Joseph Pilling and Sir David Cannadine sought to balance the "…necessary tension between the understandable need for governments to work in some privacy and the equally understandable wish of citizens to know what is being done in their names." These are similar to the issues encountered during the course of the Review.

Despite being classed as a 'non-departmental public body', and, with respect to monetary policy, therefore officially not covered by the 20-year rule, the Bank sought to follow the spirit of the established best practices in place across government. Therefore the Bank's Archive has recently reduced its own closure period from 30 to 20 years. The Bank is phasing in the transition to 20 years gradually.

As a result, records relating to monetary policy that are of historical value are transferred to the Archive and released. The period currently in scope extends to 1985. So, over the next few years, material relating to some of the landmark economic events in the UK's recent history is due for release. For example, records relating to the creation of the UK inflation targeting framework are due for release in 2018, and the records relating to the creation of the MPC in1997 are scheduled to be released in 2020.

In practice, the process by which materials produced around the Bank become publically available archived records consists of four stages. First, records are marked as such and filed (either literally or electronically) by business areas. This is the business of Records Management. Second, these records are then retained for specified periods of time for operational reasons, according to the Bank's Records Retention and Disposal Policy. Third, at the end of that retention period, records of potential historical value are transferred to the Bank's Archive for permanent preservation. Finally, the Bank's Archive work through the records that they receive and make public those that they deem to be of historical value.

The Bank, like other public bodies, works under the presumption that all records will eventually be opened up, but that some may have to be withheld or redacted if they contain particularly sensitive material (for example, relating to personal data, or Bank security). The Bank currently has around 84,000 records in the Archive, of which 59,000 are open.

Annex 3: further detail on peer review

Detailed criteria used in Eijffinger-Geraats central bank transparency index

The Eijffinger-Geraats (2006) central bank transparency index is constructed by asking three questions in each of five categories of transparency. The resulting index of central bank transparency is the sum of the scores for answers to fifteen questions (min = 0, max = 15); the questions are set out below. **Figure A2** presents a full breakdown of scores for our sample of ten major central banks, based on data from Dincer and Eichengreen (2014). These results are summarised in Section 4.

1. Political transparency

Political transparency refers to openness about policy objectives. This comprises a formal statement of objectives, including an explicit prioritisation in case of multiple goals, a quantification of the primary objective(s), and explicit institutional arrangements.

Questions:

A. Is there a formal statement of the objective(s) of monetary policy, with an explicit prioritisation in case of multiple objectives?

No formal objective(s) = 0.

Multiple objectives without prioritisation = ½.

One primary objective, or multiple objectives with explicit priority = 1.

B. Is there a quantification of the primary objective(s)?

No = 0.

Yes = 1.

C. Are there explicit contacts or other similar institutional arrangements between the monetary authorities and the government?

No central bank contracts or other institutional arrangements = 0.

Central bank without explicit instrument independence or contract = ½.

Central bank with explicit instrument independence or central bank contract although possibly subject to an explicit override procedure = 1.

2. Economic transparency

Economic transparency focuses on the economic information that is used for monetary policy. This includes economic data, the model of the economy that the central bank employs to construct forecasts or evaluate the impact of its decisions, and the internal forecasts (model-based or judgmental) upon which the central bank relies.

Questions:

A. Is the basic economic data relevant for the conduct of monetary policy publicly available? (The focus is on the following five variables: money supply, inflation, GDP, unemployment rate and capacity utilisation).

Quarterly time series for at most two out of the five variables = 0.

Quarterly time series for three or four out of the five variables = ½.

Quarterly time series for all five variables = 1.

B. Does the central bank disclose the macroeconomic model(s) it uses for policy analysis?

No = 0.

Yes = 1.

C. Does the central bank regularly publish its own macroeconomic forecasts?

No numerical central bank forecasts for inflation and output = 0.

Numerical central bank forecasts for inflation and/or output published at less than quarterly frequency = ½.

Quarterly numerical central bank forecasts for inflation and output for the medium term (one to two years ahead), specifying the assumptions about the policy instrument (conditional or unconditional forecasts) = 1.

3. Procedural transparency

Procedural transparency is about the way that monetary policy decisions are taken.

Questions:

A. Does the central bank provide an explicit policy rule or strategy that describes its monetary policy framework?

No = 0.

Yes = 1.

B. Does the central bank give a comprehensive account of policy deliberations (or explanations in case of a single central banker) within a reasonable amount of time?

No, or only after a substantial lag (more than eight weeks) = 0.

Yes, comprehensive minutes (although not necessarily verbatim or attributed) or explanations (in case of a single central banker), including a discussion of backward and forward-looking arguments = 1.

C. Does the central bank disclose how each decision on the level of its main operating instrument or target was reached?

No voting records, or only after substantial lag (more than eight weeks) = 0.

Non-attributed voting records = ½.

Individual voting records, or decision by single central banker = 1.

4. Policy transparency

Policy transparency means prompt disclosure of policy decisions, together with an explanation of the decision, and an explicit policy inclination or indication of likely future policy actions.

Questions:

A. Are decisions about adjustments to the main operating instrument or target announced promptly?

No, or only after the day of implementation = 0.

Yes, on the day of implementation = 1.

B. Does the central bank provide an explanation when it announces policy decisions?

No = 0.

Yes, when policy decisions change, or only superficially = ½.

Yes, always and including forwarding-looking assessments = 1.

C. Does the central bank disclose an explicit policy inclination after every policy meeting or an explicit indication of likely future policy actions (at least quarterly)?

No = 0.

Yes = 1.

5. Operational transparency

Operational transparency concerns the implementation of the central bank's policy actions. It involves a discussion of control errors in achieving operating targets and (unanticipated) macroeconomic disturbances that affect the transmission of monetary policy. Furthermore, the evaluation of the macroeconomic outcomes of monetary policy in light of its objectives is included here as well.

Questions:

A. Does the central bank regularly evaluate to what extent its main policy operating targets (if any) have been achieved?

No, or not very often (at less than annual frequency) = 0.

Yes, but without providing explanations for significant deviations = ½.

Yes, accounting for significant deviations from target (if any); or, (nearly) perfect control over main operating instrument/target = 1.

B. Does the central bank regularly provide information on (unanticipated) macroeconomic disturbances that affect the policy transmission process?

No, or not very often = 0.

Yes, but only through short-term forecasts or analysis of current macroeconomic developments (at least quarterly) = ½.

Yes, including a discussion of past forecast errors (at least annually) = 1.

C. Does the central bank regularly provide an evaluation of the policy outcome in light of its macroeconomic objectives?

No, or not very often (at less than annual frequency) = 0.

Yes, but superficially = ½.

Yes, with an explicit account of the contribution of monetary policy in meeting the objectives = 1.

Detailed comparison of peer practices

Figure A2 shows the full transparency scores along all fifteen criteria for our peer group.

Figure A2: Detailed comparison of peer practices

Question	Political	Economic	Procedural	Policy	Operational
A	Formal objective(s)	Key data available	Explicit policy strategy	Announcement	Evaluation of implementation
B	Quantitative objective	Disclosed model	Minutes	Explanation	Evaluation of forecast performance
C	Instrument independence	Publish forecasts	Voting records	Disclosure of policy inclination	Evaluation of policy stance

	Total	A	B	C	Sum	A	B	C	Sum	A	B	C	Sum	A	B	C	Sum	A	B	C	Sum
Sveriges Riksbank	14.5	0.5	1	1	2.5	1	1	1	3	1	1	1	3	1	1	1	3	1	1	1	3
Reserve Bank of New Zealand	14	1	1	1	3	1	1	1	3	1	1	1	3	1	1	1	3	1	0.5	0.5	2
Bank of England	12	0.5	1	1	2.5	0.5	1	1	2.5	1	1	1	3	1	0.5	0	1.5	1	1	0.5	2.5
Federal Reserve	12	0.5	1	0.5	2	1	1	0.5	2.5	1	1	1	3	1	1	1	3	1	0	0.5	1.5
Bank of Japan	11.5	0.5	1	1	2.5	1	1	1	3	1	1	1	3	1	0.5	0	1.5	0.5	0.5	0.5	1.5
European Central Bank	11	1	1	1	3	1	1	1	3	1	0	0	1	1	1	0	2	1	0.5	0.5	2
Norges Bank	11	0.5	1	1	2.5	0.5	1	1	2.5	1	0	0	1	1	1	1	3	1	0.5	0.5	2
Bank of Canada	11	1	1	1	3	1	1	1	3	1	0	0	1	1	1	0	2	1	0.5	0.5	2
Reserve Bank of Australia	11	1	1	1	3	0.5	1	1	2.5	1	1	0	2	1	1	0	2	1	0.5	0	1.5
Swiss National Bank	10.5	1	1	1	3	1	1	1	3	1	0	0	1	1	1	0	2	1	0.5	0	1.5

Source: Dincer and Eichengreen (2014) and Warsh Review calculations based on data provided by Dincer and Eichengreen.

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