

EXECUTIVE SUMMARY

The Bank of Canada (BOC) sets a high benchmark for transparency, which is recognized by its stakeholders, thus maintaining a high level of trust and accountability. The BOC's transparency practices are broadly aligned with expanded and comprehensive practices as defined by the IMF Central Bank Transparency Code (see Table 1). This is acknowledged by the BOC's external stakeholders, who view the central bank as an open, dynamic, and transparent public institution.

The BOC implements advanced transparency practices which were evidenced in several practice areas:

- The BOC is actively using novel communication tools, such as layering of policy communications, and strives to be an avid listener, getting feedback on its policies and operations via different means.
- The BOC discloses its financial stability policy framework, including objectives, strategy, and instruments, as well as a comprehensive assessment of risks to financial stability.
- The BOC's transparency framework on the Emergency Liquidity Assistance (ELA) framework is comprehensive regarding the policy, objectives, terms, and conditions as well as the ongoing liquidity provision.
- The BOC is transparent about its interactions with foreign governments and international organizations, disclosing comprehensive information on its global engagements.
- The BOC takes a proactive stance on communications regarding newly emerging topics, such as climate change and central bank digital currency (CBDC), transparently explaining how they pertain to the BOC's legal mandate and objectives.
- With the launch of large-scale asset purchase programs in 2020 as a response to pressures caused by the COVID-19 pandemic, the BOC has fully disclosed the reasoning, parameters and expected results. It took the same approach this year when it started to unwind the program.

The transparency gaps revealed by the review are mostly attributed to legacy issues as the BOC transparency framework has been working well and proved to be resilient. In particular, the key elements of transparency in the governance structure are in place and the existing practices need only to be adequately reflected (see Recommendations 1–3). This concerns areas, such as the scope of the judicial review of BOC decisions (this becomes particularly relevant in view of the BOC's new powers with respect to retail payment systems), disclosure of risk management practices, internal anti-money laundering/countering the financing of terrorism (AML/CFT) controls, transparency of audit mechanisms, and a clearer definition of confidentiality parameters. Furthermore, while the BOC pursues a flexible exchange rate regime and the last time it resorted to foreign exchange (FX)

interventions was almost 25 years ago, additional disclosure (taken in the coordination with the Government of Canada) on the rationale for instrument choice would enhance transparency.

The BOC monetary policy framework is comprehensive, transparent, and understandable, although there is room for greater transparency with respect to the policy deliberations.

The BOC has been one of the pioneers in setting the standards for monetary policy communication by introducing fixed announcement dates for policy rate setting and publishing regular information on its policy framework, decisions, and operations in a clear and understandable manner. But given the dynamic notion of transparency and heightened economic uncertainty, the BOC could strengthen its relations with its stakeholders by providing more information on monetary policy deliberations and ex-post policy evaluations. Moreover, following the recent modification of the BOC's mandate to consider the broader labor market, the role of comprehensive and coherent communication on the BOC's core objectives is becoming even more important.

There is a room to improve transparency on the BOC's relations with domestic financial agencies, taking into consideration Canada's financial policy-making structure.

While the BOC is not a sole authority responsible for macroprudential policy and FX reserve management, it is actively involved in policy discussions and deliberations with several federal and provincial authorities. The BOC participates in various committees and working groups together with the Department of Finance (DOF) and other domestic financial agencies, but basic information on their proceedings is not regularly and timely disclosed. Mindful of confidentiality obligations, as well as the involvement of the other domestic agencies and the need for a consensus-based decision on greater transparency, the BOC could broach the need for additional disclosures on the activities and deliberations taking place during the regular meetings of these committees, thereby benefitting the external stakeholders of Canada's policymaking institutions.

Table 1. Bank of Canada: Central Bank Transparency Overview

Pillar	Principle	Sub-principle		Practices			
				Core	Expanded	Comp.	
I. Governance	1.1.	Legal Structure					
	1.2.	Mandate					
	1.3.	Autonomy	1.3.1.	Institutional/Operational			
			1.3.2.	Functional			
			1.3.3.	Personal			
			1.3.4.	Financial			
	1.4.	Decision-Making					
	1.5.	Risk Management	1.5.1.	Risk Exposure			
			1.5.2.	Risk Framework			
	1.6.	Accountability Framework	1.6.1.	Arrangements			
			1.6.2.	Tools			
1.6.3.			Anti-Corruption/COC				
1.6.4.			Human Capital Management				
1.7.	Communication	1.7.1.	Arrangements				
		1.7.2.	Strategy/Tools				
1.8.	Confidentiality						
II. Policies	2.1.	Monetary Policy	2.1.1.	Objectives/Framework			
			2.1.2.	Policy Decisions			
			2.1.3.	Supporting Analysis			
	2.2.	FX Administration	2.2.1.	Objectives/Framework			
			2.2.2.	Policy Decisions			
			2.2.3.	Supporting Analysis			
	2.3.	FX Management	2.3.1.	Objectives/Framework			
			2.3.2.	Policy Decisions			
			2.3.3.	Supporting Analysis			
	2.4.	FX Reserve Management	2.4.1.	Objectives/Framework			
			2.4.2.	Policy Decisions			
			2.4.3.	Supporting Analysis			
	2.5.	Macroprudential	2.5.1.	Objectives/Framework			
			2.5.2.	Policy Decisions			
			2.5.3.	Supporting Analysis			
2.6.	Microprudential Supervision						
2.7.	Emergency Liquidity Assistance (ELA)						
2.8.	Resolution						
2.9.	FMI						
2.10.	Financial Integrity	2.10. (a) AML/CFT supervision					
		2.10. (b) Internal AML/CFT controls					
2.11.	Consumer Protection						
III. Operations	3.1.	Monetary Policy	3.1.1.	Instruments			
			3.1.2.	Coverage			
			3.1.3.	Access			
	3.2.	FX Administration	3.2.1.	Instruments			
			3.2.2.	Coverage			
	3.3.	FX Management	3.3.1.	Instruments			
			3.3.2.	Coverage			
3.4.		3.4.1.	Instruments				

		FX Reserve Management	3.4.2.	Coverage			
			3.4.3.	Assessment			
	3.5.	Stress Testing	3.5.1.	FS Assessments			
			3.5.2.	ST Methods			
			3.5.3.	ST Coverage			
			3.5.4.	Use of ST Results			
	3.6.	Macroprudential	3.6.1.	Instruments			
			3.6.2.	Enforcement			
	3.7.	Microprudential Supervision					
	3.8.	Emergency Liquidity Assistance (ELA)					
	3.9.	Resolution					
	3.10.	FMI					
	3.11.	Financial Integrity	3.11. (a) AML/CFT supervision				
			3.11. (b) Internal AML/CFT controls				
	3.12.	Consumer Protection					
IV. Outcome	4.1.	Monetary Policy	4.1.1.	Governance Actions			
			4.1.2.	Policies			
			4.1.3.	Operations			
	4.2.	FX Administration	4.2.1.	Governance Actions			
			4.2.2.	Policies			
			4.2.3.	Implementation			
	4.3.	FX Management	4.3.1.	Governance Actions			
			4.3.2.	Policies			
			4.3.3.	Operations			
	4.4.	FX Reserve Management	4.4.1.	Governance Actions			
			4.4.2.	Reporting on Imp.			
			4.4.3.	Financial Results			
	4.5.	Macroprudential	4.5.1.	Governance Actions			
			4.5.2.	Policies			
		4.6.	Microprudential Supervision				
		4.7.	ELA				
		4.8.	Resolution				
	4.9.	FMI					
	4.10.	Financial Integrity	4.10. (a) AML/CFT supervision				
			4.10. (b) Internal AML/CFT controls				
	4.11.	Consumer Protection					
V. Official Relations	5.1.	Government	5.1.1.	Institutional			
			5.1.2.	Financial			
			5.1.3.	Instruments			
			5.1.4.	Outcome			
	5.2.	Domestic Agencies	5.2.1.	Institutional			
			5.2.2.	Instruments			
			5.2.3.	Macroprudential			
			5.2.4.	Financial Stability			
	5.3.	Foreign Agencies	5.3.				
	5.4.	Other Relations	5.4.1.				
	Denotes "Not Applicable"				Denotes "Not Implemented"		

A. Key Recommendations¹

- 1. Going forward, providing transparency of the judicial review of BOC decisions** would benefit from disclosing information on the applicable review mechanisms for the BOC's enforcement powers vis à vis its new function regarding supervision of retail payments providers.
- 2. The disclosure of the risk appetite statement and revised risk governance** will boost the transparency of the risk management function.
- 3. Transparency of audit mechanisms would benefit from:** (i) disclosing an external audit selection and rotation policy, including criteria for eligibility, independence, and compliance with international standards; and (ii) clarifying the mandate and reporting structure of the internal audit function, and publishing the charter governing its operations.
- 4. Consider publishing a detailed summary of monetary policy deliberations** by the Governing Council, as well as enhancing its communication on ex-post evaluation of the policy decisions, disclosing alternative policy scenarios, and improving the timeliness and accessibility of published macroeconomic projections.
- 5. Promote BOC's financial stability messages** more broadly to the general public by increasing the frequency of its communication using "plain language."
- 6. Put in place a framework** that provides information on how and to what extent financial stability measures, including market-wide exceptional liquidity support, contribute to achieving BOC's objectives such as restoring market functioning.
- 7. Consider the disclosure of its internal AML/CFT controls** with appropriate confidentiality and security safeguards.
- 8. Enhance the transparency framework** by disclosing more information on the BOC involvement and its deliberation in various committees and groups, as well as bilateral collaboration with other federal and provincial regulatory authorities that are relevant for financial stability.
- 9. Enhance the disclosures on foreign exchange intervention and reserve management** by releasing information on BOC's involvement in various committees and groups, and on BOC's role in the context of foreign reserve and fund management. In context of FX intervention, a clear communication on the rationale for instrument choice would enhance transparency.
- 10. Improve the accessibility of information** on topics such as risk management, monetary policy instruments, the policy on FX interventions, and financial stability research and analysis.

¹ Please refer to the Detailed Review Table in Annex I for the complete overview of principle wise transparency recommendations.