

## Board of Governors

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### Appointment of members of the Board of Governors

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Paragraph seven of article 28 of the Mexican Constitution establishes that, in order to support Banco de México's autonomous functions, the Central Bank shall be managed by officials appointed by the President and confirmed by the Senate. Should the latter be in recess, by the Permanent Commission of the legislative branch.

Banco de México's Law states that the Board of Governors shall be made up of five members appointed according to the abovementioned procedure. From among these members, the Executive Branch designates the Governor of the Bank, who presides the Board of Governors. The other members of the Board are called Deputy Governors.

Five members is considered an adequate number in order to count with sufficient opinions to analyze the issues pertaining to the Central Bank by mandate, without hampering the decision-making process. On the other hand, it is important to point out that the terms Governor and Deputy Governor are traditionally used by central banks.

### Requirements to become a member of the Board of Governors

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Banco de México's Law sets the appointment requirements for the members of the Board, aiming for individuals with high technical and professional profiles. Said persons must be Mexican citizens by birth, not older than 65 years as of the starting date of his or her term in office; be of renowned competence in monetary matters, and have held, for at least five years, a high-ranking position within the Mexican financial system or in agencies or institutions with functions of authority on financial matters.

Two of the five members do not have to meet the five-year financial-sector employment requirement, provided that they are renowned professionals in economic, financial, or legal matters. This allows the selection of individuals, such as distinguished academics, who could make significant intellectual contributions, even without having previously held an executive position. In any case, these two members cannot become Governor until they have completed three years as Deputy Governor.

### Appointment terms

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Paragraph seven of article 28 of the Mexican Constitution also states that the individuals in charge of the administration of the Bank shall be appointed for staggered periods, in order to enhance their autonomy in office.

Banco de México's Law specifies the duration of these periods as follows:

- (a) Governor: Six-year period, starting on the first of January of the fourth year of each presidential term.
- (b) Deputy governors: Eight-year period. To be replaced or reappointed every two years, on the first, third, and fifth years of each presidential term.

Banco de México's Law establishes a special framework to regulate vacant Board positions, so the referred staggered periods are not interrupted.

The combination of relatively long and staggered periods is essential to safeguard the Central Bank's autonomy and to ensure monetary policy continuity. Furthermore, long periods allow the members of the Board of Governors to reach their decisions with a medium- and long-term perspective and not only on the basis of current economic conditions. The appointment of both Governor and Deputy Governors for staggered periods contributes to strengthening the Central Bank's historic memory of key central banking issues as well as of other issues related to management.

The members of the Board of Governors can be appointed more than once.

### **Removal causes**

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As an additional safeguard provision to the Central Bank's autonomy, article 28 of the Mexican Constitution provides that members of the Board of Governors cannot be removed from their posts unless they commit a serious violation.

Banco de México's Law considers as causes for removal of a member of the Board of Governors any mental or physical disability preventing the adequate discharge of duties for a period of more than six months; performing any job, position or commission, except as the Central Bank's representative, or one which is non-remunerated related to academic, scientific, cultural, or charity associations; a serious lapse of integrity; and, failing to meet one of the requirements to become a member of the Board.

Due to the fact that tenure is the best guarantee of independent judgment for Board members, Banco de México's Law establishes a strict procedure for their removal. The procedure involves the President of the Republic and the Board of Governors, where the latter prepares a report on the existence of a cause for removal. The report is passed on to the Senate, or the Permanent Commission, should it be the case, for a final decision.

### **Powers of the Board of Governors**

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In view of the complexity of monetary issues and the importance of taking correct decisions in that field, it is convenient that the Bank's substantive actions, as well as important administrative decisions, be taken by the Board of Governors.

Regarding the above, article 46 of Banco de México's Law establishes the key duties of the Board of Governors. Among them, the following stand out: authorize banknote issuance and the minting of coins, grant credit to the Federal Government, and determining the policies and criteria according to which the Bank implements its operations, issues its regulations, and approves its internal by-laws and budget, general working conditions, and contract rules.

### **Liabilities of the members of the Board of Governors**

The members of the Board of Governors, as well as Bank personnel, are subject to the Federal Civil Servants Liability Act (Ley Federal de Responsabilidades de los Servidores Públicos). However, in accordance with the Bank's autonomy, the application of this law is in the jurisdiction of an internal entity called the Liabilities Committee. The aforementioned does not affect the constitutional provision which states that those responsible for the Bank's actions may be subject to impeachment procedure.

### **Remuneration of the members of the Board of Governors**

Banco de México's Law states that the remuneration of members of the Board of Governors is established by a committee which is constituted by the president of the National Banking and Securities Commission (Comisión Nacional Bancaria y de Valores, CNBV), as well as by two individuals appointed by the Ministry of Finance, whose designation does not cause a conflict of interest and whose experience is recognized in the labor market in which public and private credit institutions and their regulatory authorities participate. Said provision prevents decisions regarding remuneration from being used as means of pressure on the conduct of monetary policy, in detriment of the Bank's autonomy. In addition, it precludes leaving such remuneration in the hands of those responsible for leading the Bank, given the inherent conflict of interest that would imply.

### **Accountability**

In order to conciliate the Bank's autonomy with the need for accountability for its management, the measure considered most appropriate, and one which is used in a wide range of countries, is the rendering of reports on its policies and activities to the legislative branch.

In accordance with the above mentioned, in January, Banco de México sends a document setting out the monetary policy to be followed in the current year to the executive branch and to Congress (or the Permanent Commission during congressional recesses); in April, it sends a report on its activities and the implementation of monetary policy during the previous year; and in September, a report on the implementation of monetary policy during the first half of the current year.

In addition, Congress can request that the Governor presents other reports on the policies and activities of the Bank.

Moreover, Banco de México's Law requires that the Bank submits a report every January to the executive branch and to Congress regarding its current-year budget and physical investment. Said report must be consistent with the evolution of the federal budget. In other order of ideas, it is important to state that Banco de México is also subject to the Federal Law on Transparency and Access to Public Government Information (Ley Federal de Transparencia y Acceso a la Información Pública Gubernamental).

Finally, the Ministry of Finance has the power to designate and hire an external auditor on behalf of

Banco de México. For such decision, it may request an accounting collegiate organization or institute widely representative of the profession to submit the name of three prestigious accounting firms. The chosen auditor sends a copy of its evaluations directly to the executive branch and to Congress. Moreover, Banco de México is subject to a review by the Federal Auditor and also has a Comptroller who reports to the Board of Governors.

### **Current members**

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#### **Governor**

Agustín Carstens

#### **Deputy Governors**

Roberto del Cueto

Guillermo Güemez

Manuel Sánchez

José Sidaoui