BANCA D'ITALIA
EUROSISTEMA

The Board of Directors' resolutions on the remuneration paid to the Bank of Italy's staff and members of the Directorate (Governing Board)

In a meeting held on 30 October 2014, the Bank of Italy's Board of Directors reviewed the remuneration paid to the Bank's staff and to the members of its Governing Board in the light of Decree Law 66/2014, converted into Article 13 of Law 89/2014, which sets a limit of €240,000 on the annual remuneration of anyone who receives, from the public finances, salaries and emoluments for employment or self-employment with central government or subsidiary companies thereof (including members of administrative, management or supervisory bodies). The Decree provides that the Bank of Italy shall take these principles into account, within the scope of its organizational and financial autonomy.

The Board of Directors made use of the preliminary analysis carried out in recent months by the Remuneration Committee, comprising three members of the Board.

The Board of Directors first pointed out that the Treaty on the Functioning of the European Union assigns full institutional and financial independence to the Eurosystem's national central banks and complete personal independence to the members of their decision-making bodies. The principle of financial independence is also enshrined in national law by express provision of Article 4(1) of Legislative Decree 133/2013, converted by Law 5/2014. It implies in particular that the Bank of Italy's operating costs, including the remuneration of its staff and of the members of the Governing Board, shall not weigh on the public finances.

The Board of Directors took note of the opinion issued on 26 May 2014 by the European Central Bank (ECB) at the request of the Ministry of Economy and Finance regarding the applicability of Decree Law 66/2014 to the Bank of Italy.

The main points of the opinion, already made in several opinions issued previously by the ECB with reference to other euro-area countries, are the following:

1. autonomy in respect of staff is an integral part of the principle of financial independence of national central banks (NCBs); according to this principle, member states shall not compromise the capacity of an NCB to hire and maintain qualified staff to carry out its functions. According to the principle of financial independence, any regulation addressed to the Bank of Italy for limiting expenditure is to be construed as a guideline rather than a binding rule;
2. the Bank of Italy shall itself evaluate whether to apply the €240,000 limit, without prejudice to its autonomy regarding matters of staff management, in order to maintain its capacity to carry out its functions independently;
3. for members of the Governing Board, guidelines for cutting back on remunerations shall only apply to future, not current mandates. Otherwise they could become a means for exerting improper political pressure, altering, among other things, the conditions existing at the time of nomination;
4. any savings on expenditure, even those decided and implemented autonomously, cannot be assigned to the public finances as this would infringe the prohibition on monetary financing laid down in Article 123 of the Treaty.

The Board of Directors first reviewed the remunerations of Bank of Italy staff and found that the problem of applying a ceiling of €240,000 did not actually arise, given that all the taxable salaries of the Bank's employees – which, moreover, are established by collective bargaining – are below that figure. In particular, the total taxable salaries for the highest position of managing director (a total of 10 managers) came to between €188,000 and €217,000 in 2013, only excluding payment for overtime (€22,000 on average).

However, the Board underlined that most of the functions carried out by the Bank of Italy go beyond national borders, since they are integrated with those of the Eurosystem. The Board therefore believes that the Bank should continue to attract the best young people entering the job market, among other things by offering competitive salaries at international level, otherwise it risks losing its authority within the Eurosystem.

The Board therefore expressed its intention, in accordance with the Bank's existing negotiation procedures, to maintain the selection, training and wage policies pursued to date in order to safeguard the Bank's high level of quality and to ensure that its institutional duties within the Eurosystem are carried out effectively and competitively.

Lastly, the Board highlighted the need to continue its efforts to reduce the total remuneration package, including by carefully managing staff turnover.

With reference to the remunerations paid to the Bank of Italy's Governing Board members, the Board of Directors first pointed out that they are also *ex lege* members of the combined Directorate of the Italian Insurance Supervisory Authority (IVASS), for which they receive no remuneration, and that in the European context they cover the widest range of competencies at institutional level. They are jointly responsible for monetary policy and banking supervision in the Eurosystem, while in Italy they are responsible for supervising non-bank financial intermediaries and the insurance sector, and carry out delicate tasks in the fields of anti-money-laundering, protecting financial service consumers and payment systems.

The Board remarked that making a precise comparison of remuneration levels with the governing bodies of the main Eurosystem central banks is difficult as they observe stricter confidentiality requirements than the Bank of Italy, which publishes individual and complete data.

For example, the **Banque de France** only publishes data relating to the total remuneration for its governing bodies, which comes to €3.1 million (Annual Report 2013, p.125).

The **ECB** only makes public the basic salaries of the six members of its Executive Board (€378,240 for the President, €324,216 for the Vice President, and €270,168 for the other members), but makes it clear that residential and representation allowances (of which only the total of €527,000 is published, on average just under €90,000 per person) together with special allowances, the amount of which is not known (Annual Report 2013, pp. 230-231) must be added to these sums. The tax arrangements are those used by European Union institutions, and so the net amounts are higher in comparison with those of the national central banks.

The **Bundesbank** publishes data which are presumably complete: €418,146 for the President, €333,495 for the Vice President and €250,377 for the other members of the Board (Annual Report 2013, 'Staff costs' p.95). It should also be remembered that it only carries out certain banking supervision functions and no insurance supervision functions: these are the responsibility of another institution, namely the **Bafin** that has its own Board of five people, whose earnings are not disclosed.

In view of the above, the Board of Directors, believing it to be timely to share in the efforts of Italy as a whole to limit the remunerations paid to those in positions of public responsibility, has modified the total gross remuneration for the Bank's senior positions as follows:

- *Governor, € 450,000 euro (from €758,000 three years ago, then reduced to €550,000, and cut back to € 495,000 for the two-year period 2013-14),*
- *Senior Deputy Governor, €400,000 (from €593,000 three years ago, then reduced to €500,000, and cut back to € 450,000 for the two-year period 2013-14),*
- *Deputy Governor, €315.000 euro (from €441,000 three years ago, then reduced to €350,000, and cut back to €315,000 for the two-year period 2013-14).*

Given the principles recalled by the ECB in the abovementioned opinion, this remuneration adjustment will only apply to future members of the Governing Board. Since any savings made may not be passed on to the public finances they will be assigned to the Bank's balance sheet.

Lastly, the Board of Directors examined the Bank's overall operating costs.

The Board of Directors noted how the Bank has been working for some time now to streamline its organization and reduce costs: the number of employees has fallen by 7 per cent compared with 2009, operating costs have fallen in real terms by 14 per cent, and by 25 per cent for the branch network; the number of branches has gone down from 97 to 58, and 31 of those remaining have been transformed into small specialized units, against a backdrop of an increase both in the workload and in its complexity.

The Board of Directors is of the opinion that the Bank must continue its efforts to streamline its operations and improve efficiency.

As a result of the Board's deliberations, the Governor, the Senior Deputy Governor and the three Deputy Governors have elected to adapt their remuneration with immediate effect to the newly established amounts for future members of the Governing Board, for the duration of their respective mandates.

Rome, 20 November 2014