



CENTRAL BANK OF NIGERIA, ABUJA

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PRESS RELEASE

THE CBN ON BANKS' EXECUTIVE REMUNERATION AND RATING AGENCIES

The CBN has noted two stories, first in *The Punch* alleging that the CBN may reduce bank executives' remuneration and the second in *The Guardian* alleging that the CBN has warned against reliance on bank ratings given by rating agencies as they do not reflect the true health of the banks; and that the best rating agency should be the central bank of a country and in the case of Nigeria, the Central Bank of Nigeria. The two stories appeared in the two papers on Tuesday, June 14, 2011.

The two stories came out of a paper presented by Dr. Dozie Okwuosah, Deputy Director, Risk Management Department on behalf of the CBN Governor at a regional training programme by the West African Institute for Financial Management (WAIFEM) in Lagos, Monday 13 June 2011.

On the alleged intention of CBN to reduce executive remuneration carried by *The Punch*, we wish to state that Dr. Okwuosah was speaking in the context of the global discourse on remuneration of banks' executives and its impact on the balance sheet of banks which is of concern to regulators, as part of the lessons learnt in the aftermath of the global financial crisis that saw the collapse of some global financial giants.

For the avoidance of doubt, the CBN has NO intention whatsoever to dabble into what is purely the purview of the Board and management of the banks. The CBN has never interfered in the issue of executive remuneration and has no plans to do so.

Regarding the issue of rating agencies in the story carried by *The Guardian*, the writer quoted the Governor as saying: **"Given that credit rating agencies measure the probability of default, they should not be heavily relied upon to validate the health of financial institutions. They are paid by the institutions to give them the rating that they want. The best rating agency should be the Central Bank of the country because it has the banks' profile. In Nigeria, the best rating agency of banks is the CBN."**

The CBN wishes to state that the above quotation is misrepresentation of the paper presented by the Deputy Director. The only correct statement is: “ **Given that credit rating agencies measure the probability of default, they should not be heavily relied upon to validate the health of financial institutions**”, and this statement was, again, made in the context of the wider global debate on the over-reliance on credit rating agencies to determine the health of financial institutions, specifically in the context of the aftermath of the global financial crisis that saw the collapse of erstwhile positively-rated financial giants such as Lehman Brothers, AIG, etc.

For the avoidance of doubt, the paper presented made NO assertion that; “**They [rating agencies] are paid by the institutions to give them the rating that they want**”, and certainly NO pronouncement that; “**In Nigeria the best rating agency of banks is the CBN**”. In fact, the CBN has been taking tangible steps to encourage the use of the rating agencies in Nigeria as is the normal practice globally.

We wish to take this opportunity, to once again appeal to the media to exercise some caution in the waysensitive matters of this nature are reported in the general interest of the stability of financial system and the economy as a whole.

(SIGNED)

**M. M. ABDULLAHI
HEAD, CORPORATE COMMUNICATIONS
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