

Feedback on the input provided by the European Parliament as part of its resolution on the ECB Annual Report 2019

The ECB Annual Report 2019 was presented by the ECB's Vice-President on 7 May 2020 in a dedicated session of the Committee on Economic and Monetary Affairs of the European Parliament.¹ On 8 February 2021 the President of the ECB attended the European Parliament's plenary debate on the Annual Report.² The following day the Parliament adopted its resolution on the ECB Annual Report 2019 (hereinafter referred to as "the resolution").³

On the occasion of the transmission of the ECB Annual Report 2020 to the European Parliament, the ECB is providing its feedback on the input provided by the European Parliament as part of the resolution.⁴

1 Monetary policy

With regard to the references made in the resolution to the side-effects of the ECB's monetary policy, the ECB considers that its measures have been very effective in underpinning economic activity and safeguarding medium-term price stability, while keeping adverse side-effects contained. The measures taken were necessary and proportionate to counter the serious risks posed by the continued severe pandemic conditions to price stability, the monetary policy transmission mechanism and the economic outlook for the euro area.⁵ In particular, the measures taken during the coronavirus (COVID-19) pandemic have been suitable in that they have contributed to favourable financing conditions, which are needed for the euro area economy to recover and for inflation to return to its pre-pandemic path. In the current conditions characterised by high uncertainty, the policy measures taken are assessed as being more efficient than alternative monetary policy instruments for maintaining the required monetary accommodation. Moreover, the ECB judges that the positive impact of the additional measures on achieving its price stability mandate clearly outweigh any potential negative effects in other economic policy areas. During the pandemic, the ECB has had the opportunity to present the above assessment in a number of public communications, including in its regular exchanges with the European Parliament.

¹ See the ECB [website](#).

² See the ECB [website](#).

³ The text of the resolution as adopted is available on the European Parliament's [website](#).

⁴ This feedback does not cover the issues raised in the European Parliament's resolution on the Banking Union. For a discussion on these matters, see the [ECB Annual Report on supervisory activities](#). The feedback on the resolution on the Banking Union will be published later this year.

⁵ See also the [letter](#) from the ECB President to Mr Sven Simon, MEP, on monetary policy, 29 June 2020.

As regards the resolution's request to monitor the proportionality of ECB purchase programmes to the risks in its balance sheet, the ECB applies risk management frameworks that are designed to ensure the effectiveness and efficiency of its policies, as well as protect the Eurosystem's balance sheet.

The ECB monitors these risks very closely and manages them continuously in order to keep them at levels that do not threaten the Eurosystem's balance sheet. For instance, the ECB restricts its purchases to assets with sufficient credit quality under specific eligibility criteria. Moreover, it applies detailed benchmark allocation policies and sets limits on the amounts it purchases to ensure diversification and to guide purchases across jurisdictions, market segments, issuers and securities.⁶

Concerning the risks of asset price inflation raised in the resolution, the ECB finds that in general these appear contained, although there have been signs of potential overvaluation in some market segments.

Euro area government bond yields now generally stand at levels observed before the outbreak of the pandemic, supported by ECB monetary policy. Euro area equity markets and corporate bond prices have also recovered substantially, with equity prices approaching pre-pandemic levels and corporate bond spreads standing at, or slightly above, pre-pandemic levels. However, on the whole risk valuations for euro area financial assets do not seem to be excessive, as risk is not under-priced by historical standards. In any case, the ECB continues to monitor developments in euro area financial markets very carefully to the extent that they impact the smooth transmission of favourable financing conditions to all jurisdictions of the euro area.⁷

As regards rising housing prices, the ECB notes that in recent years vulnerabilities have built up in residential real estate in some countries.

While the ECB monitors these developments closely, it would fall to other policymakers to act in the first instance if concerns about vulnerabilities were to increase. Indeed, a number of euro area countries have already implemented measures to contain risks from residential real estate markets. The ESRB has issued warnings with respect to countries' residential real estate developments since 2016. Compliance with these recommendations and their effectiveness are currently evaluated by the ESRB.⁸

With regard to the reference made in the resolution to a potential misallocation of resources, the ECB considers that its monetary policy measures have helped avoid a deeper and longer-lasting economic contraction during the COVID-19 crisis, which could have rendered structurally sound firms severely unprofitable and thus unviable in the longer run. It will be important to ensure that support measures, in particular on the fiscal side, are temporary and become more targeted in order to mitigate risks of resource misallocation over a longer-term horizon once the fallout from the COVID-19 crisis has clearly abated. In addition,

⁶ For more information on how financial risks associated with the PEPP and APP are mitigated through appropriate frameworks, see Section 2.3 of the ECB Annual Report 2020.

⁷ Specifically, risk premia in euro area equity markets do not currently stand at very compressed levels, and corporate bond markets do not show strong signs of excessive risk-taking either.

⁸ In mid-2019, four euro area countries received specific recommendations to be addressed by means of macroprudential policies. Two more euro area countries received warnings. The ESRB did not only consider price developments in its assessment, but also household indebtedness, growth in mortgage lending and loosening of lending standards.

where applicable, it is important that insolvency procedures work efficiently, allowing firms with non-viable business models to exit the market and supporting effective resolution of non-performing loans. This should also contribute to improving bank financing conditions and may incentivise banks to reallocate finance to more productive firms and workers over time.⁹

With respect to the resolution's call for the ECB to examine the distributional impact of ECB measures, the ECB points to several studies it has conducted in this area.¹⁰ In general, these analyses conclude that the ECB's accommodative policy measures have contributed to lowering income inequality in the medium term, as they support employment, which tends to benefit low-income households in particular. With specific regard to the effects of the ECB's asset purchase programmes on wealth inequality, the available information indicates that, while rising stock prices increase wealth inequality, this increase is broadly offset by the parallel increase in house prices, as housing is quite evenly distributed across euro area households and accounts for around 75% of total household assets.

2 Inflation measurement

With respect to the references in the resolution to inflation measurement and the concept of HICP, the ECB notes that inflation measurement issues and the representativeness of housing in the HICP are being investigated in the context of the ECB's strategy review. Currently, the HICP index only partially captures the cost of housing. Rental costs make up approximately 6.5% of the expenditure covered by the euro area HICP and the only owner-occupied housing (OOH) costs included are expenditure for maintenance and minor repairs, as well as other running costs.¹¹ Other parts of OOH expenditure, in particular the cost to households of owning their homes, are currently not included in the HICP, despite the fact that more than 65% of households in the euro area owned their main residence in 2019. The ECB is in favour of including an OOH price index in the HICP, provided that the related technical challenges can be overcome and that this does not compromise its focus on households' consumption expenditure and the reliability of its compilation.

According to experimental calculations, adjusted inflation figures that give a larger weight to housing costs would currently be slightly higher than the annual HICP inflation rate. Preliminary estimates indicate that the wedge between adjusted and actual HICP ranged between 0.1 and 0.3 percentage points in the third

⁹ See, for instance, Masuch, K., Anderton, R., Setzer, R. and Benalal, N. (eds), "Structural policies in the euro area", *Occasional Paper Series*, No 210, ECB, Frankfurt am Main, June 2018.

¹⁰ See, for instance, Dossche, M., Slačálek, J. and Wolswijk, G., "Monetary policy and inequality", *Economic Bulletin*, Issue 2, ECB, Frankfurt am Main, March 2021; Hauptmeier, S., Holm-Hadulla, F. and Nikalixi, K., "Monetary Policy and regional inequality", *Working Paper Series*, No 2385, ECB, Frankfurt am Main, March 2020; Lenza, M. and Slacalek, J., "How Does Monetary Policy Affect Income and Wealth Inequality? Evidence from Quantitative Easing in the Euro Area", *Working Paper Series*, No 2190, ECB, Frankfurt am Main, October 2018.

¹¹ Running costs comprise expenditure on heating, electricity, water supply, and refuse and sewage collection.

quarter of 2020. At the same time, in the past such adjustments would have resulted in a lower inflation rate (a negative wedge) depending on the state of the house price cycle.¹²

The implications of incorporating OOH in the HICP need to be carefully assessed before a final decision can be taken. The conceptual alternatives of measuring OOH and their pros and cons in comparison to the current HICP framework are being considered in the context of the ECB's strategy review and will be communicated after its conclusion, scheduled for the second half of 2021. Ultimately, it is for the European Parliament and the Council of the European Union, upon a proposal by the European Commission (following the preparatory work by Eurostat and the statistical offices of the EU Member States) to decide how OOH may best be treated in the HICP context. The ECB will contribute its opinion at the end of the strategy review and stands ready to collaborate with all relevant stakeholders for any possible follow-up.

3 Climate change

With regard to the references in the resolution to action taken to address climate change, the ECB notes that, within its mandate, it continued to step up its involvement on climate change-related topics in 2020. The newly created internal climate change centre, the establishment of which is also supported by the Parliament's resolution, will help further harness internal expertise and shape the ECB's climate agenda.¹³

Regarding the recommendation that the ECB align its collateral framework with climate-related risks, the ECB notes that it has started to incorporate climate change risk considerations into the monetary policy implementation framework and is assessing further steps in the context of its strategy review. The ECB is continuously assessing climate change-related financial innovation in view of the collateral eligibility principles and criteria. In September 2020 the ECB announced the acceptance, as of January 2021, of certain sustainability-linked bonds as collateral and for its asset purchases.¹⁴ Internal work is ongoing to foster a better understanding of the implications of climate change and associated policies for the economy, credit provision and the transmission of monetary policy, including as regards the collateral framework. Regarding climate change-related risks, the ECB is assessing potential avenues for enhancing its risk management capabilities in relation to the Eurosystem's balance sheet.

The ECB agrees on the importance for financial markets to better understand and price climate change-related risks tied to financial assets. More and better disclosures are needed to fully address the current information gap. The ECB

¹² For a detailed discussion, see the box entitled "[Assessing the impact of housing costs on HICP inflation](#)", *Economic Bulletin*, Issue 8, ECB, 2016.

¹³ See [press release](#), "ECB sets up climate change center, ECB, 25 January 2021.

¹⁴ See [press release](#), "ECB to accept sustainability-linked bonds as collateral", ECB, 22 September 2020.

supports initiatives in this regard stemming from the EU action plan on sustainable finance. The ECB is currently looking into further possibilities to support enhanced disclosure as a way of contributing to a general understanding of climate-related risks and improved market pricing. In this regard, on 4 February 2021 the Eurosystem announced that it aims to start making annual climate-related disclosures for its euro-denominated non-monetary policy portfolios within the next two years.¹⁵ It should be recalled, however, that improved disclosures alone cannot be expected to solve the problem of mispricing of climate-related financial risks, which will require action in other policy areas, notably effective carbon pricing mechanisms, to internalise the environmental externalities.

Furthermore, the ECB has taken important steps to incorporate environmental standards in its non-monetary policy portfolios, including the own funds and pension fund portfolios. It increased the share of green bonds in its own funds portfolio from 0.5% in January 2020 to currently 3.5%,¹⁶ with plans for further increases in the coming years.¹⁷ With regard to its pension fund portfolios, the ECB pursues a broad socially responsible investment policy based on limited exclusions and proxy voting guidelines that incorporate environmental, social and governance standards. In 2020 the ECB replaced all conventional equity benchmark indices tracked by the pension fund portfolio with low-carbon equivalents, significantly reducing the carbon footprint of the equity asset classes. Going forward, the ECB will explore the possible application of newly developed low-carbon fixed-income benchmark indices to some of the fixed-income asset classes in its pension fund portfolio.

As regards the resolution's call for a proactive and qualitative risk management approach integrating climate change-related systemic risks, the ECB has already taken substantial action in its financial stability and banking supervision functions. The ECB identified early on the potential systemic significance of the risks to financial stability stemming from climate change.¹⁸ Against this background, the ECB has been taking concrete steps to strengthen the role of climate risk in both financial stability monitoring and banking supervision. Regarding the former, the ECB is integrating climate risk into financial stability monitoring by developing a state-of-the-art monitoring framework – as exemplified in a recent joint report of the Eurosystem and the European Systemic Risk Board¹⁹ – and by integrating climate risk into the stress-testing framework together with ECB Banking Supervision. Regarding the supervision of individual banks, ECB Banking Supervision has already taken important steps to improve banks' awareness and preparedness to manage climate risks. Most notably, it has published a Guide on

¹⁵ See [press release](#), "Eurosystem agrees on common stance for climate change-related sustainable investments in non-monetary policy portfolios", ECB, 4 February 2021.

¹⁶ The ECB's own funds' portfolio consists of its paid-up capital, the general reserve fund and the provision for financial risks.

¹⁷ See [press release](#), "ECB to invest in Bank for International Settlements' green bond fund", ECB, 25 January 2021.

¹⁸ See ECB analyses, notably "[Climate change and financial stability](#)", *Financial Stability Review*, ECB, May 2019; "[Euro area banks' sensitivity to corporate decarbonisation](#)", *Financial Stability Review*, ECB, May 2020.

¹⁹ See "[Positively green: Measuring climate change risks to financial stability](#)", ESRB, June 2020.

climate-related and environmental risks²⁰ that explains how it expects banks to safely and prudently manage and disclose these types of risk in a transparent manner under the current prudential framework. Institutions are expected to incorporate climate-related risks into their risk management framework as drivers of existing risk categories. In accordance with the approach mentioned in the resolution, institutions are expected to adopt a comprehensive, strategic and forward-looking perspective in managing and disclosing climate-related and environmental risks.

Regarding the resolution’s call to examine the banking sector’s alignment with the Paris agreement, the ECB recalls its ambitious action on both the financial stability and supervisory fronts. In 2020 the ECB started work on a top-down climate stress test exercise which relies on highly granular information on banks’ and investment funds’ exposures, and importantly, also includes trade-offs between the physical risks of climate change and any transition risks in the move to a low-carbon economy. The initial results from this broad exercise are due to be published in the first half of 2021. The ECB also contributes to the efforts within various EU and international fora to examine the need for and the possible design of regulatory measures to deal with climate risks. Furthermore, building on its work on a climate risk road map and related stock-taking exercises, in 2020 ECB Banking Supervision published the above-mentioned ECB Guide on climate-related and environmental risks which will be embedded in the supervisory dialogue with supervised entities from early 2021. The ECB will conduct a supervisory climate stress test exercise in 2022. The output of the supervisory stress test exercise will be used as an input for the 2022 SREP assessment, together with the outcome of a thorough review of banks’ alignment with the expectations published in its Guide on climate-related and environmental risks.

Concerning further efforts to increase research capabilities on the impact of climate change on financial stability and the euro area, as encouraged by the resolution, the ECB notes its growing analytical work in this area. In its November 2020 Financial Stability Review, the ECB presented evidence that, beyond financing the climate transition, the sustainable finance agenda could also have a positive impact on euro area financial integration, given the lower levels of home bias for green bonds.²¹ Work to deepen the analysis on climate risks also continues with Eurosystem and European Union partners in the context of a joint Eurosystem Financial Stability Committee/ESRB Advisory Technical Committee Project Team on Climate Risk.²² In the context of the strategy review, the Eurosystem has established a workstream assessing the economic and monetary policy implications of climate change, which will also set out a road map to improve the analytical capabilities of the Eurosystem going forward.

²⁰ See “[Guide on climate-related and environmental risks – supervisory expectations relating to risk management and disclosure](#)”, ECB, November 2020.

²¹ See ECB, [Financial Stability Review](#), November 2020.

²² See the report “[Positively green: Measuring climate change risks to financial stability](#)”, ESRB, June 2020.

Recognising the importance of climate-related risks and their impact on central banking core functions, the ECB takes an active role in the Network for Greening the Financial System, thus contributing to promoting a smooth transition towards a low-carbon economy. The ECB joined the network's Steering Committee in 2020 and contributes to all five dedicated work streams of the network (microprudential and supervision; macro-financial; scaling up green finance; bridging data gaps; and research).

4 Financial stability

In line with the calls to this end in the resolution, the ECB has been closely monitoring economic and financial sector risks associated with Brexit.

Following the change to the new regime on 1 January 2021, no significant financial sector risks materialised in the first weeks of 2021 owing to extensive preparations by authorities and market participants. In recent years the ECB had continuously called on market participants to prepare for all possible outcomes of the negotiations between the United Kingdom and the EU.²³ The ECB welcomes the EU-UK Trade and Cooperation Agreement, which helped to contain macroeconomic risks and avoided market volatility at the end of the transition period. No recourse has been made to the weekly euro operations offered by the Bank of England to UK banks based on the currency swap arrangement with the ECB. On the banking side, no major disruptions to the servicing of EU clients have occurred so far.²⁴ In the area of uncleared derivatives, the ECB observed good progress by a sample of major incoming banks to repaper contracts at risk during the last few months of 2020. The time-limited equivalence decision for UK central counterparties (CCPs) adopted by the European Commission as a contingency measure helped avoid financial stability risks at the end of the transition period. The ECB will continue to closely monitor developments and risks in the coming months and years. In view of the European Commission's call for EU market participants to reduce their exposures to UK CCPs, the ECB will monitor industry preparations and contribute to action by the European Commission and European Securities and Market Authority to preserve the EU's financial stability in this area.

The ECB agrees with the resolution that the growth of the non-bank financial sector highlights the need to enhance macroprudential policies for the sector.²⁵ The period of financial market stress in March 2020 underlined the

²³ See, for example, the box entitled "Assessing the risks to the euro area financial sector from a disruptive hard Brexit", *Financial Stability Review*, ECB, November 2018; the box entitled "Assessing the risks to the euro area financial sector from a no-deal Brexit – update following the extension of the UK's membership of the EU", *Financial Stability Review*, ECB, May 2019; *Financial Stability Review*, ECB, November 2020.

²⁴ ECB Banking Supervision requested adequate preparations and monitored progress of its supervised banks throughout the Brexit process. See, for example, various articles on Brexit in the ECB's Banking Supervision Newsletter: "Brexit: meeting supervisory expectations", February 2019; "Brexit: stepping up preparations", August 2019; "Brexit: operational risk increases when banks delay action", November 2019; "Brexit: time to move to post-Brexit business models", February 2020; "Brexit: banks should prepare for year-end and beyond", November 2020.

²⁵ Total assets held by non-bank financial institutions in the euro area have almost doubled over the last ten years, from €25 trillion in 2009 to €47 trillion in June 2020, while their share as a proportion of total financial sector assets has increased from 45% to 58%.

importance of significantly strengthening the resilience of the non-bank financial sector. The regulatory framework for the non-bank financial sector needs to be enhanced, including from a macroprudential perspective. The ECB believes that a macroprudential approach should complement existing regulations focusing on the safety of individual institutions and investor protection, and should be tailored to the specific vulnerabilities of non-banks. The ECB is advocating this policy and contributing to this work at the European level and in international fora such as the Financial Stability Board.

5 Payment services, digital euro, crypto-assets and cybersecurity

With regard to the reference made in the resolution to the increasing number of non-bank entities clustered around banks for access to the payment system, the ECB notes that they play an increasingly relevant role in the field of payments. These entities, such as e-money institutions under the E-Money Directive²⁶ (EMD 2) and payment institutions under the Payment Services Directive²⁷ (PSD 2), do not qualify as eligible participants under the EU Settlement Finality Directive²⁸ (SFD). They are therefore barred from direct access to payment and securities settlement systems designated under this Directive.²⁹ The ECB supports the inclusion of e-money institutions and payment institutions as eligible participants in the next review of the SFD in view of facilitating direct access to SFD-designated systems where they meet such systems' (risk-based) access conditions.

With respect to the references in the resolution to crypto-assets, the ECB continuously monitors crypto-asset market developments and their implications for the euro area and central bank tasks, and actively contributes to European and global regulatory initiatives in this area. In line with the principle of "same business, same risks, same requirements", an enhanced comprehensive Eurosystem oversight framework for electronic payment instruments, schemes and arrangements (PISA framework) is currently being finalised, following the public consultation until the end of 2020.³⁰ In addition, the ECB contributes to ongoing European and global initiatives on the regulation, supervision and oversight

²⁶ [Directive 2009/110/EC](#) of the European Parliament and of the Council of 16 September 2009 on the taking up, pursuit and prudential supervision of the business of electronic money institutions (OJ L 267, 10.10.2009).

²⁷ [Directive \(EU\) 2015/2366](#) of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market (OJ L 337, 23.12.2015).

²⁸ [Directive 98/26/EC](#) of the European Parliament and of the Council of 19 May 1998 on settlement finality in payment and securities settlement systems (OJ L 166, 11.6.1998).

²⁹ As a result, non-banks have limited access only via other institutions, thereby introducing tiering which may be operationally inefficient and entail financial risks for non-banks and those institutions facilitating indirect access. In the absence of an EU-wide solution, some Member States have allowed for participation at national level, thereby creating potential conflicts of law and level playing field issues.

³⁰ The new framework will cover payment schemes and arrangements that have a governance body and enable the transfer of value between end-users and where the underlying electronic payment instruments are denominated in or funded in euro, partly or fully backed by euro, or redeemable in euro. See also [Exemption policy for the Eurosystem oversight framework for electronic payment instruments, schemes and arrangements](#), ECB, October 2020.

of crypto-assets³¹ and stablecoins with a view to addressing risks while fostering the benefits of technological innovation in the financial sector. With regard to the AML/CFT supervision of e-money institutions, virtual asset service providers and other obliged entities, the ECB recalls that the national competent authorities are responsible for this task.

The ECB is committed to maintaining an open dialogue with the European Parliament and European citizens on a digital euro and welcomes the European Parliament's support for its analysis and preparatory work on a digital euro. Following the presentation of the ECB report on a digital euro in the ECON Committee of the European Parliament on 12 October 2020,³² the ECB has committed to hold further discussions with the Parliament on this topic,³³ including on the outcome of the ECB's public consultation on a digital euro. The Eurosystem's work comprises a balanced assessment of the opportunities and challenges of the potential issuance of digital euro in the future. As regards references made in the resolution regarding access outside the euro area, at the current juncture, the Eurosystem considers that a digital euro should be a means of payment, not a form of investment. Access by non-euro area residents should thus include specific conditions aimed at limiting the volatility of capital flows and exchange rates, while still constituting an opportunity for the international role of the euro as a payment means.

With respect to the calls in the resolution for increased monitoring of cybersecurity risks, the ECB notes its active involvement in European and global initiatives to increase cyber resilience. The ECB is issuing oversight expectations for cyber resilience that are applied to financial market infrastructures (FMIs) under its oversight, has established a framework for threat-led penetration testing (TIBER-EU) and chairs the market driven Euro Cyber Resilience Board (ECRB), which spearheaded the sharing of sensitive cyber-related information among a trusted circle (CIISI-EU).³⁴ The ECB will continue to attribute substantial importance to ensuring high levels of cyber resilience.

As regards the resolution's call for disclosure of the results of the investigation into the technical failures of the TARGET2 settlement system, the ECB has committed to publish the main findings of the investigation. On 16 November 2020 the ECB announced the launch of an independent external review on TARGET Services.³⁵ The ECB will identify and address the underlying causes for the incidents and will publish the main findings of the external review by the second quarter of 2021. The ECB is committed to learning the right lessons from these

³¹ See, for example, the [Opinion of the European Central Bank of 19 February 2021 on a proposal for a regulation on Markets in Crypto-assets](#) (CON/2021/4).

³² See [A digital euro for the digital era](#), Introductory statement by Fabio Panetta, Member of the Executive Board of the ECB, at the ECON Committee of the European Parliament, 12 October 2020.

³³ See, for example, the [letter](#) by Fabio Panetta to Irene Tinagli, MEP, of 18 January 2021 on the conclusion of the ECB public consultation on a digital euro.

³⁴ The CIISI-EU has been established under the ECRB, a high-level forum chaired by the ECB that brings together central banks, European authorities, critical FMI operators and third-party service providers.

³⁵ See [press release](#), "ECB announces independent review of payments system outage", ECB, 16 November 2020.

incidents, being fully transparent about its findings and taking the action required to continue providing highly efficient and reliable FMIs.³⁶

As regards the resolution's call not to further reduce the amount of banknotes in circulation, the ECB underlines that all denominations of the Europa series from €5 to €200 will remain in place. The value of banknotes in circulation grew by around 11% in 2020, i.e. by €142 billion, which is the highest absolute growth of banknotes in circulation since their introduction in 2002.³⁷ The euro area-wide payment behaviour study of 2019 also underlines that cash remained the dominant method for in-person retail payments in the euro area.³⁸ To safeguard trust in euro cash, the ECB continues its work to investigate and develop future banknote designs with new, state-of-the-art security features.

6 Economic and Monetary Union

On the international role of the euro, the ECB reiterates that the global attractiveness of the euro is primarily supported by a deeper and more complete Economic and Monetary Union, including advancing the capital markets union.³⁹ Pursuing sound economic policies in the euro area is also important for the euro's global attractiveness. Completing banking union would make the euro area more resilient, while progress towards a capital markets union would contribute to deeper and more liquid financial markets. In turn, this would indirectly support the international use of the euro as an international investment, financing and settlement currency. The coronavirus (COVID-19) pandemic underlines the urgency of these policies and reform efforts.

Concerning the resolution's call for fruitful cooperation with non-euro area Member States, the ECB and national central banks closely cooperate within the ESCB in the overarching aim of bringing all Member States without a derogation into Stage Three of Economic and Monetary Union. Reflecting the collaborative effort of the Union, its Member States and the ECB and national central banks within the ESCB, the euro area has been growing continuously to now comprise 19 Member States. In 2020 Bulgaria and Croatia joined the exchange rate mechanism (ERM II), which is a prerequisite for fulfilling the convergence criteria for the adoption of the euro as laid out in the Treaties.

7 Institutional matters

Regarding the suggestions in the resolution on further enhancing the ECB's accountability arrangements, the ECB considers the current accountability

³⁶ See also the [letter](#) from the ECB President to Mr Markus Ferber, MEP, on TARGET2, 21 January 2021.

³⁷ Statistics on the banknotes and coins in circulation are available on the [ECB's website](#) and are updated around the 14th working day of each month.

³⁸ See "[Study on the payment attitudes of consumers in the euro area \(SPACE\)](#)", ECB, December 2020.

³⁹ See "[The international role of the euro](#)", ECB, Frankfurt am Main, June 2020.

arrangements to be effective and stands ready to reflect further with the European Parliament on ways to ensure an effective discharge of its accountability obligations.

The ECB notes that, under the Treaty, it is primarily accountable to the European Parliament, while on occasion it also engages in exchanges of views with national parliaments. As regards the European Parliament's call for an Inter-Institutional Agreement to formalise and go beyond the existing accountability practices, any change should build on provisions of EU primary law which set out explicit accountability obligations for the ECB, respect the principle of central bank independence and are flexible enough to cater for current and future demand for scrutiny of the ECB's actions.

The European Parliament's calls for additional transparency on conflicts of interest and for an enhanced ECB whistleblowing policy have been fully addressed.

The ECB has significantly increased its level of transparency and accountability through the publication of the Declarations of Interests of all members of high-level bodies and the opinions⁴⁰ of its Ethics Committee that already cover not only actual but also potential conflicts of interest and post-employment activities of high-level ECB officials. In October 2020 the ECB adopted an enhanced whistleblowing framework, including a user-friendly and anonymous reporting tool, as well as strong rules to protect whistleblowers against retaliation. This framework is aligned with the principles of the EU Whistleblowing Directive⁴¹ and has been extended to all high-level ECB officials.

With regard to the resolution's call for the ECB to ensure the independence of the members of the its Audit Committee and to avoid conflicts of interest of members of the Ethics Committee, the ECB recalls that the independence of committee members is expressly provided for in the Audit Committee Mandate and the Decision establishing the Ethics Committee.

In recent years the Governing Council has taken several measures to increase the independence and diversity of the Ethics and Audit Committees. In July 2019 the Governing Council appointed the Chief Ethics Counsel of a non-governmental organisation and former Ethics Adviser to the International Monetary Fund as a member of the Committee. The recent review of the mandate of the Audit Committee⁴² strengthens members' independence and impartiality in several respects, for example by establishing the requirement for the external members to provide a Declaration of Interests and by broadening the scope of eligible members. The revised mandate provides that at least one external member shall be chosen from among individuals who have not previously held positions within the Eurosystem. At the same time, the ECB

⁴⁰ See the [Opinions of the Ethics Committee](#).

⁴¹ See ECB Decision of 20 October 2020 amending the European Central Bank Staff Rules as regards the introduction of a whistleblowing tool and enhancements to the whistleblower protection ([ECB/2020/NP37](#)) and Decision (EU) 2020/1575 of the European Central Bank of 27 October 2020 as regards the assessment of and follow-up on information on breaches reported through the whistleblowing tool where a person concerned is a high-level ECB official ([ECB/2020/54](#)). The new whistleblowing policy respects and is aligned with the basic principles of the [EU Whistleblowing Directive](#), including reporting to the European Anti-Fraud Office. The ECB's enhanced policy also provides a dedicated process for reporting on high-level ECB officials (including all members of the Governing Council and Supervisory Board) which offers the same level of protection for whistleblowers and witnesses.

⁴² See the [Audit Committee Mandate](#), ECB, December 2020.

considers it vital to also have former high-level ECB officials among the members of both Committees, since their experience and in-depth knowledge of the ECB's institutional set-up, roles and responsibilities, and subject matters are invaluable assets when identifying actual and potential risks and/or conflicts of interest.

As regards the references made in the resolution to ECB communication policies, the ECB notes that bilateral calls with ECB watchers, including chief economists and research directors, took place within the established framework, in respect of the established safeguards and were disclosed via the regular publication of diaries. Interactions with the private financial sector provide the ECB with additional insight and market understanding and, as such, provide input to the formulation of the ECB's monetary policy stance. This interaction therefore supports the ECB in fulfilling its mandate for the benefit of euro area citizens. To ensure full compliance with the highest standards of transparency and accountability, the ECB has established a solid framework for interacting with representatives of the private sector. The ECB's Code of Conduct and Guiding principles for external communication clearly define the conditions under which such exchanges take place.⁴³ Calls with chief economists and analysts at financial institutions took place within this framework and were fully disclosed via the regular publication of diaries. Currently, these calls are not being conducted following the Governing Council press conference. The ECB continuously reviews its policies and practices regarding communication to make them as effective as possible while always remaining transparent. To this end, the format of the calls referred to in the resolution is also being reconsidered.⁴⁴

The ECB welcomes the European Parliament's call for a more detailed disclosure of social and employee matters, as well as governance affairs, recognising the importance of transparency of non-financial information as well as the improved quality and availability of such data. Since 2010 the ECB has disclosed a comprehensive set of environmental data and targets in its environmental statement, which is drafted in accordance with the EU Eco-management and Audit Scheme (EMAS)⁴⁵ and published on an annual basis. A summary of its environmental performance is also included in the ECB's Annual Report. In 2021 the ECB began work on expanding its existing environmental reporting framework to include economic, governance and social matters, taking into account the requirements of EU Directive 2014/95 on Non-Financial Reporting (NFRD)⁴⁶ and follow-up guidelines. The ECB aims to start publishing sustainability disclosures in 2022 with reference to the ECB's performance in 2021. The shift towards a holistic sustainability framework and reporting will be also supported by the new ECB climate change centre.⁴⁷ Furthermore, the ECB took part as an

⁴³ For the ECB's Code of Conduct, see Article 8 of the [Code of Conduct for high-level European Central Bank Officials](#) and the ECB's [Guiding principles for external communication by high-level officials of the European Central Bank](#).

⁴⁴ See also the [letter](#) from the ECB President to Mr MacManus, MEP, 21 January 2021.

⁴⁵ The ECB's annual environmental statement is published on the [ECB's website](#).

⁴⁶ [Directive 2014/95/EU](#) of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups (OJ L 330, 15.11.2014).

⁴⁷ See [press release](#), "ECB sets up climate change centre", ECB, 25 January 2021.

observer organisation in the work of the European Lab Project Task Force on preparatory work for the elaboration of possible EU non-financial reporting standards mandated to the European Financial Reporting Advisory Group by the European Commission.

With regard, in particular, to reporting on social and employee matters, the ECB already shares relevant information and key figures in its Annual Reports.

The ECB Annual Report includes information on its workforce composition, ongoing leadership programmes, career and professional development frameworks for staff, and diversity and inclusion initiatives for strengthening and fostering a culture of inclusion at the ECB.⁴⁸ In recent years communication has focused on measures taken to achieve a greater gender balance at the ECB, including the new Gender Strategy 2020-2026 and the activities taken to foster inclusive behaviours in collaboration with the ECB's diversity networks. To further disclose information on topics of social and employee matters adhering to the suggestions stipulated in the NFRD, the ECB intends to take a similar approach to reporting on the advancement of the new career framework which was implemented in early 2020, including on its main features (generic role profiles, horizontal mobility and internal recruitment, introducing new promotion pathways, etc.). More information will also be provided on aspects of wellbeing, performance and career growth, diversity policies and equal opportunities at the ECB, as well as on the ongoing review of the new ways of working in the post-pandemic future.

The ECB takes note of the references in the resolution to the lack of gender balance in the ECB Executive Board and its call for Member States to actively work towards gender balance in their upcoming proposals for shortlists and appointments. The process for appointing members of the ECB's Executive Board is laid down in Article 283(2) of the Treaty on the Functioning of the European Union and in Article 11.2 of the Protocol on the Statute of the European System of Central Banks and of the European Central Bank.⁴⁹ Changes to how the Treaty is implemented as regards the selection process for ECB Executive Board members are a matter for the Council and the European Parliament.

Although the ECB cannot act on the composition of its Executive Board, it is committed to improving gender balance within the organisation, in particular through measures and targets that have been introduced since 2013. These initiatives have led to a marked increase in the share of women in management positions at the ECB.⁵⁰ In May 2020 the ECB announced a new strategy to further improve the gender balance of its staff at all levels.⁵¹ The policy defines target

⁴⁸ For information on social and employee matters, see, for example, [Section 12.1](#) of the ECB Annual Report 2019.

⁴⁹ Members of the ECB's Executive Board are appointed by the European Council, on a recommendation from the Council of the European Union, after consultation of the European Parliament and the ECB's Governing Council.

⁵⁰ Women held nearly 31% of senior management positions at the end of 2019, compared with 12% at the end of 2012. Moreover, 30% of all ECB managers were women at the end of 2019, up from 17% at the end of 2012. Overall, the share of female staff at the ECB stood at 45% at the end of 2019, compared with 43% at the end of 2012.

⁵¹ See [press release](#), "ECB announces new measures to increase share of female staff members", ECB, 14 May 2020.

percentages focusing on the annual share of women being appointed to new and open positions, as well as targets for the overall share of female staff at various salary levels. The targets aim to increase the share of women at the different levels to between 36% and 51% by 2026. They are accompanied by a set of further measures to support gender balance which will be rolled out as of 2021.