

### **A comparison of the relationship between the European Central Bank and the European Parliament, and between the Federal Reserve System and the United States Congress**

#### ***Reporting Obligations***

The Treaty establishing the European Community states that the President of the **European Central Bank (ECB)** is required to address the annual report of the ECB to the European Parliament, the Council and the Commission: “In accordance with Article 113(3) of this Treaty, the ECB shall address an annual report on the activities of the ESCB and on the monetary policy of both the previous and the current year to the European Parliament, the Council and the Commission, and also to the European Council. The President of the ECB shall present this report to the Council and to the European Parliament, which may hold a general debate on that basis” (Article 15 of the Statutes of the ECB). In practice, the Vice-President presents the annual report to the Committee on Economic and Monetary Affairs (ECON) of the European Parliament (EP) on the day of its release.<sup>1</sup> Later in the year, during the session at which the EP Plenary votes on a resolution on the ECB Annual Report, the President of the ECB appears before the EP. During this session the President makes a statement, followed by a general debate, in which Members of the European Parliament (MEPs) present their views and ask the President questions. The European Parliament then votes on an own-initiative resolution on the ECB's Annual Report, which provides a comprehensive *ex post* assessment of the ECB's activities and policy conduct. While the ECB is legally required to publish reports on the activities of the Eurosystem at least on a quarterly basis as well as a Weekly Financial Statement (Article 15 of the ECB Statutes), these do not need to be addressed or presented to the European Parliament.<sup>2</sup>

According to the Federal Reserve Act of 1977 (Section 2B), the Board of Governors of the **Federal Reserve System (Fed)** has to transmit to the United States Congress a written semi-annual report, concurrent with the semi-annual hearing of the Chairman of the Board (Section 2B (b) of the Federal Reserve Act). The reports must

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<sup>1</sup> This involves an oral presentation of the main issues addressed in the report and a question and answer session between the ECB Vice-President and the ECON members.

<sup>2</sup> To fulfil the requirement to publish at least a quarterly report, the European Central Bank produces a Monthly Bulletin, which explains the monetary policy decision taken each month by the Governing Council and which contains an analysis of the economic situation and the risks to price stability.

include (a) a statement prepared by the Chairman of the Board of Governors and approved by the Board of Governors, and (b) a separate report including an analysis of recent financial and economic developments as well as an outlook on monetary policy and the economy. They are forwarded to the President of the Senate and the Speaker of the House of Representatives. In the House of Representatives the Committee on Banking and Financial Services and in the Senate the Committee on Banking, Housing and Urban Affairs evaluate the report by the Fed and report back to the House of Representatives and the Senate respectively on their findings regarding the policies of the Fed. There is no other follow-up to the submission of the semi-annual reports other than the hearings (see below) and possible written questions (see also below). Notably, neither the House of Representatives nor the Senate votes on the reports submitted by their Committees. In addition to its semi-annual reports, the Fed publishes an annual report on its operations as well as numerous regular or ad hoc reports (for example, on bank fees and services or credit card operations), which are, however, not addressed to Congress.

### *Parliamentary Hearings*

Article 113 (3) of the EC Treaty states that “the President of the **ECB** and the other members of the Executive Board may, at the request of the European Parliament or on their own initiative, be heard by the competent committees of the European Parliament”. According to the Rules of Procedure of the European Parliament, the Committee on Economic and Monetary Affairs is responsible for relations with the ECB. The President of the ECB appears before the Committee on a quarterly basis. During these hearings, the President presents the ECB’s assessment of current economic and monetary developments and explains the ECB's policy decisions, followed by a question and answer session with the Committee members. The Committee meetings are open to the public and the transcripts of the hearings are published on the Parliament's website. Other members of the Executive Board of the ECB are also regularly invited to report or exchange views on issues falling within the competence of the ECB. For example, in October 2005 the Committee invited ECB Executive Board member Mr Lorenzo Bini Smaghi to an exchange of views on the strategic review of the IMF. In 2006-2007, ECB Executive Board member Ms Gertrude Tumpel-Gugerell appeared regularly before the Committee to brief it on progress regarding the TARGET2-Securities and SEPA projects.

In accordance with Section 2B of the **Federal Reserve** Act, twice a year or every six months, the Chairman of the Board of Governors of the Fed appears both before the Senate Committee on Banking, Housing and Urban Affairs and the Committee on Banking and Financial Services in the House of Representatives in an alternating order. In practice, this means that in the first half of 2007 (an odd numbered year), the Chairman testified before the Senate committee (as required by law) on 14 February and to the House

Committee on 15 February. During his/her confirmation hearing, the designated Chairman always commits to appear before the Committee of the House of Representatives on the day following his/her appearance before the Senate. The same applies to the hearings in the second half of the year, when he/she is obliged to appear before the House Committee, followed the next day by a committee hearing before the Senate Committee. In even numbered years, the hearings in the Senate and House Committees take place the other way round, i.e. a hearing is held first in the House and the next day in the Senate in February, and in July first in the Senate and the following day in the House. In his testimony the Chairman is required to report on “(a) the efforts, activities, objectives and plans (...) with respect to the conduct of monetary policy; and (b) economic developments and prospects for the future described in the [semi-annual] report”. Committee members can address written questions to the Chairman ahead of the meeting, which the Chairman may respond to in his statement. The statements of the Chairman are recorded on the website of the Board of Governors of the Federal Reserve System and the respective Committees. Although not specified in the Federal Reserve Act, other Fed officials are invited to hearings before Committees and Subcommittees of Congress over the year on a wide range of central bank related issues. In 2006 this amounted to eleven hearings of Governors, (Deputy) Directors and Counsellors.<sup>3</sup> They included, for example, a testimony by Governor Donald L. Kohn on ‘regulatory relief’ before the Committee on Banking, Housing, and Urban Affairs of the Senate in March. A recent appearance of the Fed Chairman before the Joint Economic Committee of Congress on 28 March 2007 illustrates how the Fed is held accountable by Congress. The Chairman was summoned to come to the Committee to answer questions on recently made “confusing” policy statements.

### *Written Questions*

The **ECB** answers written questions submitted by individual Members of the European Parliament. The ECB is not compelled to do so by the Treaty and therefore answers these questions on a voluntary basis. The Rules and Procedures of the European Parliament state that “any Member may put questions for written answer to the European Central Bank”.<sup>4</sup> Such questions shall be submitted in writing to the chairman of the committee responsible (this being the EP Committee on Economic and Monetary Affairs), who shall forward them to the European Central Bank. The questions shall be published with their answers in the Official Journal of the European Union”.<sup>5</sup>

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<sup>3</sup> The number of testimonies varies from year to year. 16, 15 and 19 testimonies were held in 2005, 2004 and 2003 respectively.

<sup>4</sup> Rule 111 further states: “If a question has not received a reply by the required deadline, it shall be included at the request of its author on the agenda for the next meeting of the committee responsible with the President of the European Central Bank.”

<sup>5</sup> In 2004, 2005 and 2006 the ECB answered 9, 8 and 20 questions respectively, addressed to it from Members of the European Parliament.

Members of Congress can submit two kinds of written question to the **Fed**. The first category concerns written questions submitted immediately following the semi-annual testimonies. Following the hearings of the Chairman of the Fed in the Committees, its members have the right to submit questions, which are answered within ten days (not on a legal but customary basis). These questions and answers become part of the published record of the relevant hearing/testimony.<sup>6</sup> The second category concerns questions posed by members of Congress to the Fed outside the context of the hearings, whereby the members sometimes act as a “post-office” for US citizens. The right to submit these questions is not based on a specific legal provision, but on the general understanding that Congress oversees the activities of the Fed. In line with this understanding, the Fed feels obliged to respond. The letters may deal with any topic. Whether or not written questions of the second category and their responses are published depends on the member of Congress who posed the question. However, on the basis of the Freedom of Information Act, any citizen could force either the Congress member or the Fed to publish the letters and answers.<sup>7</sup>

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<sup>6</sup> Please note that both the term ‘hearing’ and ‘testimony’ are used; the first referring to the venue, the second to the statement delivered by the Chairman.

<sup>7</sup> In 2005 a total of 109 letters, of which 101 were addressed to the Chairman (of which 24 were follow-up letters to a hearing) and 8 to other Board members (of which 5 were follow-up letters to a hearing), were answered. In 2006, 91 letters, of which 77 were addressed to the Chairman (of which 25 follow-up letters to hearings) and 14 to other Board members (of which 6 were follow-up letters to the hearing) were answered.

## Tabular Overview

	Is the central bank obliged to submit <b>reports</b> to the European Parliament/Congress?	Does the European Parliament/Congress conduct <b>hearings</b> with the central bank? If so, how often?	Does the central bank answer <b>written questions</b> from the European Parliament/Congress directly?
Euro area	<b>Yes</b> Annual Report	<b>Yes</b> minimum of <b>five</b> per year, additional upon request (compulsory)	<b>Yes</b> quasi-formalised
United States	<b>Yes</b> Semi-annual Reports	<b>Yes</b> minimum of <b>four</b> per year, additional upon request (compulsory)	<b>Yes</b> quasi-formalised