



## THE EUROPEAN CENTRAL BANK (ECB)

The European Central Bank (ECB) is the central institution of the Economic and Monetary Union, and has been responsible for monetary policy in the euro area since 1 January 1999. The ECB and all EU national central banks constitute the European System of Central Banks (ESCB). The primary objective of the ESCB is to maintain price stability. Since 2014, the ECB has been responsible for tasks relating to the prudential supervision of credit institutions under the Single Supervisory Mechanism.

### LEGAL BASIS

- Articles 3 and 13 of the Treaty on European Union (TEU);
- Articles 3(1)(c), 119, 123, 127-134, 138-144, 219 and 282-284 of the Treaty on the Functioning of the European Union (TFEU);
- Protocol (No 4) on the Statute of the European System of Central Banks (ESCB) and of the European Central Bank (ECB); Protocol (No 16) on Certain Provisions Relating to Denmark; appended to the TEU and the TFEU;
- Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions (the Single Supervisory Mechanism (SSM) Regulation);
- Regulation (EU) No 806/2014 of the European Parliament and of the Council of 15 July 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms (the Single Resolution Mechanism (SRM) Regulation).

### ORGANISATION AND OPERATIONS

According to the Treaties, the ECB's main responsibilities include conducting monetary policy for the euro area. In addition, the SSM Regulation conferred certain supervisory functions for credit institutions on the ECB as of November 2014.

#### A. Monetary function

The European System of Central Banks (ESCB) is made up of the European Central Bank (ECB) and the national central banks of all the Member States, including those that have not adopted the euro. The Eurosystem, meanwhile, comprises the ECB and the national central banks of only those Member States that have adopted the euro. The TFEU refers to the ESCB rather than to the Eurosystem, since it was drawn up



on the premise that all Member States would eventually adopt the euro. For Member States that have not yet adopted the euro (because they have a derogation or opt-out), certain Treaty provisions referring to the ESCB are not applicable, which means that general Treaty references to the ESCB in practice mainly refer to the Eurosystem. The ECB's independence is enshrined in Article 130 TFEU: 'When exercising the powers and carrying out the tasks and duties conferred upon them by the Treaties and the Statute of the ESCB and of the ECB, neither the ECB, nor a national central bank, nor any member of their decision-making bodies shall seek or take instructions from Union institutions, bodies, offices or agencies, from any government of a Member State or from any other body'.

## **1. Decision-making bodies**

The ECB's decision-making bodies are the Governing Council, the Executive Board and the General Council. The ESCB is governed by the decision-making bodies of the ECB.

### **a. Governing Council**

The Governing Council of the ECB comprises the members of the ECB Executive Board and the Governors of the national central banks of euro area Member States. It formulates monetary policy and establishes the necessary guidelines for its implementation. The Governing Council adopts the Rules of Procedure of the ECB, exercises advisory functions and decides how the ESCB is to be represented in international cooperation. The Governing Council may also delegate certain powers to the Executive Board. The Governing Council usually meets twice a month and has a monthly rotating system of voting rights. The Governors from the countries ranked first to fifth according to the size of their economies and their financial sectors share four voting rights. The 15 remaining countries share 11 voting rights. In addition to the national central bank Governors, the ECB's Executive Board members hold permanent voting rights.

### **b. Executive Board**

The Executive Board comprises the President, the Vice-President and four other members. They are appointed by the European Council by qualified majority on a recommendation from the Council after it has consulted Parliament and the Governing Council. The term of office is eight years, and is not renewable. The Executive Board is responsible for the current and day-to-day business of the ECB. It implements monetary policy in accordance with the guidelines and decisions adopted by the Governing Council. It also provides instructions to national central banks and prepares the Governing Council's meetings.

### **c. General Council**

The General Council is the third decision-making body of the ECB, but only as long as there are Member States that have not yet adopted the euro. It consists of the President and Vice-President of the ECB and the Governors of the national central banks of all the Member States. Other Executive Board members may participate in meetings of the General Council, but do not have voting rights.



## 2. Objectives and tasks

According to Article 127(1) TFEU, the primary objective of the ESCB is to maintain price stability. Without prejudice to this, the ESCB also supports the Union's general economic policies in order to help achieve the Union's objectives, which are outlined in Article 3 TEU. The ESCB acts in accordance with the principle of an open market economy with free competition and in compliance with the principles set out in Article 119 TFEU. The basic tasks carried out through the ESCB are: defining and implementing the Union's monetary policy; conducting foreign exchange operations consistent with the provisions of Article 219 TFEU; holding and managing the official foreign reserves of the Member States; and promoting the smooth operation of payment systems.

## 3. Powers and instruments

The ECB has the exclusive right to authorise the issue of euro banknotes. Member States may issue euro coins subject to the ECB's approval of the volume of the issue (Article 128 TFEU). The ECB passes regulations and takes decisions necessary for carrying out the tasks entrusted to the ESCB under the Treaty and the ECB Statute. It also makes recommendations and delivers opinions (Article 132 TFEU). The ECB must be consulted on any proposed EU act in its fields of competence, and by national authorities on any draft legislative provision in its fields of competence (Article 127(4) TFEU). It may submit opinions about the issues on which it is consulted. The ECB is also consulted on decisions establishing common positions and on measures relating to unified representation of the euro area in international financial institutions (Article 138 TFEU). Assisted by the national central banks, the ECB collects the necessary statistical information either from the competent national authorities or directly from economic agents (Article 5 of the ECB Statute). The ECB Statute lists various instruments that the ECB may use in order to fulfil its monetary functions. The ECB and the national central banks can open accounts for credit institutions, public entities and other market participants, and accept assets as collateral. It can conduct open market and credit operations and require minimum reserves. The Governing Council may also decide on other instruments of monetary control by a two-thirds majority. However, Article 123 TFEU prohibits financing monetary financing, and sets limits on the use of monetary policy instruments. To ensure efficient and sound clearing and payment systems, the ECB may provide infrastructure and establish oversight policies. The ECB may also establish relations with central banks and financial institutions in other countries and with international organisations.

## 4. Member States with a derogation or opt-out

Articles 139-144 TFEU lay down special provisions for Member States which have a Treaty obligation to adopt the euro but have not yet fulfilled the conditions to do so ('Member States with a derogation'). Certain Treaty provisions are not applicable to these Member States, e.g. the objectives and tasks of the ESCB (Article 127(1)-(3), (5) TFEU) and the issue of euro coins (Article 128 TFEU). Denmark has been granted an opt-out, and is thus not obliged to join the euro area, as defined in Protocol No 16 attached to the TFEU.



## **B. Supervisory function**

Since November 2014, the ECB has been responsible for the supervision of all credit institutions in the Member States participating in the SSM, either directly for the largest banks, or indirectly for other credit institutions. It cooperates closely in this function with the other entities in the European System of Financial Supervision. The SSM is made up of the ECB and the national competent authorities of the euro area Member States. The competent authorities of non-euro area Member States may participate in the SSM. The ECB directly supervises the largest banks, while the national supervisors continue to monitor the remaining banks.

### **1. Supervisory Board**

The Supervisory Board of the ECB is composed of a Chair, a Vice-Chair, four representatives of the ECB (whose duties may not be directly related to the monetary function of the ECB) and one representative of the national competent authority in each Member State participating in the SSM. The European Parliament must approve the ECB's nominations for Chair and Vice-Chair. Decisions by the Supervisory Board are taken by simple majority. The Supervisory Board is an internal body tasked with the planning, preparation and execution of the supervisory functions conferred upon the ECB. It prepares and proposes complete draft supervisory decisions to the Governing Council. These are adopted if the Governing Council does not reject them within a specified time frame. If a non-euro area participating Member State disagrees with a draft decision by the Supervisory Board, a special procedure applies and the Member State concerned may even request termination of the close cooperation.

### **2. Objectives and tasks**

As a banking supervisor, the ECB's tasks include granting and withdrawing authorisation for credit institutions, ensuring compliance with prudential requirements, conducting supervisory reviews and participating in supplementary supervision of financial conglomerates. It is also tasked with addressing systemic and macro-prudential risk.

### **3. Powers and instruments**

In order to fulfil its supervisory role, the ECB has investigative powers (information requests, general investigations and on-site inspections) and specific supervisory powers (e.g. authorisation of credit institutions). The ECB also has the power to impose administrative penalties. It may also require credit institutions to hold higher capital buffers.

## **C. Other functions**

Other legal bases confer additional tasks on the ECB. The European Stability Mechanism Treaty (in force as of September 2012) conferred certain tasks on the ECB in relation to granting financial assistance, mainly assessment and analysis. According to the founding regulations of the European Systemic Risk Board (ESRB), which is responsible for the macro-prudential oversight of the financial system within the EU, the ECB provides the secretariat for the ESRB and the President of the ECB also acts as chair of the ESRB. The ECB has an advisory role in assessing the resolution plans of credit institutions under the Bank Recovery and Resolution Directive and the



Single Resolution Mechanism Regulation. Within the Single Resolution Mechanism , the ECB assesses whether a credit institution is failing or likely to fail, and informs the Commission and the Single Resolution Board accordingly.

## **ROLE OF THE EUROPEAN PARLIAMENT**

The ECB President reports to Parliament on monetary issues in a quarterly Monetary Dialogue. The ECB also prepares an annual report on monetary policy which is presented in Parliament. Parliament adopts a resolution on this annual report. MEPs may put forward questions for written answer to the ECB. Parliament is also consulted in the [procedure to appoint members of the ECB's Executive Board](#).

The new supervisory responsibilities of the ECB are matched with additional accountability requirements under the SSM Regulation. The practical modalities for this are governed by an interinstitutional agreement between Parliament and the ECB. The accountability arrangements include the attendance of the Chair of the Supervisory Board at hearings of the Committee on Economic and Monetary Affairs; answering questions asked by Parliament; and confidential oral discussions with the Chair and Vice-Chair of the competent committee upon request. In addition, the ECB prepares an annual supervisory report, which is presented to Parliament by the Chair of the Supervisory Board.

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