

Feedback on the input provided by the European Parliament as part of its resolution on the ECB Annual Report 2018

The ECB Annual Report 2018 was presented by the ECB's Vice-President on 1 April 2019 in a dedicated session of the Committee on Economic and Monetary Affairs of the European Parliament.¹ On 11 February 2020 the President of the ECB attended the Parliament's plenary debate on the Annual Report.² The following day, the Parliament adopted its resolution on the ECB Annual Report 2018 (hereinafter referred to as "the resolution").³

On the occasion of the transmission of the ECB Annual Report 2019 to the European Parliament, the ECB is providing its feedback on the input provided by the European Parliament as part of the resolution.⁴ This feedback is made public in line with the practice adopted in 2016 in response to a request from the European Parliament.⁵ This illustrates the ECB's commitment to accountability, going beyond the requirements of the Treaty on the Functioning of the European Union (TFEU).

The outbreak of the coronavirus (COVID-19) pandemic in early 2020, its significant effects on the economy and the extraordinary measures taken by the ECB in response to this emergency⁶ have to some extent had an impact on the ECB's response to the issues raised by the European Parliament. However, this feedback focuses primarily on the ECB's activities in 2019, in line with the time period covered by the ECB Annual Report 2019.⁷

1 The ECB's monetary policy

1.1 The effectiveness of the ECB's measures and their side effects

The resolution discusses the effectiveness of the ECB's monetary policy measures, their impact on financing conditions in the euro area and their side effects in

¹ See the ECB's [website](#).

² See the ECB's [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 paragraph 23 of the European Parliament resolution of 25 February 2016 on the European Central Bank Annual Report for 2014 (available on the European Parliament's [website](#)).

⁶ See the press releases published on the ECB's [website](#) on 12 March 2020, 18 March 2020, 7 April 2020 and 22 April 2020.

⁷ The cut-off date for this feedback is 27 April 2020.

paragraphs 9, 13, 14, 16-18 and 24. In paragraphs 4-5 and 17, the resolution notes the need for supportive fiscal policies and for other policies to contribute to raising the longer-term growth potential, supporting aggregate demand and reducing vulnerabilities.

The ECB considers that its monetary policy measures have contributed significantly to improving financial conditions for companies and households and to higher economic activity and inflation. Considering all the measures taken by the ECB between mid-2014 and 2019, the overall impact on euro area real GDP growth is estimated to have been between 2.5 and 3.0 percentage points cumulatively during that period.⁸ The contribution of these measures to the annual inflation rate has been between one-third and one-half of a percentage point per year over the same period.⁹ Higher economic growth over the medium term as a result of the ECB's monetary policy measures benefits the vast majority of euro area households and companies.

The ECB is of the view that the low level of nominal interest rates in the euro area is not solely a reflection of how monetary policy has been conducted.

Both European and global real interest rates have been on a downward trend for decades and have remained very low, or even negative, since the global financial crisis. A number of estimations, including by the ECB, suggest similar patterns for natural or equilibrium real rates.¹⁰ Several factors have been put forward to explain these trends, including developments in more structural factors, such as demography, productivity and growing imbalances between the global demand for and supply of safe assets, as well as more cyclical factors, such as the persistent deleveraging pressure brought about by the outbreak of the global financial crisis.

The ECB monitors the potential side effects of its unconventional policy measures that are raised in the resolution. These appear to have been limited so far but can be expected to increase with the intensity and duration of the use of unconventional measures.

To increase the effectiveness of the ECB's monetary policy measures, unwarranted developments need to be tackled by other policy areas. For instance, financial stability risks associated with excessively high asset valuations must be addressed with appropriate macroprudential and microprudential measures targeted at different financial institutions. The ECB, together with the European Systemic Risk Board (ESRB), monitors the adequacy of these measures on an ongoing basis, also taking into account the impact of the coronavirus crisis.

House prices in the euro area had been growing robustly until the end of 2019 and some pockets of overvaluation had been registered. However, there is no evidence of a credit-fuelled housing bubble. The household debt-to-GDP ratio

⁸ See Rostagno, M. et al., "A tale of two decades: the ECB's monetary policy at 20", *Working Paper Series*, No 2346, ECB, Frankfurt am Main, December 2019.

⁹ See Hartmann, P., and Smets, F., "The European Central Bank's Monetary Policy during Its First 20 Years", *Brookings Papers on Economic Activity*, 2018, pp. 1-146.

¹⁰ See, for example, Brand, C., Bielecki, M. and Penalver, A. (eds), "The natural rate of interest: estimates, drivers, and challenges to monetary policy", *Occasional Paper Series*, No 217, ECB, Frankfurt am Main, December 2018.

has been stable, but it remains well below the levels recorded prior to the global financial crisis. Nevertheless, housing market risks are heterogeneous across countries, reflecting other country-specific demand and supply factors. The ECB is constantly monitoring real estate risks as part of its financial stability function and has been contributing to the work of the ESRB, which recently identified a number of EU countries with medium-term vulnerabilities in the residential real estate sector.¹¹ Vulnerabilities in euro area housing markets are being re-evaluated in the context of the coronavirus crisis.

The ECB recognises that its unconventional monetary policy measures can affect bank profitability, but notes that the overall impact of monetary policy on bank profitability has been contained. Banks that fund themselves largely with customer deposits (as small banks tend to do) may be particularly affected, as their net interest margins tend to be more sensitive to the low interest rate environment. That said, such banks tend to benefit considerably from increased demand for loans and better credit quality, owing to the positive impact of the ECB's monetary policy on economic growth. Moreover, the ECB has adopted a two-tier system for remunerating excess liquidity holdings, which is aimed at supporting the bank-based transmission of monetary policy. The design of the system – with allowances based on minimum reserve requirements – means that banks that are more heavily reliant on retail deposits benefit from it to a greater extent.

The ECB recognises that low levels of interest rates put some pressure on the profitability and solvency of insurers and pension funds, as highlighted in the resolution, but also notes their positive effect on the financing conditions of non-financial corporations and households. As bond yields have fallen, the investment income of insurers and pension funds has also decreased. Many of these institutions – and in particular those offering products with a guaranteed minimum return – tend to compensate for such a decrease in profitability by searching for yield in riskier and less liquid assets. In this way, the sector helps to ease financing conditions for the corporate sector.¹² The ECB is closely monitoring the impact of the low interest rate environment on insurers and pension funds, which largely depends on the business model and the balance sheet structure of individual institutions.

The ECB's asset purchase programmes and collateralised refinancing operations are designed with due consideration of risk management aspects. In particular, risk control frameworks are used to mitigate and closely monitor risks, including financial risks. These frameworks also help the ECB to fulfil its policy objectives.

The ECB agrees with the resolution that other policy areas need to take more decisive action to support the effectiveness of its monetary policy measures. The ECB is taking the necessary monetary policy measures to maintain price

¹¹ See the ESRB report on "[Vulnerabilities in the residential real estate sectors of the EEA countries](#)" and the "[Follow-up report on the countries that received ESRB warnings in 2016 on medium-term vulnerabilities in the residential real estate sector](#)", September 2019. Country-specific warnings are available on the ESRB's [website](#).

¹² See "Non-bank financial sector", *Financial Stability Review*, ECB, Frankfurt am Main, November 2019.

stability in the euro area. However, a more active fiscal policy is required, particularly in the current environment of low interest rates. Moreover, euro area countries need to step up structural reforms to boost productivity and growth potential, reduce structural unemployment and increase resilience.

The ECB agrees with the resolution on the vital importance of small and medium-sized enterprises (SMEs) and will continue to be attentive to the financing needs of these companies. The ECB is well aware that SMEs represent the majority of firms in the euro area and account for a major share of euro area turnover and employment. Through its Survey on the Access to Finance of Enterprises (SAFE)¹³, over the last decade the ECB has sought to obtain an accurate assessment of the financing conditions faced by SMEs in order to inform its decision-making. In the design of its monetary policy measures, the ECB has also been mindful of the considerable dependence of SMEs on bank financing, without disregarding SMEs' market-based financing conditions.

In this context, the monetary policy measures taken by the ECB in recent years have helped to alleviate financial constraints for SMEs and improve their resilience to financial shocks. As far as bank lending is concerned, measures aimed at strengthening loan dynamics – such as (targeted) longer-term refinancing operations – have played an important role in sustaining SMEs' access to finance and steering participating banks' monetary stimulus towards private sector borrowers.¹⁴ As far as market-based financing is concerned, the corporate sector purchase programme (CSPP) provided favourable conditions to a wide range of euro area companies, including SMEs. The results of the SAFE suggest that the CSPP helped to increase the availability of bank loans for SMEs. Large enterprises increasingly turned to debt securities issuance, therefore banks directed a more sizeable share of their lending towards smaller companies. This illustrates how monetary policy measures can complement and interact with each other.¹⁵ The ECB's measures therefore helped to reduce the percentage of SMEs facing financial constraints from about 18% in the period 2009-12 to around 8% in the period between 2016 and September 2019, according to the SAFE.¹⁶ Similarly, the percentage of euro area SMEs reporting major difficulties in running their business and servicing their debt declined from 14% in 2012 to 3% in the second half of 2019.

While SMEs' financing conditions have improved considerably in recent years, the ECB is aware that some significant challenges remain. The ECB is also carefully monitoring the financing conditions of SMEs in the light of the economic

¹³ See the ECB's [website](#).

¹⁴ This is particularly true for banks located in euro area countries previously considered to be vulnerable. For further details, see the box entitled "[Impact of the ECB's non-standard measures on financing conditions: taking stock of recent evidence](#)", *Economic Bulletin*, Issue 2, ECB, Frankfurt am Main, 2017.

¹⁵ For the impact of the CSPP and TLTROs on Spanish non-financial firms, see also Arce, O., Gimeno, R. and Mayordomo, S., "Making room for the needy: the credit reallocation effects of the ECB's corporate QE", *Working Papers*, No 1743, Banco de España, 2017.

¹⁶ For the impact of other measures, such as the Outright Monetary Transactions (OMT) programme, see also Ferrando, A., Popov, A. and Udell, G.F., "Sovereign stress and SMEs' access to finance: Evidence from the ECB's SAFE survey", *Journal of Banking and Finance*, Vol. 81, 2017, pp. 65-80.

fallout from the coronavirus pandemic and will not tolerate any risks to the smooth transmission of its monetary policy, including through this channel.

1.2 The corporate sector purchase programme and monetary policy implementation

Issues related to monetary policy implementation are discussed in paragraphs 15 and 36. Paragraph 36 of the resolution discusses the CSPP in particular.

Purchases under the ECB's asset purchase programme (APP) can be continued for some time within the current parameters of the programme. The APP, including the temporary envelope of additional net asset purchases of €120 billion announced in March 2020, will be implemented in full according to the established principles, with additional flexibility for the temporary envelope.¹⁷ The additional temporary envelope of €750 billion under the pandemic emergency purchase programme (PEPP)¹⁸ is separate from and in addition to the net purchases under the APP. The PEPP is designed in a flexible manner in order to deal with the specific situation caused by the coronavirus outbreak in a targeted manner. It will allow for fluctuations in the distribution of purchase flows over time, across asset classes and among jurisdictions.

Regarding the transparency issues raised in the resolution, the ECB regularly publishes a wealth of information on all of its asset purchase programmes. To further enhance the transparency of the third covered bond purchase programme (CBPP3) and the asset-backed securities purchase programme (ABSPP), the ECB published aggregated holding statistics for these programmes in its Economic Bulletin in March 2019.¹⁹ The aggregate data provide a distribution of the CBPP3 holdings by both country of risk and rating. The ABSPP data provide a breakdown of holdings by country of risk, credit rating and collateral type.²⁰ Since these data were first published, the ECB has published updates alongside the semi-annual disclosure of CSPP aggregated holding statistics. The publication of this additional information has enabled the public to gain a better understanding of how the programmes are implemented, while safeguarding the effective implementation of monetary policy. The disclosure of more detailed data on the securities held under the ABSPP and the CBPP3 could undermine the purpose of these programmes. In particular, the precise composition of the ABSPP and CBPP3 in terms of individual securities or international securities identification numbers (ISINs) has not been disclosed because the public may perceive the absence of certain ISINs from the holdings to be a differentiator between financially sound and comparatively weaker issuers and

¹⁷ See the press release published on the ECB's [website](#) on 12 March 2020.

¹⁸ See the press release published on the ECB's [website](#) on 18 March 2020.

¹⁹ See the box entitled "Providing additional transparency on aggregate APP holdings" in the article entitled "[Taking stock of the Eurosystem's asset purchase programme after the end of net asset purchases](#)", *Economic Bulletin*, Issue 2, ECB, Frankfurt am Main, 2019.

²⁰ Information on aggregate CBPP3 and ABSPP holdings can be found in the "[Asset purchase programmes](#)" section of the ECB's website. This section also provides a breakdown of the CBPP3 holdings by rating and country of risk and of the ABSPP holdings by rating, country of risk and collateral type, both on a semi-annual basis.

originators, even though there may be other reasons for this. It should be noted that, in contrast to the CSPP, many of the CBPP3 and ABSPP securities are issued and/or originated by euro area credit institutions, which are the main counterparties for the ECB's monetary policy operations. Such detailed disclosure may therefore lead to market fragmentation and undermine the level playing field among issuers and originators, which would jeopardise the ECB's aim of minimising the impact of the implementation of the purchase programmes on the functioning of the relevant markets.

The ECB very much welcomes the positive economic and financial developments observed in Greece in the course of 2019. The eligibility of Greek bonds is subject to a decision by the Governing Council based on a number of considerations, including risk management. Although Greek public sector securities have so far not been purchased under the public sector purchase programme (PSPP), the ECB's accommodative monetary policy has contributed substantially to easing financial conditions in Greece, as shown by the low bank lending rates to Greek households and non-financial corporations. Moreover, marketable debt securities issued by the Greek government are eligible, under a waiver, for the PEPP.²¹ The waiver was granted in the light of both the market turbulences experienced in the context of the coronavirus emergency and the fact that an enhanced surveillance process is currently in place for Greece. There had also been positive developments in the Greek real economy and financial markets for some time before the outbreak of the coronavirus. Furthermore, as part of the Governing Council's recent package of temporary collateral easing measures,²² Greek sovereign debt instruments are temporarily accepted as collateral in Eurosystem credit operations under a waiver.

1.3 Monetary policy strategy review

Paragraph 34 of the resolution addresses the ECB's review of its monetary policy framework and calls for a public consultation as part of this process.

In January 2020 the ECB launched a review of its monetary policy strategy.²³

Much of the focus of the review is on the quantitative formulation of price stability, together with the approaches and instruments by which price stability is achieved. Moreover, the review will take into account how other considerations, such as financial stability, employment and environmental sustainability, can be relevant in pursuing the ECB's mandate. The review will also assess the ECB's communication on monetary policy and the general public's understanding of the ECB. In view of the coronavirus emergency, the timeline of the review has been extended to mid-2021.²⁴

²¹ See the press release published on the ECB's [website](#) on 18 March 2020.

²² See the press release published on the ECB's [website](#) on 7 April 2020.

²³ See the press release published on the ECB's [website](#) on 23 January 2020.

²⁴ See the press release published on the ECB's [website](#) on 2 April 2020.

As called for in the resolution, the strategy review will involve interaction with European citizens.

In addition to the regular exchanges with Members of the European Parliament on all aspects of the review, the ECB is seeking ideas and opinions from a wide range of interested parties – including citizens, academics and professional and civil society organisations – via dedicated ECB Listens events and a new online ECB Listens Portal.²⁵ The results of these activities – and of those organised by national central banks across the entire euro area – will feed into the deliberations during the strategy review.

2 Issues related to action against climate change and green finance

Paragraphs 19, 21, 22 and 23 discuss the ECB's role in relation to action against climate change.

Climate change is a major global challenge and requires action by all public and private institutions. Within its mandate, the ECB is actively contributing to addressing this challenge.

The ECB highlights the crucial role of governments, including through international cooperation, in devising and implementing appropriate climate change mitigation policies. Political authorities have a broad spectrum of policy options available to them to tackle climate change, including carbon pricing through fiscal measures. Within their mandate, central banks can support and complement the collective endeavour of governments by focusing on their areas of competence.

The ECB will consider the impact of climate change in relation to monetary policy as part of its strategy review. Among other considerations, the review will take into account environmental sustainability.²⁶ In this context, the ECB will closely examine the risks that climate change poses to the conduct of monetary policy and how climate change considerations can be included in the Eurosystem's monetary policy framework.

On the issue of ECB corporate bond purchases raised in the resolution, the ECB notes that, following the principle of market neutrality, close to 20% of the eligible green bond universe is held under the CSPP. The ECB is therefore already contributing to the transition to a low-carbon economy. The APP aims to support a sustained adjustment in the path of inflation that is consistent with the ECB's primary objective of price stability. Accordingly, eligibility criteria for the APP are deliberately broad to provide a large range of purchasable securities, with a view to achieving the broadest possible impact and avoiding distortions of specific market segments.²⁷ A study published in the ECB's Economic Bulletin in November 2018²⁸

²⁵ See the ECB's [website](#).

²⁶ See the press release published on the ECB's [website](#) on 23 January 2020.

²⁷ See also the [letter](#) from the ECB President to Paul Tang and Neena Gill, MEPs, on monetary policy, 20 December 2019, and the [letter](#) from the ECB President to Ernest Urtasun, MEP, on monetary policy, 21 November 2019.

²⁸ See the box entitled "[Purchases of green bonds under the Eurosystem's asset purchase programme](#)", *Economic Bulletin*, Issue 7, ECB, Frankfurt am Main, 2018.

showed that green bond issuance is particularly concentrated in carbon-intensive sectors, such as utilities, infrastructure, transportation and construction. Companies in these sectors issue green bonds to finance the adoption of more efficient technologies, reduce their carbon footprints and reorient their energy portfolios towards renewable sources.

The ECB is also looking into incorporating climate-related risks into its prudential frameworks. At the microprudential level, ECB Banking Supervision is working on a guide setting out supervisory expectations on the management and disclosure of climate-related and environmental risks. A public consultation on this guide is planned for the first half of 2020. At the macroprudential level, the ECB is developing a monitoring framework for climate-related systemic risks and a top-down macroprudential stress test.

The ECB is involved in various European and international initiatives, including the Network of Central Banks and Supervisors for Greening the Financial System (NGFS). The ECB is actively contributing to work on climate risks by several international standard-setting bodies, including the Financial Stability Board and the Basel Committee on Banking Supervision. At the EU level, the ECB welcomed the European Commission's action plan on financing sustainable growth as an important step towards integrating sustainability into financial decision-making. Moreover, the ECB actively supported the proposed development of a common EU taxonomy of sustainable assets as a key step for scaling up green financing. As a member of the European Commission's Technical Expert Group on Sustainable Finance, the ECB provided analytical input and technical support for the assessment of the economic impact of the EU classification system ("taxonomy") for sustainable activities.²⁹

The ECB is also exploring how to further incorporate climate change concerns in its own operations. For its staff pension fund portfolio, the ECB already pursues a sustainable investment policy based on a selective exclusion list. Its investment managers, who are both signatories of the United Nations Principles for Responsible Investment, must apply proxy voting guidelines incorporating environmental, social and governance considerations. The ECB also decided to replace the ECB pension funds' equity benchmarks with their low-carbon equivalents. For its own funds portfolio, the ECB is investigating if and how climate-related considerations can be integrated. As a first step, the ECB decided to increase the share of green bonds held in the portfolio, subject to availability and market liquidity. As part of the ECB's asset purchase programmes and under the principle of market neutrality, the ECB has purchased and continues to purchase green bonds.

The ECB is also stepping up its analytical and research capabilities on climate change. For example, the ECB is taking steps to ensure that climate change is taken into account in the ECB's macroeconomic models, forecasting methods, risk assessments and stress test scenarios and models. For example, research by the

²⁹ See the [final report](#) of the Technical Expert Group on Sustainable Finance, March 2020.

ECB has assessed the relative role of equity and bank-based finance in supporting green innovation.³⁰

3 The international role of the euro and EMU deepening, including the banking union and capital markets union, and issues related to the EU's financial architecture

Paragraph 7 underlines the need for deepening of Economic and Monetary Union (EMU) as a structural condition for strengthening the role of the euro. Paragraph 33 specifically addresses the international role of the euro. While the ECB's supervisory tasks were not the focus of the resolution, paragraphs 25-28 and 37 refer to issues related to the banking union, the capital markets union (CMU) and the EU's financial architecture, including in relation to preparations for Brexit and the introduction of the euro short-term rate (€STR).

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 EMU, particularly by advancing the CMU, in the context of the pursuit of sound economic policies in the euro area.³¹ Completing the banking union would make the euro area more resilient, while deeper and better connected European capital markets as a result of 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 ECB continues to emphasise the need for further efforts to complete EMU.³²

The ECB agrees with the resolution's call for swift completion of the banking union. The ECB continues to strongly support completing the banking union and considers the establishment of a fully fledged European deposit insurance scheme to be a key priority.

With regard to the resolution's emphasis on respecting the operating principles and mission of cooperative and mutual banks, the ECB notes that it fully respects the principle of proportionality when carrying out its supervisory tasks. Ensuring the consistent supervision of credit institutions throughout the banking union is one of the main objectives of ECB Banking Supervision. However, this does not mean that the ECB adopts a "one-size-fits-all" approach to supervision. The ECB fully respects the principle of proportionality when carrying out its supervisory tasks and does not discriminate between banks on the basis of their operating model, to the extent that banking regulation is observed.

³⁰ See "[Finance and decarbonisation: why equity markets do it better](#)", *Research Bulletin*, No 64, ECB, Frankfurt am Main, November 2019.

³¹ See "[The international role of the euro](#)", ECB, Frankfurt am Main, June 2019.

³² See the article entitled "[The state of play regarding the deepening agenda for Economic and Monetary Union](#)", *Economic Bulletin*, Issue 2, ECB, Frankfurt am Main, 2020.

The ECB also agrees with the call for the CMU project to be accelerated and advocates a significant deepening of CMU that is sufficiently ambitious and timely, also taking into account any adjustment needs arising from the coronavirus crisis. The ECB has consistently called for EU institutions and Member States to take the necessary steps to complete CMU, and reaffirms its strong support for establishing integrated, well-functioning and innovative financial markets in the EU. The ECB looks forward to the publication of the final recommendations by the European Commission's High-Level Forum. These recommendations should have a high degree of ambition and take into account the recommendations expressed in the ECB's recent report on financial integration and structure in the euro area.³³

The resolution's call for the ECB to continue its preparatory efforts to ensure the stability of EU financial markets in the context of the United Kingdom's withdrawal from the EU is in line with the ECB's stance. The ECB has been closely monitoring economic and financial sector risks associated with Brexit since the 2016 referendum.³⁴ Brexit-related risks could still materialise during the course of 2020 or thereafter, depending on the progress of the negotiations. In March 2019 the ECB and the Bank of England activated a currency swap arrangement, which will reduce possible sources of stress in the financial system.³⁵ Throughout the Brexit process, the ECB has called on banks, both publicly and bilaterally, to plan for all possible contingencies and assess their specific risk profile on a case-by-case basis.³⁶ The private sector must continue to prepare for all outcomes.³⁷ At the end of the transition period, the financial sector will have had more than four years to prepare for the upcoming significant regime change. Euro area banks and other market participants must use the remaining time until the end of the transition period to implement their Brexit plans so that they are prepared for the new relationship after the transition period ends.

In response to the resolution's request for a first assessment of the €STR, the ECB notes that, since its introduction in October 2019, the €STR has been reflecting market dynamics well. The €STR is calculated on a daily basis, is currently based on more than €30 billion worth of eligible transactions reported by 50 reporting agents, and should progressively replace the euro overnight index average (EONIA) by the end of 2021. The €STR has been reflecting market dynamics well, including the policy rate cut in September 2019 (in pre-€STR data). The €STR is increasingly being used by market participants in cash and derivatives market transactions. Despite these encouraging signs, more effort by market participants is

³³ See "[Financial Integration and Structure in the Euro Area](#)", ECB, Frankfurt am Main, March 2020.

³⁴ See, for example, 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, Frankfurt am Main, May 2019.

³⁵ See the press release published on the ECB's [website](#).

³⁶ See, for example, various articles on Brexit in the ECB's Supervision Newsletter: "[Brexit: meeting supervisory expectations](#)", February 2019; "[Brexit: stepping up preparations](#)", August 2019; "[Brexit: operational risks increases when banks delay action](#)", November 2019; "[Brexit: time to move to post-Brexit business models](#)", February 2020.

³⁷ See the special feature entitled "[Implications of Brexit for the EU financial landscape](#)", *Financial Integration and Structure in the Euro Area*, ECB, Frankfurt am Main, March 2020.

required to build sufficiently liquid €STR markets. In the context of the global efforts to reduce the over-reliance on interbank rates (such as EURIBOR in the euro area), a rate like the €STR and term structures based on it could serve as a fallback in EURIBOR-linked contracts and as an alternative to EURIBOR. The ECB will continue to report on the €STR.³⁸

4 Issues related to payments, crypto-assets, financial technology and cybersecurity

The resolution discusses issues related to payments in paragraphs 20 and 35 as well as issues related to crypto-assets, financial innovation and cybersecurity in paragraphs 29-32.

The ECB welcomes the resolution’s emphasis on the importance of developing efficient and independent European payment systems. The ECB continues to promote the functioning of the European payment system through the full deployment of instant payments, improvements to cross-border payments to and from the EU and support for European fintech initiatives that are introducing payment services. The Euro Retail Payments Board³⁹, chaired by the ECB, has been working with both providers and users to support the further development of an integrated, innovative and competitive market for euro retail payments. In addition, the ECB’s Governing Council has relaunched its retail payments strategy, which aims to actively support market-led initiatives that are working towards a true pan-European payment solution for point-of-sale and e-commerce payments. The ECB has also been closely monitoring the progress made by the European Payments Initiative towards the Eurosystem’s objectives⁴⁰ in this field.

The ECB welcomes the resolution’s recognition of the importance of cash as means of payment. Cash remains the most important means of payment for EU citizens⁴¹ and euro banknotes continue to show a strong increase in circulation.⁴² Cash is an inclusive payment instrument and it has an important contingency and store of value function.

As regards the resolution’s call for a system to monitor large transactions, the ECB notes the current EU regulatory framework for monitoring the movements

³⁸ See the ECB’s [website](#) for reports on the €STR.

³⁹ The [Euro Retail Payments Board](#) is a high-level strategic body tasked with fostering the integration, innovation and competitiveness of euro retail payments in the EU. It was [launched](#) on 19 December 2013 by the ECB and replaced the [SEPA Council](#).

⁴⁰ These objectives include: pan-European reach and customer experience; convenience and cost-efficiency; safety and security; European identity and governance; global acceptance.

⁴¹ See “[The use of cash by households in the euro area](#)”, *Occasional Paper Series*, No 201, ECB, Frankfurt am Main, November 2017.

⁴² See the article entitled “[Trends and developments in the use of euro cash over the past ten years](#)”, *Economic Bulletin*, Issue 6, ECB, Frankfurt am Main, 2018.

of large amounts of cash into or out of the EU.⁴³ Monitoring compliance with this framework includes physical checks performed across the territories of Member States, including at airports, sea ports and other points at EU borders. Supervision of compliance with this EU legislation is the responsibility of the national competent authorities, often the customs authorities.

The EU framework for the prevention of money laundering and terrorist financing sets further requirements for transactions conducted between natural and legal entities within the EU. Where such transactions are intermediated by credit institutions, financial institutions (e.g. payment institutions and investment firms) or other “obliged entities” as defined by the Anti-Money Laundering (AML) Directive⁴⁴ and the respective national laws, those obliged entities are required to monitor such transactions and, where relevant, report suspicious transactions to the national financial intelligence units. In this context, it should be emphasised that, in line with Article 127 of the TFEU, the supervisory mandate of the ECB under the SSM Regulation⁴⁵ encompasses only the prudential supervision of credit institutions. Monitoring and enforcing the compliance of credit institutions (or any other obliged entities that may intermediate transactions) with anti-money laundering/countering the financing of terrorism (AML/CFT) requirements, as well as investigating tax evasion, is explicitly excluded from the ECB’s mandate. These tasks rest with national AML/CFT and tax authorities. Nevertheless, the ECB is currently strengthening its supervisory capabilities in order to ensure appropriate cooperation with the national AML/CFT authorities, so that it can take into account the information provided by those authorities in its prudential supervision. In principle, the ECB also supports further legislative action to strengthen the EU’s institutional and regulatory AML/CFT framework.

On the resolution’s call for increased monitoring of crypto-assets, the ECB notes that it is actively involved in European and global initiatives on the regulation, supervision and oversight of crypto-assets and stablecoin schemes.⁴⁶ The ECB continuously monitors and analyses developments in the crypto-asset market and the linkages through which crypto-asset risks may be

⁴³ This framework consists mainly of Regulation (EC) No 1889/2005 of the European Parliament and of the Council of 26 October 2005 on controls of cash entering or leaving the Community (OJ L 309, 25.11.2005, p. 9) and Regulation (EU) 2018/1672 of the European Parliament and of the Council on controls on cash entering or leaving the Union and repealing Regulation (EC) No 1889/2005 (OJ L 284, 12.11.2018, p. 6).

⁴⁴ Directive (EU) 2015/849 of the European Parliament and of the Council of 20 May 2015 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, amending Regulation (EU) No 648/2012 of the European Parliament and of the Council, and repealing Directive 2005/60/EC of the European Parliament and of the Council and Commission Directive 2006/70/EC (OJ L 141, 5.6.2015, p. 73).

⁴⁵ 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 (OJ L 287, 29.10.2013, p. 63).

⁴⁶ These include: at EU level, the European Securities and Markets Authority task force on virtual currencies and initial coin offerings, the European Banking Authority Task Force on Authorisations, Qualifying Holdings and Acquisitions, and the European Commission Expert Group on Regulatory Obstacles to Financial Innovation; at international level, the G7 Working Group on Stablecoins, the CPMI-IOSCO Joint Working Group on Digital Innovation and Policy Standing Group, the Financial Stability Board (FSB) Working Group on Regulatory Issues of Stablecoins, the FSB Financial Innovation Network and the Basel Committee on Banking Supervision Task Force on Financial Technology.

transmitted to the financial sector and the economy.⁴⁷ The ECB advocates a globally coordinated approach to the regulation of crypto-assets and stablecoin schemes based on the principle of “same business, same risk, same regulation”.⁴⁸ The ECB is currently revising its oversight framework for payment instruments and schemes so that all payment schemes and arrangements enabling the transfer of value between end users are covered under the Eurosystem’s oversight. As regards 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 resolution’s call for an appropriate balance between financial innovation and financial stability is in line with the ECB’s stance. Innovation and fintech bring significant benefits for banks, their customers, the financial system and the broader economy, but they also entail challenges and risks. The ECB has responded by monitoring and assessing the financial stability implications of fintech.⁴⁹ Unless adequate safeguards are put in place, growing interlinkages between banks and fintech firms could mean that disruptions in these firms have systemic implications for the financial system. In addition to the work carried out by ECB Banking Supervision, the ECB contributes to fintech-related policy and financial stability work through various European and international fora, including the European Banking Authority, the Financial Stability Board, the Basel Committee on Banking Supervision and the Committee on Payments and Market Infrastructures.

The ECB welcomes the resolution’s recognition of its efforts in the area of cybersecurity. Strengthening the ECB’s digital security defences and recovery capabilities and continuously adapting them to evolving threats and potential disruptions from cyberattacks remains a priority. Considerable progress has been made in increasing staff awareness of security issues, including through the introduction of mandatory training courses on IT security. Technical defences have been further strengthened on all computing end points, and a state-of-the-art solution for the continuous management of IT vulnerabilities is now operational. The ECB’s continuous improvement efforts are currently focused on enhancing capabilities in network security, data leakage protection and the management of user accounts with elevated privileges in IT systems.

5 ECB institutional issues

The resolution discusses several aspects of the ECB’s institutional set-up, functioning, communication and accountability practices in paragraphs 1 and 40-46.

⁴⁷ For the conclusions of the analysis conducted by the ECB Crypto-Asset Task Force, see “[Crypto-Assets: Implications for financial stability, monetary policy, and payments and market infrastructures](#)”, *Occasional Paper Series*, No 223, ECB, Frankfurt am Main, May 2019.

⁴⁸ See, for example, the [letter from the ECB President to Eva Kaili, MEP](#), on stablecoin initiatives, September 2019. See also the [introductory remarks](#) by former ECB Executive Board member Benoît Cœuré at the hearing on “Digital currencies, focusing on Libra” organised by the Committee on the Digital Agenda of the German Parliament, September 2019.

⁴⁹ [Financial Stability Review](#), ECB, Frankfurt am Main, November 2019.

The ECB agrees with the resolution on the need to preserve its independence and welcomes the recognition of the improvement in its accountability. In line with the approach followed in recent years, the ECB remains committed to further strengthening its accountability practices vis-à-vis the European Parliament within the existing framework.⁵⁰ The ECB will also continue to publish detailed written feedback on the Parliament's resolution on the ECB Annual Report.

The ECB welcomes the recognition of the improvement in its communication. In line with the resolution's call for continued efforts to make decisions available and understandable to all citizens, the ECB decided to include a distinct work stream on communication in its strategy review⁵¹, with a view to reinforcing the bridge with the public.⁵² The ECB will also continue to expand its outreach activities, in particular to non-expert audiences. These outreach activities will involve innovative approaches, including via digital channels such as the new ECB podcast⁵³ and blog⁵⁴. The ECB has also launched a new "ECB Listens" process as part of its strategy review, involving events and online interaction with interested stakeholders and the general public.⁵⁵

The ECB welcomes the resolution's recognition of the adoption of the single Code of Conduct for high-level ECB officials, which has been in force since January 2019. The code, which applies to all ECB decision-makers and high-level officials irrespective of whether they hold a contract with the ECB or are appointed at national level, has further strengthened the ECB's good governance and integrity frameworks.⁵⁶

Regarding the resolution's request that the ECB's Audit Committee and Ethics Committee include independent members, the ECB recalls that the independence of committee members is expressly provided for in the mandate of the Audit Committee and the Decision establishing the Ethics Committee. The mandate of the Audit Committee also requires members to observe the highest standards of ethical conduct. In addition, in July 2019 the Governing Council increased the independence and diversity of the Ethics Committee by appointing the Chief Ethics Counsel of a non-governmental organisation and former ethics adviser to the International Monetary Fund as a member of the Committee.

⁵⁰ See also the article entitled "[The evolution of the ECB's accountability practices during the crisis](#)", *Economic Bulletin*, Issue 5, ECB, Frankfurt am Main, 2018.

⁵¹ See the ECB's [website](#).

⁵² See the ECB President's [introductory statement](#) at the hearing before the European Parliament's Committee on Economic and Monetary Affairs on 6 February 2020.

⁵³ See the ECB's [website](#).

⁵⁴ See the ECB's [website](#).

⁵⁵ See the ECB President's [introductory statement](#) at the hearing before the European Parliament's Committee on Economic and Monetary Affairs on 6 February 2020.

⁵⁶ See the [Code of Conduct for high-level ECB officials](#). The code improves the management of potential conflicts of interest by introducing specific rules for post-employment activities, private financial transactions and relations with interest groups. It also foresees the publication of Declarations of Interests and monthly calendars, and includes measures for pursuing cases of non-compliance. Furthermore, the guiding principles for external communication by the ECB's Executive Board members have been incorporated into the code and their application has been extended to all Governing Council and Supervisory Board members.

Regarding the resolution’s call for a clear and public whistleblowing policy, the ECB notes that its strategic priorities and business objectives include enhancing its whistleblowing framework.

Work is progressing as planned on an enhanced and public whistleblowing policy that encourages a culture of “speaking up” and ensures that whistleblowing reports are followed up effectively. This policy will reinforce the ECB’s standards of behaviour, accountability and good governance by introducing a user-friendly whistleblowing tool that facilitates anonymous reporting and secure communication and by strengthening whistleblower protection in line with the highest standards. Staff representatives will be consulted on the policy in due course. The ECB anticipates that a formal amendment to the ECB Staff Rules will be adopted before the end of 2020.

Regarding the ECB’s role in financial assistance programmes for euro area countries and the positions taken by the ECB in international fora, as raised in the resolution, the ECB fully complies with the existing legal framework.

The European Commission, in liaison with the ECB, is tasked with assessing requests for stability support, negotiating a memorandum of understanding detailing the conditionality attached to the financial assistance granted, and monitoring compliance with the conditionality attached to the financial assistance. Over time, the ECB has decided to refocus its role on work on financial and macro-critical issues, including issues relating to financial sector reforms, macroeconomic projections, headline fiscal targets and sustainability and financing needs.⁵⁷ With regard to positions taken in multilateral fora, the ECB stands ready to inform the European Parliament and its Committee on Economic and Monetary Affairs about its positions, as in previous years.⁵⁸

The ECB takes note that the resolution welcomes the Memorandum of Understanding (MoU) between the European Court of Auditors (ECA) and the ECB.

The ECB highly values the audits conducted by the ECA. It remains committed to cooperating closely with the ECA and providing it with all the information needed to facilitate its work. The MoU establishes practical information-sharing arrangements between the two institutions in the field of microprudential supervision.⁵⁹ The MoU, while reiterating the independence of the ECB and the ECA in the exercise of their respective functions, aims to ensure appropriate transparency and accountability.⁶⁰ The MoU solely covers ECA audits of the supervisory tasks conferred on the ECB by the SSM Regulation and reflects the ECA’s audit mandate as attributed to it by EU law.

⁵⁷ See the Opinion of the European Central Bank of 11 April 2018 on a proposal for a regulation on the establishment of the European Monetary Fund (CON/2018/20) (OJ C 220, 25.6.2018, p. 2). See also the ECB President’s [remarks](#) at the hearing before the European Parliament’s Committee on Economic and Monetary Affairs on 24 September 2018.

⁵⁸ See the [letter](#) from the ECB President to Mr Sven Giegold, MEP, on the ECB’s participation in international fora, 17 December 2015.

⁵⁹ See the [Memorandum of Understanding](#) between the ECA and the ECB regarding audits on the ECB’s supervisory tasks.

⁶⁰ These arrangements will allow the ECA to seek and obtain all the documents and information that it needs to audit ECB Banking Supervision. Highly confidential documentation will be fully protected, and access to sensitive bank-specific information will be granted in a controlled environment on-site at the ECB.

The ECB takes note of the resolution’s call for more transparency regarding the nomination of Executive Board members and its call to the Council of the EU for gender-balanced shortlists for all upcoming vacancies. The process for appointment of members of the ECB’s Executive Board is laid down in Article 283(2) of the TFEU and in Article 11.2 of the Protocol on the Statute of the European System of Central Banks and of the European Central Bank.⁶¹ 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 take action 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 2012. These initiatives have led to a marked increase in the share of women in management positions at the ECB. 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. Given that the time period covered by the most recent targets came to an end in 2019, the ECB is currently working on a new gender strategy.

With regard to the request that issues related to human resources be resolved fairly, transparently and rapidly, the ECB notes that it has taken a number of actions since 2018. These actions helped, among other things, ECB Banking Supervision to develop from a start-up into a much more stable institution. Transparent recruitment processes for vacant positions, followed by swift and effective onboarding processes for new staff members, supported this stabilisation. A new flexible working policy allows all ECB staff to rebalance and recuperate additional hours following peaks in workload. Feedback received by the ECB’s Directorate General Human Resources via regular pulse checks and the most recent staff survey indicates that staff appreciate the new policies. In a joint work programme with staff representatives, the Directorate General Human Resources addressed issues related to the types of contract held by ECB staff, with the majority now holding permanent contracts. Moreover, with regard to potential cases of harassment, in addition to the aforementioned whistleblowing framework, the ECB is currently looking into increasing mediation services and alternative ways of settling disputes. Finally, at the beginning of 2020 the ECB began to implement a comprehensive new career framework, offering staff more opportunities for personal growth and mobility.

⁶¹ Members of the ECB’s Executive Board are appointed by the European Council, on a recommendation from the Council of the EU, after consultation of the European Parliament and the ECB’s Governing Council.