

## Organisation and operation of the European Central Bank

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## Organisation and operation of the European Central Bank

Article 108 of the Treaty establishing the European Community (EC) and Article 7 of the Statute establish the principle of independence of the European System of Central Banks (ESCB). Neither the European Central Bank (ECB), nor a national central bank (NCB), nor any member of their decision-making bodies may seek or take instructions from Community institutions or bodies, governments of the Member States or any other body. The institutional independence of the ECB is strengthened by its financial independence: the ECB has its own budget.

The ESCB is governed by the decision-making bodies of the ECB, these being the Governing Council and the Executive Board. Given that certain Member States have a derogation, the Statute provides, in the transitional arrangements set out in Chapter IX, for the establishment of a General Council of the ECB as the third decision-making body.

The ECB Rules of Procedure include provisions relating to the meetings of the Governing Council and of the Executive Board and to relations between those two bodies and the General Council, together with procedural provisions. They also provide for the establishment of committees.

Moreover, the ECB Rules of Procedure provide that the Executive Board may decide on the organisation of its meetings and that it may adopt supplementary rules within its field of competence. The Executive Board has its own Rules of Procedure.

The General Council adopted its Rules of Procedure pursuant to Article 46 of the Statute

### Decision-making bodies

#### Governing Council

As the supreme decision-making body, the Governing Council has responsibility for adopting guidelines and taking the decisions required to ensure the performance of the tasks entrusted to the ESCB. It formulates the monetary policies of the Community and establishes the necessary guidelines for their implementation.

In particular, as defined by the Statute, the responsibilities of the Governing Council are to:

- take decisions concerning monetary objectives, including intermediate objectives, and decisions concerning key interest rates and the supply of reserves in the ESCB;
- act in an advisory capacity, with particular regard to Community acts and national draft legislative provisions in its fields of competence;
- adopt decisions in the field of international cooperation;
- authorise the issue of banknotes within the Community;
- take the necessary steps to ensure compliance with ECB guidelines and instructions by the NCBs, and request that they provide it with all necessary information;
- set the minimum reserves that the credit institutions in the Member States must incorporate into the ECB and the NCBs, and define their methods of calculation;
- decide on recourse to other operational methods of monetary control;
- adopt regulations to ensure efficient and sound clearing and payment systems;
- adopt the necessary rules for standardising the accounting and reporting of operations undertaken by the NCBs;
- set the amount of ECB capital to be held by the NCBs and the form in which the capital is paid;
- take decisions relating to the transfer of foreign reserve assets by the NCBs to the ECB; with regard to foreign reserve assets which remain with NCBs after transfers, issue guidelines to facilitate transactions involving these assets for the NCBs, particularly

those transactions relating to the fulfilment of their obligations towards international organisations;

- bring proceedings before the Court of Justice of the European Communities;
- adopt Rules of Procedure which determine the internal organisation of the ECB and of its decision-making bodies;
- adopt the annual report on the activities of the ESCB and on the monetary policy of both the previous and the current year.

Pursuant to Article 15 of the ECB's Rules of Procedure, the Governing Council adopts the ECB budget.

The Governing Council meets at least 10 times per year. In principle, only the members of the Governing Council, the President of the Council of the European Union and a Member of the Commission of the European Communities may attend these meetings.

As regards voting, each member of the Governing Council has a vote, save in respect of certain decisions set out in the Statute. In order to maintain the rapidity and efficiency of decision-making in the Governing Council, Article 10 of the Statute provides that, as from the moment that the euro zone has more than 15 members, the members of the Executive Board will have permanent voting rights, while the number of NCB governors with voting rights will be limited to 15. The governors will exercise this right on the basis of a rotation system. They will be allocated to different groups according to the frequency with which they may vote. This allocation will take into account the relative size of the economy of each country in the euro zone. Unless otherwise provided, decisions are taken by simple majority of members with a voting right. The quorum is set at two thirds of the members with this right.

### **Executive Board**

The Executive Board is the body responsible for the implementation of monetary policy in accordance with the guidelines and decisions adopted by the Governing Council. In this capacity, it issues the necessary instructions to the national central banks. Furthermore, certain powers may be delegated to the Executive Board by decision of the Governing Council.

The Executive Board is the body responsible for the day-to-day management of the ECB. Accordingly, the ECB's Rules of Procedure lay down that all the Bank's departments are under the authority of the Executive Board.

Moreover, the Statute sets out the following tasks:

- the preparation of meetings of the Governing Council;
- the adoption and the publication of quarterly reports on the activities of the ESCB, of a weekly consolidated financial statement of the ESCB and of a consolidated balance sheet of the ESCB, as well as other reports;
- the drawing up of the ECB's annual accounts.

Each member of the Executive Board present at meetings has the right to vote and may cast one vote. Unless otherwise provided, decisions are taken by a simple majority of the votes cast.

### **General Council**

The General Council carries out the transitional tasks of the ECB, having taken over the duties of the former EMI with a view to steering the Member States not participating in the single currency towards the third phase of EMU. In this way, it makes a particular contribution to preparing the irrevocable fixing of exchange rates for the currencies of the Member States subject to a derogation in relation to the currencies, or to the single currency, of the participating Member States.

It also contributes to:

- the advisory role of the ECB, also with regard to the prudential supervision of credit institutions and the stability of the financial system;

- the collection of statistical information;
- the drawing up of reports on the activities of the ECB;
- the establishment of the necessary rules for standardising the accounting and reporting of operations undertaken by the national central banks;
- the taking of all other measures necessary for the application of the key for subscription of the capital of the ECB;
- the laying down of the conditions of employment of the staff of the ECB.

Members of the Executive Board (other than the President and the Vice-President), as well as the President of the Council and a Member of the Commission, may attend meetings of the General Council, but they do not have the right to vote.

## **Committees**

The Rules of Procedure enable the Governing Council to set up committees which are responsible for helping the ECB's decision-making bodies in the achievement of their tasks. Ad hoc committees having a specific advisory role may also be established.

The committees are composed of two members, at the most, of each NCB in the Eurosystem and in the ECB. The NCB of each non-participating Member State may also appoint up to two members of staff to attend meetings of a committee whenever it deals with matters which fall within the remit of the General Council and where the chairman of a committee and the Executive Board deem it appropriate.

The Governing Council lays down the mandates of the ESCB committees and appoints their chairmen. Both the Governing Council and the Executive Board have the right to ask ESCB committees to draw up studies on specific subjects. In this way, the committees contribute to the preparation of the work of the decision-making bodies.

## **National central banks (NCBs)**

Together with the ECB, the NCBs, which retain legal personality, are part of the ESCB. This is a system in which NCBs participate in decision-making — which takes place at a 'centralised' level within the ECB — and where they can apply those decisions in a 'decentralised' way in the Member States.

The NCBs are the sole subscribers to and holders of ECB capital and their capital subscription is carried out in accordance with a key for the subscription of capital which takes into account the share of each Member State in the population and GDP of the Community. The contribution of each NCB to the foreign reserve assets of the ECB is fixed in proportion to its share in the subscribed capital of the ECB.

Pursuant to Article 109 of the EC Treaty, each Member State must ensure that its national legislation, including the statutes of its NCB, is compatible with the EC Treaty and the Statute. As a result, some Member States have been forced to alter the statutes of their central banks so that they comply with the principle of independence from government.

The NCBs continue to carry out functions other than those entrusted to them as part of the ESCB provided that these functions do not interfere with the objectives and the tasks of the System. Accordingly, the prudential supervision of credit institutions remains within the remit of Member States. In this area, the ECB contributes to the smooth conduct of policies pursued by the competent authorities, is entitled to deliver opinions on relevant Community legislation and may carry out specific tasks in accordance with decisions of the Council.

## **The Economic and Financial Committee**

The Economic and Financial Committee is not an ESCB body. However, it is part of the institutional structure of EMU. It is composed of a maximum of two representatives from each Member State, from the Commission and from the ECB.

At the beginning of the third phase of EMU, it replaced the Monetary Committee, a body created by the Treaty establishing the European Economic Community with a view to promoting coordination of the monetary policies of the Member States. From 1 January 1999, monetary policy has fallen within the remit of the ECB. As a result, the Committee no longer monitors the 'monetary and financial situation' of the Member States and of the Community, but rather their 'economic and financial' situation.

Its advisory role involves formulating opinions, either at the request of the Council or the Commission or on its own initiative, for submission to one of those institutions. Furthermore, it regularly reports to the Council and to the Commission on the economic and financial situation of the Community, and it contributes to the preparation of the work of the Ecofin Council.