



EUROPEAN CENTRAL BANK

EUROSYSTEM

Eurosystem and SSM Ethics Guidelines

Review & recast

ESCB Social Dialogue
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ECB-RESTRICTED



Overview

- 1 Need for review, current context and steps of review
- 2 Scope for improvement and proposed main changes
- 3 Way forward and questions & answers

Need for review

- Eurosystem and SSM Ethics Guidelines provide for a **mandatory review** “at least every three years”
=> Review started 2019, three years after Guidelines were implemented
- Need for **alignment** with the **Single Code of Conduct for High-Level Officials**
- Reports verifying **implementation of the Guidelines** pointed to some divergences
- **Chair of the Supervisory Board (2018):** “*we should not be satisfied with the lowest common denominator ... The forthcoming review of the Guideline offers ... a great opportunity to ... **strive for further enhancement** ... towards more ambitious rules across the SSM ...*”

Current developments & context

- Citizens expect that their central banks and banking supervisors act **impartially and objectively** and **serve only the public interest**
- Financial crisis led to citizens **mistrusting** the financial sector in general
- Eurosystem and SSM are subject to **close scrutiny** by the European and national Parliaments, NGOs and the media
- Citizens do not want to see their supervisors and central bankers trade (in a semi-professional manner) on the financial markets

Steps of the review

1. Comparative analysis of Ethical Frameworks (completed)

Central Banks	Institutions/ private sector
Bank of England	European Commission
Federal Reserve Bank New York	European Investment Bank
Reserve Bank Australia	International Monetary Fund
Bank of Canada	Some private firms
ECB	

2. Stakeholders involved (on-going)

Lead-managed by **Ethics & Compliance Officers Task Force (ECTF)**

Consultation of the **Legal Committee (LEGCO)**

Involvement of ESCB/SSM **Social Dialogue**

Scope for improvement of the current rules

- Significant divergences in the implementation of rules on **private financial transactions**
- Divergences in handling **conflicts of interest**
 - need to anticipate possible conflicts of interest before appointment / recruitment
 - importance of strengthening cooperation and exchange of views between the compliance functions for consistent application of the rules, especially in mixed teams
- Importance of mitigating also **perceptions of conflicts of interest** to protect trust and credibility

Main changes: **conflicts of interest**

Neutrality in interactions with external parties

- **Neutrality requirements** and other core elements of the “**Guiding principles**” (Single Code) incorporated to govern interactions with external parties, in particular with **financial market participants**

Mitigating conflicts of interest before and after service

- Checking for possible conflicts of interest prior to appointment/recruitment to enable mitigation measures; no barrier to recruitment per se
- Extension of post-employment restrictions **beyond senior staff members** in order to effectively address “**revolving-door**” concerns

Main changes: **private financial transactions**

General principles on private financial transactions & legacy assets

- **New** provision setting general principles:
 - “employ **caution**, exercise **restraint** and undertake such transactions with a **medium to long-term investment horizon**”
- Provides the **rationale for all related restrictions** & reporting obligations
- **Reporting of legacy assets** restricted to those assets **that create conflict of interests or relate to regulated entities** on which the staff member has access to market sensitive information

Main changes: **private financial transactions** (cont'd)

Short-term trading

- Same definition maintained, but moved to definitions provision and **90 day reference period** was introduced
- Objective: **strengthen the restriction** & achieve **consistency across the system**
- To address **proportionality** concerns restriction applies only to members of staff and members of bodies
 - with **access to market sensitive information** other than on a one-off basis AND
 - in the **performance of Eurosystem and SSM tasks**
- **Additional leeway** has been built in for implementation at local level to enable flexibility and account for national particularities

Main changes: **private financial transactions** (cont'd)

No trading in regulated entities

- Notion of regulated entities to replace notion of financial corporations to be more targeted and intuitive
- **Regulated entities =**
 - Eurosystem: monetary financial institutions (MFIs) and qualifying financial market infrastructures
 - SSM: MFIs, financial holding companies, mixed financial holding companies and financial conglomerates
- **Objective:**
 - further **strengthen public trust** in Eurosystem/SSM by excluding perceptions of possible conflicts of interests
 - ensure **equal treatment** and level-playing field, especially for staff from ECB/NCBs/NCAs cooperating on joint tasks

Main changes: **private financial transactions** (cont'd)

Specific restrictions on critical private financial transactions

- To account for systemic relevance, transactions in equity and debt instruments issued by **insurance corporations** kept
- Inclusion of **equity and debt instruments purchased under asset purchase programmes**
 - included in **list of assets for which staff have access to non-public information**
(such as gold, FX, euro area government securities)
 - ECB/NCBs can provide for specific restrictions in their national implementation

Main changes: strengthening the Ethics & Compliance Officer Task Force

Enhancing collaboration

- Ensure **consistent interpretation** of the Eurosystem and SSM Ethics Frameworks it has proven necessary to have an even **closer collaboration of the ethics and compliance functions of the systems**
- Upgrade of former Implementation Practice No 4 to the Guidelines' substantive rules, providing for the Ethics/Compliance functions' in terms of
 - Responsibilities
 - Independence
 - Timely involvement

Way forward

Highly tentative timeline

Completing consultation of LEGCO	November / December 2020
Seeking the views of Social Partners	November / December 2020
Finalising the Guidelines to be proposed with ECTF	December 2020 / January 2021
Submission to Executive Board and Supervisory Board for endorsement	January 2021
Submission to Governing Council for adoption	January 2021
Notification to the NCBs and NCAs	January 2021
Implementation phase including involvement of staff representatives and trade unions according to national law and customs	February 2021 – January 2022
Verification of implementations by ECB	As of February 2022

Questions & answers

