

Explainer on the Transparency International report on the ESM

Whose initiative was it to investigate the transparency and accountability of the ESM and why did the ESM decide to engage with Transparency International?

Transparency International is a well-known non-governmental organisation. It first gave notice in April 2016 that it planned to evaluate the ESM as part of a wider study into euro area governance. We cooperated fully because transparency and accountability are of the utmost importance for the ESM, a public institution with a central role in defending the stability of the euro area.

What access did the ESM provide?

Representatives of Transparency International visited the ESM for a series of interviews with Managing Director Klaus Regling and senior officers, including from the governance, legal, risk and compliance functions. Later in the process, the ESM answered many additional questions in writing.

Does the ESM subscribe to the conclusions in the report?

Transparency International is the sole author of the report. The ESM has followed up on some of the recommendations made by the organisation. The ESM welcomes some other recommendations on euro area governance as valuable contributions to the public debate, but notes that they lie within the competence of the 19 euro area Member States.

What steps has the ESM taken to improve its procedures following on from the recommendations made by Transparency International?

The ESM has decided to make improvements to its compliance procedures. For example, the Managing Director will publish a declaration of financial interests on the ESM website, in line with peer practice at EU institutions.

Will the ESM establish a formal agreement of cooperation with the European Parliament, as recommended by Transparency International?

The ESM recognises the European Parliament's central role in the public debate on euro area governance and European economic policy. Therefore, Klaus Regling appears in the European Parliament on a voluntary basis whenever he is asked to do so for an informal dialogue. However, under the current institutional set-up the ESM cannot enter into a formal agreement of cooperation with the European Parliament.

The reason is that legally the ESM is outside the institutional framework of the EU. The founding document of the ESM is the Treaty establishing the ESM, which is signed by the countries that use the euro as their currency. The Board of Governors, the ESM's most important decision-making body, consists of the 19 finance ministers of the euro area countries. The ministers are accountable to their

national parliaments, and in some cases need their explicit approval before voting in favour of important ESM decisions.

The main reason that the ultimate control of the ESM is with national parliaments is that euro area countries provide the ESM's paid-in capital of more than €80 billion and also bear the risk for the ESM's entire capital of €700 billion. Managing Director Klaus Regling has also reported on the ESM's activities to some national parliaments of ESM Members. As a result there is a strong link of accountability between the ESM and the 19 ESM Member States and their parliaments.

Will the ESM disclose its economic models and assumptions for its debt sustainability analysis for programme countries?

The ESM will consider publishing on its website summary information about the key assumptions underlying its debt sustainability analyses to provide additional information to the general public about the ESM's work. Such disclosure would follow the standard practice at peer institutions. This will be in addition to the extensive programme-related information that is already available on our website, including links to programme-related debt sustainability analyses.

Will the ESM consider conducting social impact assessments for programme countries?

It is the role of the European Commission to ensure compliance of the Memoranda of Understanding, which outlines the economic content of an adjustment programme, with EU law; it will only sign a Memorandum of Understanding with countries entering an ESM programme if it is satisfied as to its compliance with the EU Charter of Fundamental Rights. Similarly, the European Commission conducts social impact studies for reform programmes.