

1 December 2020

EUROPEAN STABILITY MECHANISM

COMPLIANCE CHARTER

Article 1

Purpose

This Compliance Charter states the objectives of compliance management within the European Stability Mechanism (ESM) and describes its governance, responsibilities, and operation.

The compliance function seeks to assist the Managing Director and staff in carrying out the mission of the ESM, as defined in the ESM Treaty, in a manner that stands up to the closest public scrutiny by implementing a compliance framework which upholds sound and responsible business practices.

Article 2

Objectives

To perform its role successfully, the compliance function seeks to:

- mitigate compliance risk (as defined in Article 3) in accordance with the ESM High Level Risk Policy;
- establish and maintain effective compliance systems, including compliance risk assessment, mitigation, monitoring, and reporting;
- perform an advisory role for the ESM on all aspects of compliance; and
- provide, or assist in providing, compliance training for all staff.

In meeting these objectives, the compliance function shall cooperate closely with other internal functions as appropriate.

Article 3

Definition of Compliance Risk

Compliance risk is defined by the ESM Board of Directors as the risk of loss and/or damage associated with the non-compliance with internal policies, procedures and guidelines as well as any external policies, regulations and directives which might govern the ESM. This risk should be considered within the framework established by the ESM High Level Risk Policy.

The main areas where compliance risk is addressed are:

- Code of Conduct issues and adherence to internal policies;
- regulation of personal investments to avoid conflicts of interest;
- ESM's market conduct and the maintenance of information barriers to regulate the flow of inside information;
- Anti-Money Laundering, financial sanctions and corruption prevention controls;
- personal data protection requirements.

Article 4 Independence

The compliance function is part of the General Counsel Department, and consists of a full-time Compliance Officer and other staff who may be hired into the function, together with the General Counsel acting in his/her compliance capacity.

The compliance function is independent of the business activities of ESM. Organisationally the Compliance Officer reports to the General Counsel, who in turn reports directly to the Managing Director. The compliance function's independent status is formalised and communicated through this Compliance Charter.

The Compliance Officer has exclusively compliance-related responsibilities and no members of staff in other departments or divisions of ESM have compliance-specific tasks, except in the general sense mentioned in Article 5. This organisational set-up ensures that no conflicts of interest occur between compliance and other duties, either within the compliance function, or in other areas of ESM.

Article 5 Sharing the Responsibilities for Compliance

Complying with applicable laws and regulations, as well as standards for both personal and business conduct, is the responsibility of *each and every member of staff* of ESM. Hence all ESM members of staff are required to:

- understand and abide by the provisions of laws and regulations pertaining to their work and reflected in the departmental procedures as well as the ESM Code of Conduct and all applicable internal policies, procedures and guidelines;
- implement measures, including preventive or corrective actions agreed upon with the compliance function;
- participate in required training on the Code of Conduct and other ESM internal policies;
- provide written acknowledgment of the Code of Conduct and compliance with its provisions when requested.

The Managing Director has ultimate responsibility for overseeing the management of compliance risks at ESM and creating an environment of individual and collective accountability in which the importance of compliance obligations is well understood. The Managing Director:

- endorses and communicates the requirement to conduct business in an ethical and compliant manner, and encourages business practices conducive to such operation;
- supports the efficient operation of the compliance function with adequate resourcing (budget, staffing and training);
- encourages staff in senior positions to lead by example.

The compliance function's primary responsibility is to assist the Managing Director in overseeing the management of compliance risk across the ESM. The compliance function shall:

- identify with the help of legal experts relevant compliance-related laws and regulations applicable to ESM as well as established market practices;

- assess the impact of these laws, regulations, and market practices on ESM's operation;
- design and implement measures to mitigate the compliance risks identified, including the development and implementation of appropriate compliance policies and procedures;
- monitor whether the mitigating measures work effectively and initiate corrective action if necessary;
- report important developments in, and the overall status of, compliance in the organisation to the Internal Risk Committee, the Managing Director and the Board Risk Committee;
- develop compliance-related training materials and deliver training to all, or a selected group of, members of staff as required;
- administer compliance-related policies and procedures;
- provide channels for members of staff and suppliers to report suspected ethics violations and ensure timely investigation of reported issues;
- network with peer group financial institutions and professional trade associations to understand and adapt best practices.

Article 6

Authority

In order for the compliance function to carry out its compliance responsibilities effectively, its staff shall have unfettered and direct access to all areas, systems and documents or records deemed necessary for the performance of these responsibilities. This shall also include the right to obtain information and/or explanations from all members of staff that the function reasonably believes are necessary to perform its duties. ESM members of staff shall assist the function by supplying the information requested.

The Compliance Officer has direct access, without impediment, to the Managing Director, and Board Risk Committee.

Article 7

Relationship with Internal Audit

According to the ESM High Level Risk Policy, the internal audit function is responsible for providing to the Board of Directors an assurance concerning the proper and efficient operation of risk management at the ESM. The compliance function provides input to the annual audit plan by indicating potential areas for review based on the compliance risk assessment. The internal audit function reviews at regular intervals the activities of the compliance function.

Article 8

Entry into Force and Review

This Compliance Charter shall enter into force when it is approved by the Managing Director. It shall be subject to revision as and when it is deemed necessary, but not later than five years from the date of the last approval.