

ROTATION OF VOTING RIGHTS IN THE GOVERNING COUNCIL OF THE ECB

ARTICLES

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On 19 March 2009 the Governing Council decided on the implementation of the rotation scheme for voting rights in the Governing Council.¹ This followed the Governing Council's earlier decision, taken on 18 December 2008, to continue with the current voting regime in the Governing Council until the number of NCB governors in the Governing Council exceeds 18.² This article first recalls the guiding principles underlying the adjustment of the voting modalities and the main elements of the rotation scheme. It then explains the implementing provisions relating to the rotation order, the rotation rate and the rotation period. Finally, it deals with procedural aspects and statistical parameters underlying the allocation of NCB governors to voting groups. The implementation model chosen strikes the appropriate balance between continuity, efficiency and inclusiveness, while preserving the collegial nature of the Governing Council.

I BACKGROUND

In order to ensure that the Governing Council is able to take decisions in a timely and efficient manner even in an enlarged euro area, the Council of the European Union adopted a decision in 2003 on the adjustment of voting modalities in the Governing Council on the basis of a recommendation by the ECB.³ This decision, which introduced a rotation system that would apply to the voting rights of NCB governors (hereafter “governors”) in the Governing Council as its membership expanded, is reflected in Article 10.2 of the Statute of the ESCB and of the ECB (hereafter “the Statute of the ESCB”).⁴

The rotation system is based on a number of fundamental principles. First and foremost, the principle of “one member, one vote”, which is the Governing Council’s core decision-making principle, will continue to apply to all Governing Council members who have voting rights.⁵ Second, all members of the Governing Council will continue to participate in its meetings in a personal and independent capacity (“ad personam participation”) and will retain the right to speak, irrespective of whether they have the right to vote. Third, to avoid situations in which those governors who have voting rights could be perceived as being insufficiently representative of the euro area economy as a whole, an element of “representativeness” is introduced. This will be achieved by allocating governors to groups in accordance with a ranking based on a composite indicator of the economic and financial weights of their

respective countries (see Section 2.5). However, a governor’s country is relevant only for the purpose of determining the frequency with which that governor exercises his/her voting right. This does not, therefore, contravene the principle of “one member, one vote”, which will continue to apply to all members with voting rights. Fourth, the rotation system is robust in the sense that it will be able to automatically accommodate any enlargement of the euro area and thus the inclusion of new governors as members of the Governing Council.⁶ Finally, the new voting system has been made as transparent as possible so that its main features and procedures can be communicated with relative ease.

On the basis of these principles, as soon as the number of governors exceeds 18, the number of

1 Decision of the European Central Bank of 19 March 2009 amending Decision ECB/2004/2 of 19 February 2004 adopting the Rules of Procedure of the European Central Bank (ECB/2009/5) (2009/328/EC), OJ L 100, 18.4.2009, p. 10.

2 Decision of the European Central Bank of 18 December 2008 to postpone the start of the rotation system in the Governing Council of the European Central Bank (ECB/2008/29) (2009/5/EC), OJ L 3, 7.1.2009, p. 4.

3 Decision of the Council, meeting in the composition of the Heads of State or Government, of 21 March 2003 on an amendment to Article 10.2 of the Statute of the European System of Central Banks and of the European Central Bank (2003/223/EC), based on ECB Recommendation ECB/2003/1, OJ L 83, 1.4.2003, p. 66.

4 For a detailed description of the rotation scheme and its genesis, see the article entitled “The adjustment of voting modalities in the Governing Council” in the May 2003 issue of the Monthly Bulletin.

5 With the exception of decisions made under Article 10.3 of the Statute of the ESCB, which foresees weighted voting, whereby the votes of governors are weighted in accordance with their respective NCBs’ capital shares and the votes of Executive Board members are weighted at zero.

6 This robustness also allows any further enlargement of the EU and the subsequent enlargement of the euro area to be accommodated.

Table 1 Two-group rotation system (first stage)

Total number of governors	First group			Second group		
	Governors	Votes	Voting frequency	Governors	Votes	Voting frequency
19	5	4	80%	14	11	79%
20	5	4	80%	15	11	73%
21	5	4	80%	16	11	69%

Governing Council members who have voting rights at any given time will be limited to 21. Thus, the number of governors with voting rights at any one time will not exceed 15. The six Executive Board members are not subject to the rotation scheme and will retain their permanent voting rights.

The voting scheme applies to all decisions taken under the simple majority rule in Article 10.2 of the Statute of the ESCB – i.e. most Governing Council decisions, including those on monetary policy. It does not apply to decisions taken under Article 10.3 of the Statute of the ESCB (i.e. decisions concerning Eurosystem financial matters such as the paying-up of and increases in the ECB's capital, revisions to the ECB's capital key, the transfer of foreign reserve assets to the ECB, the allocation of monetary income and the allocation of the ECB's net profits and losses), for which weighted voting applies (see footnote 5).

As provided for in Article 10.2 of the Statute of the ESCB, the Governing Council decided on 18 December 2008 that the rotation system would begin when the number of governors in

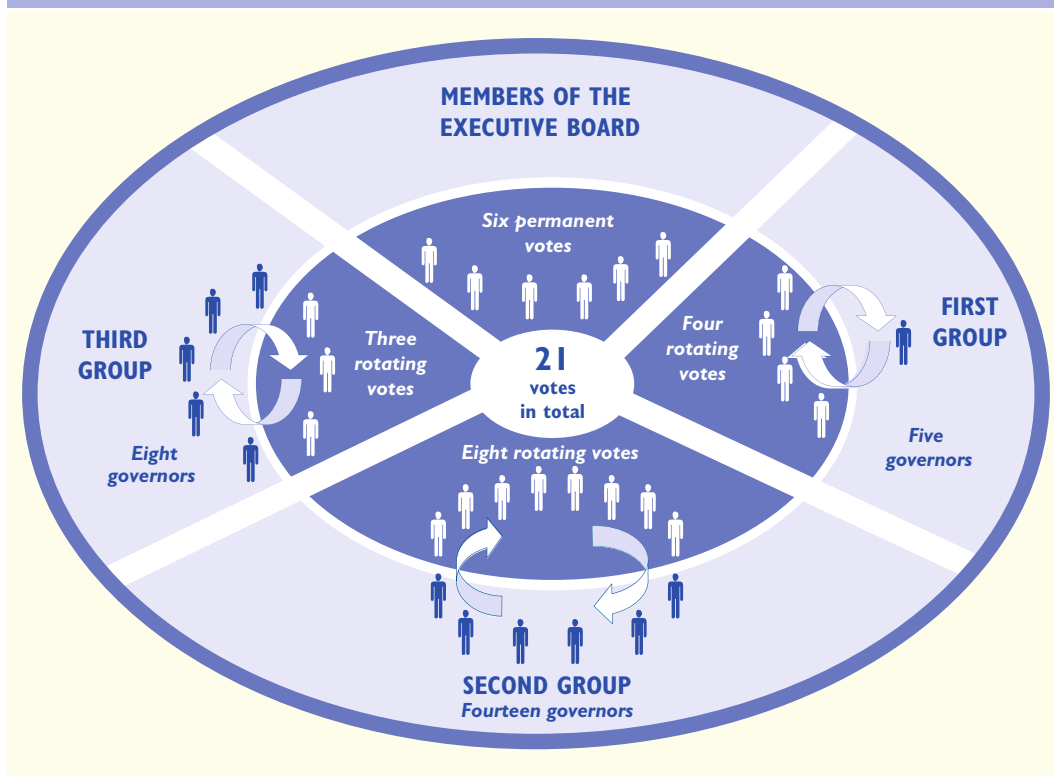
the Governing Council exceeded 18, at which point the governors would be allocated to two groups on the basis of the ranking determined by the composite indicator referred to above. In accordance with Article 10.2 of the Statute of the ESCB, the first group will consist of the first five governors according to that ranking, with the second group comprising all other governors. The five governors in the first group will share four votes, while the governors in the second group will share 11 votes. Within each group, the governors will have the same voting frequency. Table 1 provides a summary, including details of the resulting voting frequencies.

As of the date on which the number of governors exceeds 21, the governors will be allocated to three groups in accordance with that ranking. The number in the first group will remain unchanged, while the second group will consist of half of the total number of governors, rounded up to the nearest full number. The third group will consist of the remaining governors. Four votes will be assigned to the first group, eight to the second and three to the third. Table 2 provides a summary, including details of the resulting voting frequencies.

Table 2 Three-group rotation system (second stage)

Total number of governors	First group			Second group			Third group		
	Governors	Votes	Voting frequency	Governors	Votes	Voting frequency	Governors	Votes	Voting frequency
22	5	4	80%	11	8	73%	6	3	50%
23	5	4	80%	12	8	67%	6	3	50%
24	5	4	80%	12	8	67%	7	3	43%
25	5	4	80%	13	8	62%	7	3	43%
26	5	4	80%	13	8	62%	8	3	38%
27	5	4	80%	14	8	57%	8	3	38%

Chart A Three-group rotation system for the Governing Council of the ECB with 27 countries in the euro area



The composition of the groups will be adjusted whenever changes in the ranking⁷ lead to the revision of the groups, or whenever the number of governors increases as a consequence of the enlargement of the euro area.

By way of illustration, Chart A above shows the three-group rotation system with 27 countries in the euro area.

2 THE IMPLEMENTING DECISION

On 19 March 2009 the Governing Council adopted Decision ECB/2009/5 amending Decision ECB/2004/2 of 19 February 2004 adopting the Rules of Procedure of the European Central Bank (i.e. the implementing decision), which lays down the rules establishing the rotation scheme for voting rights in the Governing Council.

In line with the requirements of Article 10.2 of the Statute of the ESCB, the Governing Council decided on the implementation measures with a two-thirds majority. Changes to those implementation measures, as well as any further measures which become necessary over time, will also have to be approved by a two-thirds majority of all Governing Council members (i.e. members with and without voting rights).

As outlined in the recitals of the implementing decision, the implementation measures are based on three further principles: (i) equal treatment, meaning that the implications of euro area enlargement as regards the exercise of voting rights should, ex ante, be the same

⁷ This occurs whenever the data underlying the ranking are revised – i.e. on the occasion of the quinquennial review of the capital key and whenever the capital key has to be adapted to accommodate the accession of new countries to the EU (see also Section 2.5).

for each governor; (ii) transparency; and (iii) simplicity. The main elements of the implementing decision are explained below.

2.1 ROTATION ORDER

The governors will be listed in their respective groups in accordance with the EU conventions for the listing of countries.⁸ Rotation will start from a randomly chosen point in the list to avoid favouring or disadvantaging a governor as a consequence of the alphabetical positioning of his/her country. When the end of the list is reached, the rotation will continue from the top of the list.

The composition of groups can alter either: (i) because countries enter the euro area; or (ii) because the data underlying the indicator change, causing the governors to be ranked differently (see Section 2.5 for further information). Moreover, when the number of governors exceeds 21, this triggers the establishment of a third group. In all of these cases, the governor joining a group or changing group will be placed in the new group in accordance with the rule detailed above. The rotation will then continue, without interruption, down the list of governors in the group.

2.2 ROTATION PERIOD

The rotation period is defined as the period during which the composition of the governors with voting rights in the various groups remains unchanged.

The rotation period is set at one month, with rotation occurring at the beginning of the month. As a rule, two physical Governing Council meetings take place every month. The first is dedicated exclusively to monetary policy decisions, and the second generally deals with all other issues to be decided by the Governing Council.⁹ The one-month rotation period allows governors to exercise their voting rights in both types of meeting.

2.3 ROTATION RATE

The rotation rate is defined as the number of governors gaining and relinquishing voting

rights at the same time in each group at the start of each new rotation period (i.e. each month).

The rotation rate for the first group is fixed, since the size of the group is not affected by the changing number of governors. It always consists of five governors with four votes, meaning that one governor does not have voting rights in any given month.

The second and third groups require a discretionary rule to decide how many governors gain and relinquish the right to vote at the start of each month. In this respect, the Governing Council has decided that the number of governors gaining voting rights at the start of each month will be equal to the difference between the number of governors allocated to the group and the number of voting rights assigned to it, minus two. This means that not all of the governors without a vote in a given month will regain their voting rights in the subsequent rotation period. A quicker rotation scheme with a larger number of governors gaining and relinquishing the right to vote at the same time could have been applied, but this would have led to greater discontinuity in terms of voting members. The “minus two” option was seen as contributing to greater stability in the composition of the voting members.

For illustrative purposes, Chart B shows voting and non-voting periods for the first and second groups for a Governing Council with 19 governors (i.e. immediately after the start of the rotation scheme). Similarly, Chart C shows voting and non-voting periods for the first, second and third groups for a Governing Council with 27 governors (i.e. indicating the situation were all current EU Member States to join the euro area, including those with an opt-out). The horizontal axis depicts time, while governors are ranked on the vertical axis. The first group always consists of five governors

⁸ Countries will be listed in alphabetical order, using the names of those countries in the national language using the Latin alphabet.

⁹ As a rule, only one physical Governing Council meeting is scheduled in January and August, that meeting being dedicated to monetary policy decisions. In these months, other decisions are taken by written procedure.

with four votes, meaning that the first governor will not have voting rights in January, June or November in the first year (assuming that the rotation starts with the first governor).

With 19 governors in the Governing Council, the second group comprises 14 governors with 11 votes, meaning that three governors do not have voting rights at any given time. Applying the above-mentioned rule for the rotation rate (i.e. the number of governors without voting rights, minus two) means that at the end of each rotation period (i.e. at the end of each month) one governor passes his/her voting rights to another governor. As Chart B shows, the first, second and third governors do not have voting rights in January. In February, the first governor regains voting rights and the fourth governor relinquishes

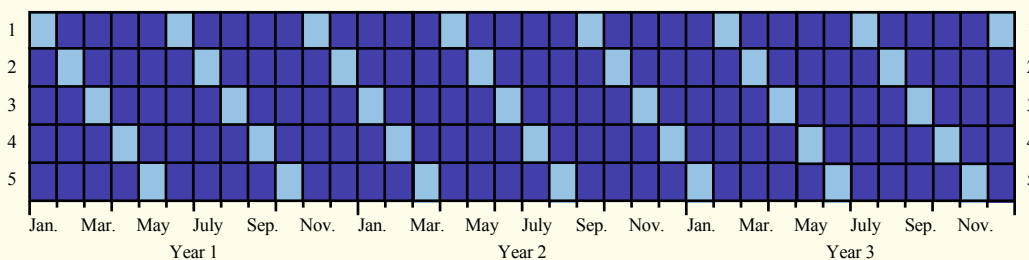
voting rights – i.e. the second, third and fourth governors are now without a vote. Thus, the block of three governors without voting rights moves down the list of governors in that group, falling one position every month.

Chart C illustrates the system for a Governing Council with 27 governors. In this case, the second group consists of 14 governors with eight votes, meaning that six governors are without a vote at any given time. The rotation rate will in this case be four (i.e. six governors without voting rights, minus two), meaning that the block of six governors without voting rights moves down the list of governors in that group, falling four positions at the end of every month in a continuous cycle. The third group comprises eight governors, with three governors having a

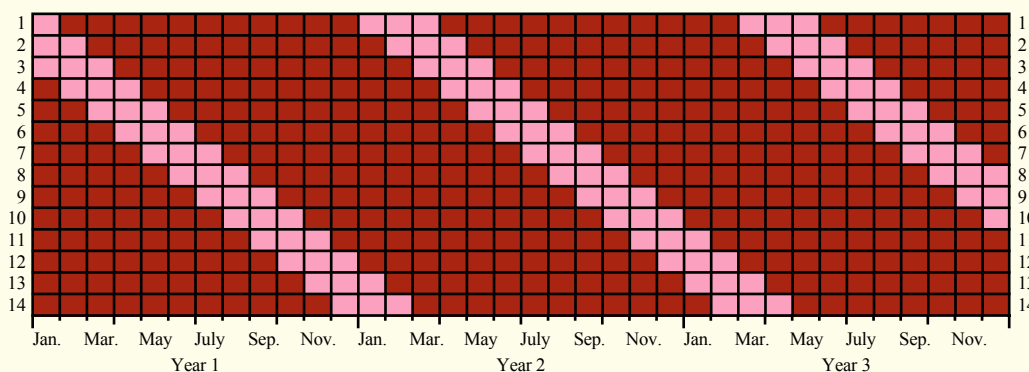
Chart B The two-group rotation system for the Governing Council of the ECB

19 governors

Group 1: 5 members/4 votes



Group 2: 14 members/11 votes



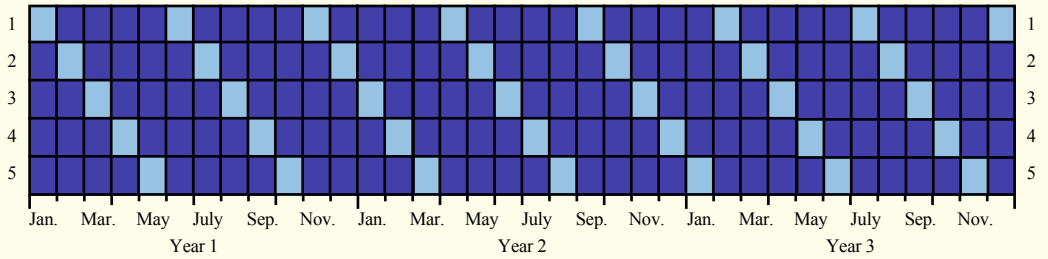
Source: ECB.

Notes: Dark colour for periods with voting rights. Light colour for periods without voting rights.

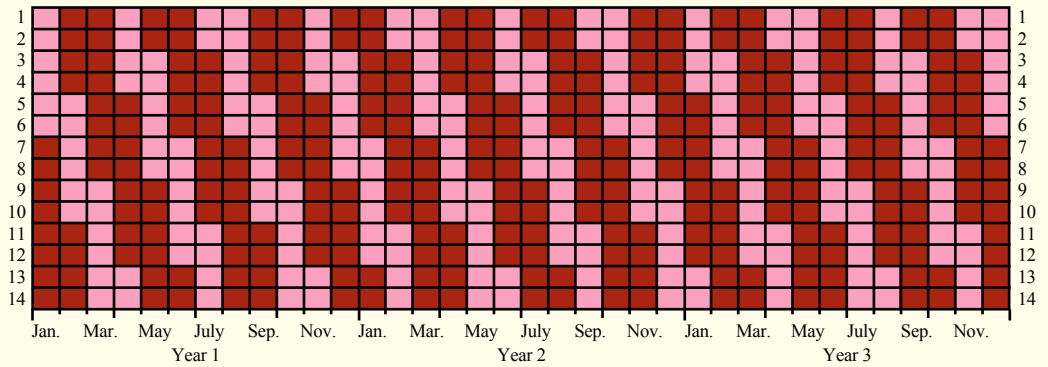
Chart C The three-group rotation system for the Governing Council of the ECB

27 governors

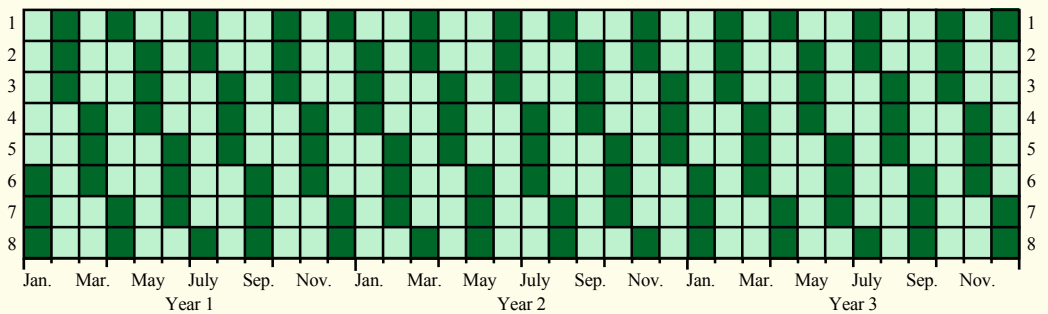
Group 1: 5 members/4 votes



Group 2: 14 members/8 votes



Group 3: 8 members/3 votes



Source: ECB.
Notes: Dark colour for periods with voting rights. Light colour for periods without voting rights.

vote and five governors without a vote at any given time. In this case, the rotation rate is three (i.e. five governors without voting rights, minus two), meaning that the block of five governors without voting rights moves down the list of governors in that group, falling three positions at the end of every month.¹⁰

2.4 RULES OF PROCEDURE OF THE ECB

The implementing decision provides for the relevant amendments by inserting a new article – Article 3a – in the Rules of Procedure of the ECB. That provision is set out in the box

below. The implementing decision, and thus the amendments to the current Rules of Procedure, will enter into force at the start of the rotation system – i.e. when the number of governors exceeds 18.

¹⁰ It sometimes happens that, at the three-group stage, some governors are systematically with or without a vote at a particular time of the year. Since some issues considered by the Governing Council arise seasonally (e.g. budget issues at the end of the year), this effect will have to be mitigated in order to ensure that governors are treated equally. To this end, Article 1.1 of the implementing decision contains a provision stating: “The Governing Council may decide to change the order of rotation for the second and third groups to avoid the situation that certain governors are always without a voting right at the same periods of the year.”

Article 3a of the Rules of Procedure of the ECB: Rotation system

1. Governors shall be allocated to groups as set out in the first and second indents of Article 10.2 of the Statute of the ESCB.
2. Governors shall be ordered in each group, following EU convention, in accordance with a list of their national central banks which follows the alphabetical order of the names of the Member States in the national languages. The rotation of voting rights within each group shall follow this order. The rotation shall start at a random point in the list.
3. The voting rights within each group shall rotate every month, starting on the first day of the first month of the implementation of the rotation system.
4. For the first group, the number of voting rights that rotate in each one-month period shall be one; for the second and third groups, the number of voting rights that rotate in each one-month period shall be equal to the difference between the number of governors allocated to the group and the number of voting rights assigned to it, minus two.
5. Whenever the composition of the groups is adjusted in accordance with the fifth indent of Article 10.2 of the Statute of the ESCB, the rotation of voting rights within each group shall continue to follow the list referred to in paragraph 2. From the date on which the number of governors reaches 22, the rotation within the third group shall start at a random point in the list. The Governing Council may decide to change the order of rotation for the second and third groups to avoid the situation that certain governors are always without a voting right at the same periods of the year.
6. The ECB shall publish in advance a list of the members of the Governing Council with a voting right on the ECB’s website.

7. The share of each national central bank's Member State in the total aggregated balance sheet of the monetary financial institutions shall be calculated on the basis of the annual average of monthly average data over the most recent calendar year for which data are available. Whenever the aggregate gross domestic product at market prices is adjusted in accordance with Article 29.3 of the Statute of the ESCB or whenever a country becomes a Member State and its national central bank becomes part of the European System of Central Banks, the total aggregated balance sheet of the monetary financial institutions of the Member States which have adopted the euro shall be recalculated on the basis of the data relating to the most recent calendar year for which data are available.

The implementing decision also provides for some additional changes to the Rules of Procedure of the ECB to take into account the differentiation between voting and non-voting governors. The only provisions amended are those where the exercise of rights is directly linked to decision-making. First, in order for the Governing Council to vote, there must be a quorum of two-thirds of the members *with voting rights*.¹¹ Second, an item is to be removed from the agenda when requested by at least three of the members of the Governing Council *with voting rights* if the related documents were not submitted to the members of the Governing Council in due time.¹² Third, decisions taken by written procedure are to be approved by *those Governing Council members having a vote at the time of approval*.¹³ Fourth, the minutes of the proceedings of the Governing Council are to be approved by *those Governing Council members that had voting rights at the meeting in question*.¹⁴ These amendments relate to Articles 4.1, 5.1, 4.7 and 5.2 of the Rules of Procedure of the ECB respectively.

All other provisions have been left unchanged. As a result, all governors – with or without voting rights – will still be able, for example, to request that a meeting be convened or to object to a meeting being organised as a teleconference or a decision being taken by written procedure. In addition, all governors will retain the right to be accompanied by one person at meetings, to appoint an alternate in the event of a short-term absence or to be replaced as a member of the Governing Council in the event of an absence longer than one month.

It has also been decided that, in the interests of transparency, in addition to publishing the implementation provisions in an ECB decision, details of voting and non-voting members will be made available in advance on the ECB's website, probably in conjunction with the publication of the meeting schedule of the Governing Council. This list will be updated on a regular basis.

2.5 STATISTICAL PARAMETERS FOR RANKING

The ranking of governors will be changed only when the ECB's capital key is adjusted (i.e. every five years, or when a new Member State joins the EU, since this involves its NCB being allocated a share in the ECB's capital).¹⁵ The ranking is based on two parameters: (i) the share of a country in aggregate GDP at market prices, which has a weighting of five-sixths; and (ii) the country's share in the total aggregated balance sheet of MFIs, which has a weighting of one-sixth.

The GDP data used are those provided by the European Commission in order to determine the capital key of the ECB. The GDP data used for the ranking are updated whenever the ECB's capital key is adjusted. The enlargement of the euro area does not require the underlying data to be updated, since all EU NCBs become

¹¹ Article 1.2 of the implementing decision.

¹² Article 1.4 of the implementing decision.

¹³ Article 1.3 of the implementing decision.

¹⁴ Article 1.5 of the implementing decision.

¹⁵ However, non-euro area NCBs pay only 7% of their capital share.

shareholders in the ECB on accession to the EU and the GDP data used for this purpose are the same as those used for the ranking.

Data on the total aggregated balance sheet of MFIs are provided by the Eurosystem and are compiled under the ECB's harmonised framework for monetary statistics in accordance with Regulation (EC) No 2423/2001 of the ECB.¹⁶ Article 10.2 of the Statute of the ESCB requires that the total aggregated MFI balance sheet be used – including the balance sheet of the NCB in question, but excluding the ECB's balance sheet.¹⁷ Since final MFI balance sheet statistics are available with a short time lag, and since there is no guarantee that, for new Member States, harmonised data on the total aggregated balance sheet of MFIs will be available for the same historical periods as GDP data, the calculation will be performed using the most recent calendar year for which data are available. To avoid the effects of outliers and seasonality, an annual average of monthly data will be used. Data on the total aggregated balance sheet of MFIs are updated with the same frequency as GDP data (i.e. every five years, or whenever the EU is enlarged).

3 CONCLUSION

The implementation of the rotation scheme aims to respect the principles of “one member, one vote”, ad personam participation, “representativeness”, automaticity and robustness, equal treatment, transparency and simplicity.

In designing the rotation scheme, a balance had to be struck between: (i) the difficulty of having to automatically accommodate future euro area enlargement, the timing and size of which are uncertain; (ii) the Eurosystem's unique organisational structure; and (iii) the desire for simplicity. By using parameters which can easily be explained or are tried and tested, the implementation measures will make the provisions of the voting system simple to apply in practice. This also contributes to the stability and predictability of the voting system.

By combining the chosen rotation rate with a short one-month rotation period, the model strikes a balance between achieving continuity in the composition of the voting members and ensuring that no governor spends an inordinate amount of time without voting rights. Both aspects are relevant for the smooth functioning of the decision-making process. The robustness of the rotation system, which automatically accommodates any enlargement of the euro area by simply placing new governors in the groups in the predetermined order, will ensure that it continues to run smoothly over time.

The Governing Council's decisions regarding the implementation rules for the rotation scheme for voting rights mean that all the necessary steps have now been taken to accommodate the future enlargement of the euro area. The necessary amendments to the Rules of Procedure of the ECB are now in place and ready to enter into force when the number of countries in the euro area exceeds 18.

The implementing provisions guarantee that all governors are part of the decision-making process on a regular basis, thereby emphasising the collegial nature of the Governing Council and ensuring its continued cohesion and inclusiveness, while at the same time maintaining its operational efficiency.

¹⁶ This Regulation was recast and updated by Regulation (EC) No 25/2009 of the ECB, which entered into force in February 2009.

¹⁷ Data are calculated on a territorial basis – i.e. including branches and subsidiaries of foreign MFIs established in the Member State and excluding branches and subsidiaries of domestic MFIs established abroad.