



REPLIES OF THE EUROPEAN COMMISSION

TO THE EUROPEAN COURT OF AUDITORS' SPECIAL REPORT

NGEU debt management at the Commission

An encouraging start, but further alignment with best practice
needed

Contents

1. THE COMMISSION REPLIES IN BRIEF	2
II. COMMISSION REPLIES TO THE RECOMMENDATIONS OF THE ECA	3
1. Recommendation 1: Establish a separate middle-office function.....	3
2. Recommendation 2: Reinforce the role of the CRO.....	3
3. Recommendation 3: Implement a workforce strategy for debt management staff.....	4
4. Recommendation 4: Formulate clear debt management objectives and report on performance in their implementation.....	4
5. Recommendation 5: Document pricing decisions in a consistent way	5

This document presents the replies of the European Commission to observations of a Special Report of the European Court of Auditors, in line with Article 259 of the [Financial Regulation](#) and to be published together with the Special Report.

1. THE COMMISSION REPLIES IN BRIEF

NextGenerationEU represents a ground-breaking funding programme, able to mobilise up to 5% of EU GDP through borrowing to finance a collective and powerful EU response to the COVID-19 pandemic. NextGenerationEU is a temporary instrument, under which the Commission can raise **up to EUR 800 billion between mid-2021 and 2026** through the issuance of bonds. The proceeds of this bond issuance will allow the EU to overcome the immediate recovery challenges but also to accelerate the green transition and the digitalisation of the EU economy. Up to EUR 250 billion will be raised through the issuance of NextGenerationEU green bonds. NextGenerationEU entails annual bond issuance of on average up to roughly EUR 150 billion per year between mid-2021 and 2026, **making the EU one of the largest issuers of euro-denominated debt for the coming years** and the biggest green bond issuer globally.

For all of the pre-NextGenerationEU programmes¹ the Commission issued bonds and transferred the proceeds directly to beneficiary countries on the same terms (i.e. interest rate and maturity) that it received (known as a **'back-to-back'** funding approach. The timing, volume and maturity of issuances were hence determined entirely by the needs of the beneficiary. This method was sufficient in addressing small funding needs, but it reached its limits with the SURE programme (an up to EUR 100 billion programme) which marked the arrival of the EU as a regular and large-scale issuer and provided a valuable training-ground for the design of the much larger NextGenerationEU funding programme.

NextGenerationEU required a funding approach that enabled significant scaling up of issuance in a very short amount of time. It also required a system that could cope with multiple disbursements of loans and grants to Member States at high speed and frequency and with uncertain timing given their dependence on the implementation of related Recovery and Resilience Plans. The Commission needed a **completely new playbook to finance NextGenerationEU successfully, in the form of a diversified funding strategy** of the type implemented by the largest euro-area sovereign issuers.

With the implementation of borrowing operations under NextGenerationEU the Commission has demonstrated its ability to implement smoothly a large-scale funding programme even in challenging markets and at the same time ensure full transparency and accountability. **The diversified funding strategy** – consisting of the techniques (syndicates and auctions) and funding instruments (bonds and bills) used by sovereign issuers – **has been instrumental in navigating volatile markets**.

In December 2022, the **Parliament and Council changed the Financial Regulation to enshrine the diversified funding strategy as the basis for all future EU borrowing and lending operations**, hence enabling a unified funding approach, starting with the funding for the MFA+ loans to Ukraine (up to EUR 18 billion).

The revised Financial Regulation², and related Commission Implementing Decision on the Governance³, will now **allow the Commission to develop an overarching debt management strategy for its operations**, in keeping with the ECA's recommendations. The Commission could

¹ Such as the European Financial Stabilisation Mechanism (EFSM), Macro-financial assistance (MFA), the Balance of Payments Facility and Support to mitigate Unemployment Risks in an Emergency (SURE).

² Regulation (EU, Euratom) 2022/2434 ([EUR-Lex - 32022R2434 - EN - EUR-Lex \(europa.eu\)](#))

³ C (2022)9700 ([C_2022_9700_1_EN_ACT_part1_v6.pdf \(europa.eu\)](#))

not previously implement a single, all-encompassing debt management strategy as it was required to run the NGEU diversified funding strategy alongside a series of programmes financed by a different method and using different techniques. Building on the funding strategy put in place for NextGenerationEU, the Commission will henceforth cover all borrowing and lending operations for EU policies under the **unified funding approach** in its Funding Plans and related reporting while the Chief Risk Officer will also oversee other (non-NextGenerationEU) borrowing. In setting up its debt management strategy and reporting systems under the unified funding approach, the **Commission will give utmost consideration to the ECA's recommendations.**

II. COMMISSION REPLIES TO THE RECOMMENDATIONS OF THE ECA

1. Recommendation 1: Establish a separate middle-office function

Taking into consideration the scale, complexity and increased prominence of debt management activities, the Commission should establish a discrete middle-office function with the aim of improving its analytical, risk evaluation, and reporting capacities. It should be responsible, for example, for monitoring and reporting on debt management trade-offs, and assessing the performance of front-office debt managers against strategic objectives.

Target implementation date: mid-2024

The Commission accepts recommendation 1 to establish a separate middle-office function. The Commission established the current structure, in which the front office, strategic planning and risk monitoring is performed in the same team, as it was considered the most appropriate given the specificities of the activities and the need to build capacities at speed with the resources available.

These considerations called for a close connection between the funding planning and the execution of transactions at a time when both the expenditure planning and transaction processes were under development. Close contact and high reactivity in this start-up phase were needed. Now that the funding operations have been successfully running for a while, it is possible to align the organisational structure better with international best practices and establish a separate middle-office.

2. Recommendation 2: Reinforce the role of the CRO

To ensure that the CRO fulfils their mandate independently, effectively and efficiently, the Commission should:

- a) prepare a charter explaining which operational management tasks fall under the responsibility of the CRO in their capacity as a Deputy Director-General;
- b) reinforce the capacity of the CRO's team so that it is commensurate with its assigned tasks, particularly by establishing back-ups.

Target implementation date: end of 2023

The Commission accepts recommendations 2a and 2b. The charter explaining the operational management tasks of the CRO, in their capacity as Deputy Director-General of DG Budget, will be

prepared. In view of the scope of the CRO's tasks, reinforcement of the team supporting the CRO is underway with a view to strengthening and optimising its operational capacity and aligning its organisation, so it becomes commensurate with the tasks assigned to the CRO.

3. Recommendation 3: Implement a workforce strategy for debt management staff

Given the complexity and importance of debt management tasks, and the need to attract and retain suitable staff, the Commission should implement an appropriate workforce strategy for staff dealing with debt management.

Target implementation date: end of 2023

The Commission accepts recommendation 3. Bringing in temporary staff from debt management offices of Member States, European Stability Mechanism, European Investment Bank, etc. has helped the Commission to initiate quickly the funding operations. It is the Commission's intention to gradually replace this external and temporary staffing with more permanent staff. The priority is to replace seconded national experts by Commission staff. Additional permanent arrangements play a crucial role in ensuring the continued successful arrangement of the EU's busy debt issuance programme. While every effort will be made to recruit permanent staff, if this is not possible, the Commission will have to fill the posts with temporary agents. Using temporary agents for highly specialised profiles, which are not available in the Commission, is in line with the Commission's HR strategy. In addition, the CRO team has been reinforced with 3 additional FTEs since July 2022 becoming now a team of 5.5 FTEs. The Commission will continue reflecting on future possible solutions to address this recommendation and integrate this aspect in the HR management of DG Budget.

4. Recommendation 4: Formulate clear debt management objectives and report on performance in their implementation

To improve the accountability and transparency of the Commission's debt management performance, the Commission should:

- a) adopt a debt management strategy encompassing all borrowing instruments, including a clear statement of debt management objectives with the relevant indicators, and regularly report on their achievement;
- b) publish regular information on the proportion of NGEU green bond proceeds actually spent in accordance with the EU Taxonomy.

Target implementation date: end of 2023

The Commission accepts recommendations 4a and 4b. As set out in the Communication on the funding strategy to finance NextGenerationEU⁴, transparency and accountability are hallmarks of the NextGenerationEU funding operations. The Commission therefore places a lot of emphasis on informing the Parliament, Council, investors and the general public about the funding operations.

⁴ COM (2021) 250 ([com2021_250_en_act_part1_v3.pdf](#) (europa.eu))

5. Recommendation 5: Document pricing decisions in a consistent way

To improve accountability and the audit trail for its pricing decisions for syndications of EU bonds, the Commission should clearly document, for internal use, the analyses and decision-making processes which led to the final price determination.

Target implementation date: September 2023

The Commission accepts recommendation 5 and it will introduce a structured log of all key steps in the run-up to syndicated transactions.