Brussels, 14 February 2014

BACKGROUND[1]

ECONOMIC and FINANCIAL AFFAIRS COUNCIL

Tuesday 18 February in Brussels

*The **Eurogroup** will meet on Monday 17 February at 14.00.*

*It will be followed at 18.00 by a ministerial meeting to assess progress on an intergovernmental agreement on a **single resolution fund** for banks, and to discuss outstanding issues.*

Ministers will hold a breakfast meeting on Tuesday at 9.00 to discuss the economic situation. The Council meeting will start at 10.00.

*The Council will take stock of negotiations with the European Parliament on a **single resolution mechanism** for banks, with a view to adjusting its position in order to enable further progress in the talks. And the European Central Bank will brief the Council on implementation of the **single supervisory mechanism**.*

*The Council is due to adopt conclusions on the Commission's **annual growth survey** and on **macroeconomic imbalances** in the member states.*

*It is expected to set priorities for the EU's **budget for 2015** and to adopt a recommendation on the budget **discharge for 2012**.*

*Preparation of a February **G-20 finance** meeting is also on the agenda.*

The Council will be followed by a meeting, at the level of experts, of the intergovernmental conference on the single resolution fund.

Press conferences:
- after the Eurogroup meeting *(Monday)*;
- at the end of the Council *(Tuesday).*

Press conferences and public deliberations: **http://video.consilium.europa.eu/**

Video coverage: **http://tvnewsroom.consilium.europa.eu**

Photographic library: **www.consilium.europa.eu/photo**

[1] This note has been drawn up under the responsibility of the press office

P R E S S

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Bank resolution - Single resolution mechanism

The presidency will brief the Council on progress in negotiations with the European Parliament on the establishment of a single resolution board and a single fund for the resolution of banks.

The Council will discuss possible amendments to its general approach in order to give the presidency more flexibility in its "trilogue" negotiations with the Parliament (*6187/14*).

The aim is to reach agreement rapidly so as to enable a regulation on the proposed single resolution mechanism (SRM) to be adopted at first reading, before the end of the Parliament's current legislature. This would require the Council and Parliament to reach a political agreement in time for the Parliament's plenary session in April.

The SRM will form one of the key elements of Europe's banking union, along with the single supervisory mechanism (SSM) that entered into force in November[2] (see separate item below). Creation of a banking union is essential to overcoming market fragmentation and breaking the link between sovereigns and banks.

In December, the Council agreed on a general approach involving both a draft regulation on the SRM and a commitment to negotiate, by 1 March, an intergovernmental agreement on the functioning of the single resolution fund (SRF)[3]. Work has since continued on two tracks, with four political trilogues held on the proposed regulation and four meetings of an intergovernmental conference on the SRF.

The intergovernmental agreement would include arrangements for the transfer of national contributions to the SRF and their progressive mutualisation over a 10-year transitional phase.

Contributions would be financed by bank levies raised at national level. The fund would initially consist of national compartments that would be gradually merged. During the 10-year transition, mutualisation between national compartments would progressively increase. So while during the first year any costs outstanding for resolving banks – after use of bail-in provisions – would mainly come from the compartments of the member states where the banks are located, the share would gradually decrease as the contribution from other countries' compartments increases.

Under the Council's general approach, the SRM would enter into force on 1 January 2015 whereas bail-in and resolution functions would apply from 1 January 2016.

The SRM would cover all member states participating in the SSM, namely the euro-area countries and those non-eurozone countries that decide to join.

The Council's general approach provides for a single resolution board with broad powers in cases of bank resolution. Upon notification by the European Central Bank that a bank is failing or likely to fail, or on its own initiative, the board would adopt a resolution scheme placing the bank into resolution. It would determine the application of resolution tools and the use of the SRF. Decisions by the board would enter into force within 24 hours of their adoption, unless the Council, acting by simple majority on a proposal by the Commission, objected or called for changes.

2 See press release 14044/13.
3 Press release 17602/13.

The board would consist of an executive director, four full-time appointed members and the representatives of the national resolution authorities of all the participating countries. It would exercise its tasks in either a plenary or executive format. Most draft resolution decisions would be prepared in the executive session, composed of the executive director and the appointed members, with the representatives of member states concerned by a particular resolution decision.

However, the plenary session would be responsible for decisions that involve liquidity support exceeding 20% of the capital paid into the SRF, or other forms of support, such as bank recapitalisations, exceeding 10% of funds, as well as all decisions requiring access to the SRF once a total of EUR 5bn has been used in a given calendar year. In such cases, decisions would be taken by a two-thirds majority of the board members representing at least 50% of contributions. Each member state would have one vote.

The plenary session, voting in the same manner, would also have the right to oppose decisions by the executive session authorising the SRF to borrow, and decisions on the mutualisation of financing arrangements in the event of the resolution of a group with institutions in both SRM-participating and non-participating EU countries.

The SRM would cover all banks in the participating member states. The board would be responsible for the planning and resolution phases of cross-border banks and those directly supervised by the ECB, while national resolution authorities would be responsible for all other banks. However, the board would always be responsible if the resolution of a bank requires access to the SRF.

National resolution authorities would be responsible for executing bank resolution plans under the control of the single resolution board. Should a national authority not comply with a decision by the board, the latter could address executive orders directly to the troubled bank.

In December, ministers also adopted a statement on the design of a backstop to the SRF. The statement specifies that during the initial build-up phase of the fund, bridge financing will be available from national sources, backed by bank levies, or from the European Stability Mechanism, in accordance with existing procedures. Lending between national compartments would also be possible. During the transitional phase a common backstop would be developed.

The common backstop would become fully operational at the latest after 10 years. It would facilitate borrowings by the SRF and would ultimately be reimbursed by levies on the banking sector.

The Council is expected to discuss the following issues in the light of divergences with the Parliament's text:

1) *Scope of the intergovernmental agreement vis-a-vis the SRM regulation.*
2) *Backstops: While this issue cannot be dealt with in the SRM regulation, the Parliament argues in favour of a financial backstop for the SRF.*
3) *Decision-making processes:*
   - *Whether the Council's power of objection should be restricted to fewer cases;*
   - *Delineation of decisions to be taken by the plenary versus the executive session of the board; and the voting rules for the plenary session.*
4) *The role of national resolution authorities versus the single resolution board in the planning of resolution and the adoption of resolution schemes for non-significant banks and non-cross border banks.*
5) *Determination of whether a banking institution is failing or likely to fail: While the Parliament argues that this should be the sole responsibility of the ECB, the Council's general approach also foresees a role for the board and national resolution authorities.*

The regulation, based on article 114 of the Treaty on the Functioning of the European Union, requires a qualified majority for adoption by the Council in agreement with the European Parliament.

Bank supervision - Single supervisory mechanism

The European Central Bank, under "other business", will present its first quarterly report on implementation of the single supervisory mechanism (*6237/14*).

Under the single supervisory mechanism (SSM), the ECB will have direct oversight, in particular, of key eurozone banks. The SSM is one of the key elements of Europe's banking union, along with the SRM which is currently being established (see separate item above).

The ECB is currently undertaking a comprehensive assessment of banks over which it will have direct oversight. It earlier this month launched the operational phase of an asset quality review, and a stress test exercise will be conducted during the second half of this year, in coordination with the European Banking Authority (EBA).

The ECB is responsible for the overall functioning of the SSM, and will carry out its supervisory tasks in close cooperation with national supervisory authorities. It will take up its supervisory duties on 3 November, subject to operational arrangements. The SSM will cover the euro area as well as non-eurozone member states that choose to participate.

Danièle Nouy, the first-ever chairperson of the ECB supervisory board took up her duties on 27 January, following her appointment for a five-year term by the Council in December[4]. The supervisory board held its first meeting on 30 January. Sabine Lautenschläger, recently appointed to the ECB executive board, was appointed vice-chairperson of the supervisory board on 11 February[5].

The board will additionally comprise four representatives of the ECB and a representative of the national supervisory authority of each participating member state.

The supervisory board is responsible for the planning and execution of the supervisory tasks conferred on the ECB. Its draft decisions are considered adopted unless rejected by the ECB governing council.

The regulations establishing the SSM were adopted on 15 October[6], entering into force on 3 November. The ECB's first quarterly report covers not only the three months to 3 February, but also the preparatory work conducted since the euro area summit of June 2012.

In its report, the ECB describes progress in implementation in the following terms:

- The supervisory model of the SSM has largely been developed, as reflected in an SSM supervisory manual which covers all the tasks and supervisory processes of the SSM, including relations between the ECB and the national competent authorities.
- The key concept of the supervisory manual is that joint supervisory teams (JSTs) will directly supervise the approximately 130 banks considered "significant" in accordance with the SSM regulations. The composition of the JSTs was defined at the first meeting of the supervisory board.
- A draft ECB SSM framework regulation has been finalised and will be submitted for public consultation before adoption. Under the SSM regulations, the ECB is required to adopt and publish the framework regulation by 4 May.
- The framework for supervisory reporting within the SSM, which specifies the data required for the SSM's supervisory model, has largely been defined.

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4 Press release *17857/13*.

5 Press release *6336/14.*

6 See press release: *14044/13*.

- The comprehensive assessment of the banks that are likely to be deemed significant (and will hence be subject to direct supervision by the ECB) was launched publically in October, and meetings were held with the CEOs of the 124 banking groups subject to the assessment. The main features of the stress tests have been defined under the coordination of the EBA.
- An initial mapping of the euro area banking system has been undertaken. To this end, a catalogue has been created of all supervised entities falling within the scope of the SSM, including the internal structure and composition of all euro area banking groups. The identification of significant institutions in line with the SSM regulations will be undertaken once all relevant data has become available.
- The recruitment process for the SSM structures is proceeding according to plan. Response to the public recruitment competitions opened thus far, including those for the senior and middle management, has been excellent.
- Internal preparatory work at the ECB is well advanced in many areas, such as IT infrastructure, premises, internal and external communication, logistical organisation and legal and statistical services.

Annual growth survey

The Council will discuss the Commission's annual growth survey, which outlines priority actions to be taken by member states in order to ensure more effective and better-coordinated policies for fostering sustainable economic growth (*15803/13* + *COR 1*).

It is expected to adopt conclusions (*6145/14*).

The annual growth survey is the starting point of the *European Semester*, a process that involves the monitoring of the member states' economic, employment and fiscal policies during a six-month period every year.

Sustaining the recovery that is now underway is the challenge that faces Europe's economy. This year's survey confirms that growth is beginning to return and member states are now making progress in correcting the imbalances that developed before the crisis. In view of this, the survey maintains its focus on the following five policy priorities:

- Pursuing differentiated, growth-friendly fiscal consolidation;
- Restoring bank lending to the economy;
- Promoting growth and competitiveness for today and tomorrow;
- Tackling unemployment and the social consequences of the crisis;
- Modernising public administration.

The Council is expected to agree with the five broad priorities outlined by the Commission, the same as those identified last year. Despite recent improvements, recovery remains fragile and the legacy of the crisis, high unemployment and persisting financial fragmentation are likely to continue to weigh on growth. The draft conclusions also cite deleveraging needs in both the public and private sectors, and necessary sectoral restructuring and adjustment as factors that will significantly weaken Europe's growth potential if not addressed.

At its meeting on 20 and 21 March, the European Council will provide guidance on the next steps in the *European Semester* process. The member states will then prepare their national reform programmes (economic and employment policies) and stability or convergence programmes (fiscal policies) for this year.

Macroeconomic imbalances - Alert mechanism report

The Council will discuss the Commission's *alert mechanism report*, which is the starting point of the EU's annual *macroeconomic imbalances procedure* (*15808/13* + *COR 1*).

It is expected to adopt conclusions (*6146/14*).

The report identifies, on the basis of a scoreboard of economic indicators, which member states may have imbalances and for which of them in-depth reviews are warranted.

The economic indicators are as follows:

- External imbalances and competitiveness: Current account balance; net international investment position; export market shares; nominal unit labour costs; real effective exchange rates;
- Internal imbalances: private sector debt; private sector credit flow; house prices; public sector debt; unemployment rate; financial sector liabilities.

The Commission's report calls for in-depth reviews of the situation in 16 member states, two more than last year. They are: Belgium, Bulgaria, Denmark, Germany, Spain, France, Croatia, Italy, Luxembourg, Hungary, Malta, the Netherlands, Slovenia, Finland, Sweden and the United Kingdom.

For most of these countries the reviews will elaborate on the findings of the 2013 cycle of the macroeconomic imbalance procedure, whereas for Germany, Croatia (following its accession to the EU on 1 January 2014) and Luxembourg, it will be the first time the Commission prepares an in-depth review.

The list does not include Ireland, Greece, Cyprus, Portugal and Romania, which at the time of the report were subject to economic adjustment programmes. These countries are already under enhanced economic surveillance under their respective programmes.

The Commission is expected to publish its in-depths reviews in early March.

The Council is expected to welcome progress achieved by member states in correcting both external and internal imbalances, in particular in relation to current account deficits, competitiveness, fiscal deficits and the financial sector, thus contributing to rebalancing both in the EU and within the euro area. Further progress is however needed to address imbalances that give rise to sustainability concerns, including high public and private indebtedness, as well as high external debt levels.

The Council will invite member states to address these issues in an ambitious and concrete manner in their national reform programmes (structural reforms) and stability or convergence programmes (fiscal policies) to be presented in April.

This is the third annual report on application of regulation 1176/11 on the prevention and correction of macroeconomic imbalances. The regulation is one of the "six-pack" of economic governance measures adopted in November 2011 in order to ensure a smoother functioning of the EU's monetary union. It introduces the possibility of imposing fines on euro area member states found to be in an "excessive imbalance position" and repeatedly failing to comply with recommendations.

Preparation of G20 ministerial meeting in Sydney

The Council is expected to endorse EU terms of reference for a meeting of G20 finance ministers and central bank governors that is due to take place in Sydney on 22 and 23 February.

The terms of reference, prepared by the Economic and Financial Committee, constitute a common position for EU representatives and those member states that participate in the G20.

The meeting will cover the global economy, investment and infrastructure, economic growth, IMF reform, financial regulation and taxation.

Australia chairs the G20 from December 2013 to November 2014. Its main objectives are to promote growth and employment and to make the global economy more resilient to future shocks.

EU general budget

Discharge for 2012

The Council is expected to adopt a recommendation to the European Parliament on the discharge to be given to the Commission for implementation of the EU's general budget for 2012 (*5848/14 ADD 1*).

The recommendation has been prepared on the basis of an annual report by the Court of Auditors[7].

The Council is also due to adopt recommendations on the discharge to be given to the directors of 31 EU agencies, six EU executive agencies and seven joint undertakings for implementation of their 2012 budgets (*5849/14 ADD 1* + *5850/14 ADD 1* + *5851/14 ADD 1*).

In accordance with the EU's budgetary discharge procedure, the recommendations will be submitted to the Parliament. The recommendations refer to Council comments on a series of Court of Auditors special reports.

Based on article 319 of the Treaty of the Functioning of the European Union, they require a qualified majority within the Council for adoption.

Guidelines for 2015

The Council is due to adopt conclusions setting its priorities for the EU's general budget for 2015 (*5852/14*).

The conclusions will be used by the presidency as a reference for negotiations with the European Parliament on the 2015 budget.

The 2015 budget will be the second in the EU's 2014-20 financial programming period. The draft conclusions emphasise the need to maintain budgetary discipline at all levels, given that despite an improvement of the economic outlook many member states continue to face considerable budget constraints. They call for a balance to be struck between fiscal consolidation and investments to boost growth, to be achieved through the prioritisation of objectives and the allocation of resources to measures that contribute the most to those aims.

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7 http://www.eca.europa.eu/Lists/ECADocuments/PRAR12/a13_36.EN.pdf

According to the draft conclusions, commitments and payments should be kept under strict control in next year's EU budget, taking into account real needs. At the same time, the 2015 budget should provide the necessary resources to respect commitments already made and to implement the EU's policy priorities for 2015. The Commission is called upon to make every effort to implement the budget within the allocations agreed in the annual budget and to keep amending budgets to the strict minimum. The draft conclusions also reflect the Council's concerns about the volume of the outstanding commitments ("RAL") which amounted to EUR 221.6 billion at the end of 2013.

Other issues

The Council is expected, without discussion, to:

- confirm an agreement with the European Parliament on a draft directive recasting rules on **deposit guarantee schemes**;
- adopt decisions modifying the conditions underpinning **financial assistance to Portugal**, following a review of implementation by the Commission, the European Central Bank and the IMF, and updating accordingly Portugal's macroeconomic adjustment programme.

Under “other business”, the Council will take note of on-going work on legislative proposals.