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PRESS RELEASE

2894th Council meeting

Economic and Financial Affairs

Luxembourg, 7 October 2008

President **Christine LAGARDE**
Minister for Economic Affairs, Industry and Employment of France

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Main results of the Council

The Council agreed on a coordinated approach in response to the financial crisis.

*Looking ahead to the **European Council** meeting on 15 and 16 October, it adopted conclusions offering **immediate responses to the financial turmoil**.*

*These conclusions relate in particular to **support for systemic financial institutions** and the definition of **common principles** for action.*

The common principles are the following: support must in principle be temporary; the Member States will be watchful regarding the interests of taxpayers; existing shareholders should bear the due consequences of the intervention; governments should be in a position to bring about a change of management; management should not retain undue benefits; governments may have inter alia the power to intervene in remuneration; the legitimate interests of competitors must be protected, in particular through the state aids rules; negative spillover effects must be avoided.

*The Council urged the Commission to amend without delay certain **accounting rules** applicable to banks. The Member States agreed to move towards **raising guarantees on deposits to a minimum of EUR 50 000**, since a number of Member States have now provided for more than this. The Council also noted that present rules (state aids or Stability and Growth Pact) are flexible enough to take account of the exceptional circumstances obtaining in Europe.*

*Furthermore, with a view to the European Council, the Council adopted three sets of conclusions on the **economic slowdown**, on **financial stability** and **financial supervision**, and on **executive pay.***

The Presidency submitted to the Council a report drawn up in cooperation with the Commission on the response to the volatility of oil prices. This report will also be transmitted to the European Council.

*In addition, it approved measures to combat **VAT fraud**, to facilitate exchange of information between Member States' tax authorities on operators suspected of fraud: the Eurofisc project.*

CONTENTS[1]

[1]
- Where declarations, conclusions or resolutions have been formally adopted by the Council, this is indicated in the heading for the item concerned and the text is placed between quotation marks.
- Documents for which references are given in the text are available on the Council's Internet site (http://www.consilium.europa.eu).
- Acts adopted with statements for the Council minutes which may be released to the public are indicated by an asterisk; these statements are available on the Council's Internet site or may be obtained from the Press Office.

PARTICIPANTS

The governments of the Member States and the European Commission were represented as follows:

Belgium:	
Mr Didier REYNDERS	Deputy Prime Minister and Minister for Finance and Institutional Reforms
Bulgaria:	
Mr Plamen Vassilev ORESHARSKI	Minister for Finance
Czech Republic:	
Mr Miroslav KALOUSEK	Minister for Finance
Denmark:	
Mr Lars Løkke RASMUSSEN	Minister for Finance
Germany:	
Mr Jörg ASMUSSEN	State Secretary, Federal Ministry of Finance
Estonia:	
Mr Ivari PADAR	Minister for Finance
Ireland:	
Mr Brian LENIHAN	Minister for Finance
Greece:	
Mr Georgios ALOGOSKOUFIS	Minister for Economic Affairs and Finance
Spain:	
Mr Pedro SOLBES MIRA	Second Deputy Prime Minister and Minister for Economic Affairs and Finance
France:	
Ms Christine LAGARDE	Minister for Economic Affairs, Industry and Employment
Italy:	
Mr Giulio TREMONTI	Minister for Economic Affairs and Finance
Cyprus:	
Mr Charilaos STAVRAKIS	Minister for Finance
Latvia:	
Mr Normunds POPENS	Permanent Representative
Lithuania:	
Mr Valentinas MILTIENIS	Deputy Minister for Finance
Luxembourg:	
Mr Jeannot KRECKÉ	Minister for Economic Affairs and Foreign Trade, Minister for Sport
Hungary:	
Mr János VERES	Minister for Finance
Malta:	
Mr Tonio FENECH	Minister for Finance, the Economy and Investment
Netherlands:	
Mr Wouter BOS	Minister for Finance, Deputy Prime Minister
Austria:	
Mr Wilhelm MOLTERER	Vice Chancellor and Federal Minister for Finance
Poland:	
Mr Jan VINCENT-ROSTOWSKI	Minister for Finance

Portugal:	
Mr Fernando TEIXEIRA DOS SANTOS	Ministro do Estado, Minister for Finance
Romania:	
Mr Eugen TEODOROVICI	State Secretary for the Treasury and External Public Finance
Slovenia:	
Mr Andrej BAJUK	Minister for Finance
Slovakia:	
Mr Peter KAZIMÍR	State Secretary, Ministry of Finance
Finland:	
Mr Jyrki KATAINEN	Deputy Prime Minister and Minister for Finance
Sweden:	
Mr Anders BORG	Minister for Finance
United Kingdom:	
Mr Alistair DARLING	Chancellor of the Exchequer

Commission:	
Mr Joaquín ALMUNIA	Member
Mr Charlie McCREEVY	Member
Mr Lászlo KÓVACS	Member
Ms Neelie KROES	Member

Other participants:	
Mr Jean-Claude TRICHET	President of the European Central Bank
Mr Philippe MAYSTADT	President of the European Investment Bank
Mr Xavier MUSCA	Chairman of the Economic and Financial Committee
Mr Christian KASTROP	Chairman of the Economic Policy Committee

ITEMS DEBATED

PREPARATION FOR THE OCTOBER EUROPEAN COUNCIL

The Council prepared the proceedings of the European Council on 15 and 16 October concerning the economic situation and the situation on the financial markets, and financial supervision.

In particular, it adopted conclusions giving immediate responses to financial turmoil.

It based itself on discussions at an informal meeting of ministers and governors of central banks held in Nice on 12 and 13 September, and on other proceedings conducted since the meeting of the European Council in June.

The Council also commented on executive pay, on the appraisal of the EU economic and monetary union ten years after its launch (*"EMU@10"*). In cooperation with the Commission, and in accordance with the conclusions of the European Council in June 2008, the Presidency presented a report on the response to make to the volatility of raw materials prices with regard to oil.

Immediate responses to financial turmoil – *Council conclusions*

The Council adopted the following conclusions:

"In the current troubled situation in the financial sector, and building on our Heads of State and Governments' declaration of 6 October, we agree that the priority is to restore confidence and proper functioning of the financial sector.

We have agreed to support systemic financial institutions. We all commit to take all necessary measures to enhance the soundness and stability of our banking system and to protect the deposits of individual savers. EU authorities and Member States will remain in daily contact through the EFC in order to share information and ensure a comprehensive and coordinated response to the current situation and our continued effort to work on our common principles, ahead of the European Council.

We welcome the actions taken by the ECB and the national central banks since the beginning of the turmoil. The liquidity of the financial system shall be ensured by all authorities in order to preserve confidence and stability.

We reaffirm our call on financial institutions in Europe to achieve full transparency and we will closely monitor the progress achieved in this regard.

We agree to coordinate closely in our actions and to take into consideration potential cross-border effects of national decisions. We agree that public intervention has to be decided at national level in a coordinated framework.

To protect the depositors' interests and the stability of the system, we stress the appropriateness of an approach including, among other means, recapitalisation of vulnerable systemically relevant financial institutions. We are prepared to act accordingly in this context.

We agree on EU common principles so as to guide our action:

– interventions should be timely and the support should in principle be temporary;

– we will be watchful regarding the interests of taxpayers;

– existing shareholders should bear the due consequences of the intervention;

– the government should be in a position to bring about a change of management;

– the management should not retain undue benefits – governments may have inter alia the power to intervene in remuneration;

– legitimate interest of competitors must be protected, in particular through the state aids rules;

– negative spillover effects should be avoided.

We will ensure rapid cooperation within the EU, with reference to the Memorandum of Understanding, in particular as regards cross-border financial institutions.

We underline the necessity of avoiding any distortion of treatment between US and European banks due to differences in accounting rules. We take note of the flexibility in the application of mark to market valuation under IFRS as outlined in recent guidance from the IASB. Ecofin strongly recommends that supervisors and auditors in the EU apply this new guidance immediately. We also consider that the issue of asset reclassification must be resolved quickly. To this end, we urge the IASB and the FASB to work together on this issue and welcome the readiness of the Commission to bring forward appropriate measures as soon as possible. We expect this issue to be solved by the end of the month, with the objective to implement as of the third quarter, in accordance with the relevant procedures.

We welcome the Commission's continued commitment to act quickly and apply flexibility in state aid decisions, within the framework of the single market and state aid regime. The Council welcomes the Commission's commitment to shortly issue guidance setting out the broad framework within which the state aid compatibility of recapitalisation and guarantee schemes, and cases of application of such schemes, could be rapidly assessed.

The application of the Stability and Growth Pact should also reflect the current exceptional circumstances, in accordance with the provisions of the Pact.

Several Member States have recently increased the level of coverage of national deposit guarantee schemes. We agreed that all Member States would, for an initial period of at least one year, provide deposit guarantee protection for individuals for an amount of at least EUR 50 000, acknowledging that many Member States determine to raise their minimum to EUR 100 000. We welcome the intention of the Commission to bring forward urgently an appropriate proposal to promote convergence of deposit guarantee schemes.

This short term strategy is fully consistent with the framework established by the Ecofin since October 2007, which aims at fostering transparency and responsibility within the financial sector, in coordination with our partners, notably within the FSF."

Economic slowdown, executive pay – ***Council conclusions***

The Council adopted the following conclusions, which will serve as a basis for a discussion at the European Council on a coordinated response by the EU to the economic slowdown:

"During the last quarters, the EU economy has been hit by several major shocks, including financial market turmoil and the rise in commodity prices, which imply a transfer of wealth to producing countries, even if the recent weeks have shown some improvement on the latter front.

The economic slowdown in the EU during the second quarter of 2008 has been more abrupt than envisaged a few months ago. At the same time, as a result of the rise in energy and food prices, inflation has been unusually high.

Even if European economies are better equipped to face this slowdown than in the past, thanks to the reforms carried out in recent years, near term outlook for growth remains relatively weak, whereas the recent decrease in oil and food prices, which had largely contributed to feeding inflation, and the economic slowdown, should contribute to alleviate inflationary pressures in the next few months.

To a large extent Member States are facing common shocks. The economic situation calls for a coordinated response at the EU level, based on a common understanding of the problems at hand, with some common features and also national specificities – taking into account the fact that there is some variation in initial situations as well as in the manner the shocks are transmitting across Member States' economies.

A strategy for EU member States could build on the following elements:

(a) At the macroeconomic and structural level, ensure domestic policies are in place to support growth in a sustainable manner

European macroeconomic policies need to respond in an appropriate and consistent way to the shocks stemming from the global economy. These shocks are to a large extent faced by all Member States, even though the precise effect on the economies may differ across economies – notably in view of the importance of the financial shock and housing market evolutions – and across groups – measures have often been taken to support the most vulnerable.

At the current juncture, designing policies which help curb the inflation, thereby improving purchasing power of people, fostering sustainable growth and help restoring an environment supportive to monetary policy, is key.

Ministers are fully committed to implement policies that are in line with this objective:

– structural reforms should be pursued vigorously since they can strengthen the resilience and adjustment capacity of the economy and, by increasing growth potential, allow the economy to fully benefit from the future upswing while helping absorb the shocks in the short run through increased flexibility. In particular, reforms such as enhanced competition in product and service markets – notably in retail services – should help reduce inflationary pressures, thereby supporting the purchasing power. Also, improved labour market flexibility and mobility can contribute to a quicker adjustment of the economy. Member States should set out ambitious National reform programmes this autumn and firmly implement them.

– wages should be supportive of employment and competitiveness. Dialogue with social partners will be pursued by Ministers this autumn.

– fiscal prudence is necessary to support confidence notably in view of the ageing of the population and to ensure a good mix between fiscal and monetary policy. The 2005 reformed Stability and growth Pact is the adequate framework and should be fully applied. It contains flexibility to allow for fiscal policy to play its normal stabilisation function. In particular, relatively large European automatic stabilisers can help cushion the slowdown, while respecting the 3 % of GDP deficit threshold. In countries facing more severe slowdown and where room for manoeuvre exists, temporary and targeted measures may be taken, notably towards those most affected by the current economic situation. They would also have to take into account the specific challenges of the country concerned, i.e. the need to recover competitiveness.

More broadly, the Council agrees that during the last ten years, the Economic and Monetary Union (EMU) has contributed to macroeconomic stability and that now more than ever, it is proving to be a major asset. Europe is not insulated from developments in the global economy but, also thanks to the reform process, it is better equipped to cope with the current shocks than in the past. Nevertheless, within the existing framework, there is potential to reap further benefits from EMU and to improve the performance of EU Member States.

– In order to ensure a prudent fiscal stance throughout the cycle, recent experience suggests that work is needed to better take into account the effects of economic cycles, and of the related cycles in asset prices, on tax revenues.

– Also, coordination should be broadened to macroeconomic developments beyond fiscal policy. In particular, in light of the recent experience, which shows the importance to avoid building up imbalances, the Council agrees that competitiveness developments should be better monitored, notably within the euro area and for ERM II countries.

– Finally, structural reforms are key to all Member States. Recommendations made in this respect should be prioritised to fully take into account the economic situation. As structural reforms have an added value for the euro area as a whole, Ministers from the euro area also agree to devote specific attention to euro area recommendations.

(b) <u>Restore confidence on financial markets and avoid excessive tightening of credit toward SMEs in the EU</u>

The financial turmoil is a key component of the current global economic slowdown. The key response in the short term remains restoring confidence in the financial system through a full implementation of the Ecofin roadmap. In this respect, financial institutions are continuously making efforts to improve disclosure of their exposure to risks; but those efforts still need to be properly assessed by banking supervisors within CEBS. By the end of the year, we also expect proposals for a revision of the prudential framework for securitisation under the CRD, which will help to restore confidence in this activity.

On asset valuation, revised standards are urgently awaited from the International Accounting Standards Board; otherwise, persistent concern about the accounting treatment of assets will continue to undermine investor confidence.

In the current macroeconomic and financial market situation, it is also important to monitor and remedy potential procyclical effects. In prudential matters, Basel II remains a relevant framework to improve risk management. In implementing the new framework, banking supervisors will monitor the potential procyclical effects of the new regulation and assess whether remedial measures are needed.

Also, in order to improve the accessibility and availability of finance for SMEs, the EIB group will adopt a series of reforms to strengthen its SME finance products as well as offer a substantial development of its global loans to its banking partners, both in quantitative and qualitative terms, ensuring that the benefit reaches the SMEs, thereby also contributing to the "Small Business Act" initiative.

The EIB is proposing to raise its level of lending to SMEs to up to EUR 15 billion (+50 %) in 2008/2009, including with a new product line allowing risk sharing with banks.

The Council asks the working group set up by the European Investment Bank and the Commission, while also consulting with European institutional investors, to report back by the December Ecofin on proposals for a further coordinated response with a specific focus on energy programmes and infrastructures.

(c) On the external front, contribute to a more favourable environment

Excessive volatility on exchange rate markets is undesirable for economic growth. The recent re-appreciation of the US dollar vis-à-vis the euro and other European currencies is welcome.

In some emerging economies with large and growing current account surpluses, it is crucial that exchange rate moves so that necessary adjustment will occur. These developments must be seen in their multilateral context. The EU will continue to monitor them closely, including through the consultation with China planned by euro area authorities.

In response to the current global crisis in the financial sector, Europe should continue to act proactively in international fora, notably at the FSF and the IMF. Also, Ministers agree to increase the political impetus to the economic and financial dimension of the Union's relations with European Union partners, notably at the occasion of bilateral Summits."

The Council adopted the following conclusions on executive pay:

"In light of the high growth rates of executive pay in recent years, a public discussion has started in a number of countries on the level and structure as well as on transparency of managers' compensation. From an economic viewpoint, the key questions are whether executive pay is appropriately linked to performance and whether shareholders have adequate control over remuneration.

The Council exchanged views and experiences on this topic.

Pay determination is the company's shareholders' and social partners' responsibility in a market-led environment. However, national authorities have a role to play in helping to define an appropriate regulatory framework and in encouraging good practices and voluntary self regulation, for example through principles of good governance, transparency and disclosure rules, and control rights by shareholders.

The Council agrees that in view of the developments regarding executive pay in the last years, the effectiveness of some existing provisions warrant further examination and possibly policy at the national level, taking into account the different regulatory frameworks in Member States. The Commission's 2004 Recommendation is appropriate, but a review of the practices and an update could be necessary.

The Council agrees on the following objectives:

– The governance framework should be conducive to an effective control by shareholders and the governing bodies of the company, including on remuneration policy. In line with the Commission's 2004 Recommendation, which recommends measures such as publishing remuneration policy and devoting an item of the agenda of the annual general meeting, in order to involve shareholders and the governing bodies of the company in the decisions, the Council underlines that this is an area where improvement would be desirable and that they are ready if needed to undertake appropriate action.

– Performance should be properly and comprehensibly reflected in executives' pay, including leaving pay ("golden parachute"), which should be appropriately linked to the contribution of the executive to the company's success.

– Performance criteria should provide the right incentives. As recommended by the FSF with respect to the financial industry, compensation models should be aligned with long-term, firm-wide profitability, and national authorities should work towards mitigating the risks arising from an incentive structure focussing on short-term profits. That issue will require further attention in the coming period, notably by taking into account the work undertaken by the FSF.

– Care should be taken to prevent potential conflicts of interest for executives conducting mergers and acquisitions, for example whilst they hold shares or stock-options of the offered company.

The Council welcomes the Commission's intention to continue reviewing companies' practices and the implementation of the 2004 Recommendation in Member States, taking into account these policy objectives. The Council agrees that a review of policies related to executive pay in the ECOFIN will be useful and will contribute providing orientations to members on the basis of best practices."

Situation on the financial markets and financial supervision – *Council conclusions*

The Council adopted the following conclusions and agreed to forward them to the European Council:

"The Council DISCUSSED the economic situation, recent developments in financial markets as well as policy responses.

RECOGNISING that the EU and euro area economies are likely to experience slow growth in 2008 and 2009, reflecting in particular stronger effects of the US market correction on the global economy, higher commodity prices (albeit partially reversed in more recent weeks) and tighter credit standards; and

TAKING ACCOUNT OF the current extraordinary stress in global financial markets and the potential impact of the economic situation;

The Council AGREED on the need to continue pursuing a coordinated response at the European level, within the scope of Member States' respective responsibilities, coupled with Member States' flexibility to adjust their response to their individual situation, and to continue to implement sound structural reforms at the national level to strengthen resilience to future shocks.

Since the early stages of the current turmoil, public authorities developed policy responses in view of restoring confidence and safeguard financial stability. The Council has discussed progress with the implementation of the October 2007 roadmap.

In this context, the Council reached the following conclusions.

The Council

– WELCOMES the work of the Committee of European Banking Supervisors' (CEBS) on transparency and the efforts of most banks in following CEBS' guidelines on good reporting practices. The Council INVITES all banks to make further progress concerning transparency on risks valuation and management methodologies;

– RECALLS the urgency to enhance banks' practices for the evaluation of exposures AND URGES supervisors and accounting standards-setters to ensure that the financial reporting framework functions properly with clear guidelines on valuation that can be applied consistently across institutions;

– WELCOMES the Commission proposals for amendments to the Capital Requirement Directive (CRD), covering areas such as risk management, a possible supervisory framework for cross-border groups, crisis management and enhanced requirements for securitisation in view of further strengthening the existing prudential framework and risk management in the financial sector, as well as the Commission's proposals for amendments to ensure that the risks associated with the "originate-and-distribute model" (ODM) are properly mitigated. While RECOGNISING the numerous benefits the "originate and distribute model" has delivered in recent years, it has also introduced complexity and opacity, thus raising a number of concerns in respect of potential conflicts of interest and proper incentives to assess the securities traded. In this context, the Council LOOKS FORWARD to the Commission proposals in respect of credit rating agencies in follow-up to the Council conclusions of July 2008;

– STRESSES the need to continue to closely monitor the economic and financial developments; CALLS for full and timely implementation of the roadmap on follow-up actions to the ongoing financial turmoil and for coordination with initiatives being considered being considered in international fora, in particular the Financial Stability Forum, the International Monetary Fund and the international standards setting bodies;

– RECALLS that in the current situation it is important to monitor and remedy potential pro-cyclical effects. In prudential matters, Basel II and the CRD remain the relevant frameworks to improve risk management. In implementing the new framework, banking supervisors will monitor the potential pro-cyclical effects of the new regulation and asses whether remedial measures are needed. Consistent with the FSF and Basel committee work, the Council AGREES to set up a European working group that will assess more broadly the range of policy responses that might help to mitigate undue potential pro-cyclical effects of the financial system;

– STRESSES the need to ensure the functioning of the cross-border stability arrangements as envisaged in the Memorandum of Understanding on financial stability agreed in June 2008 between Ministers, Central banks and the financial supervisors in the EU.

The Council remains fully committed to enhancing the effectiveness of supervision of the financial sector in Europe: this requires more convergence and harmonisation in the implementation of rules and a strengthening of supervision of cross border groups.

In respect of the convergence of supervisory practices, the COUNCIL

– AGREES to make EU-wide common reporting formats for a single set of data requirements and reporting dates, which is much needed both to ensure an efficient and convergent supervision and to reduce administrative burden for groups, operational by 2012. At this date, there should indeed be a common set of reporting formats and no extra time should be allowed;

– LOOKS FORWARD to the revision of the Commission's Decisions, in follow-up to the Council conclusions of 14 May 2008, and STRESSES the need to assign specific tasks to the committees of supervisors by the end of the year, such as, for example, mediation, providing non-legally binding recommendations and guidelines and training and staff exchange. These tasks should be reflected appropriately in the revised Decisions;

– WELCOMES the agreement reached by supervisory authorities in the three committees of supervisors to include qualified majority decision-making in their charters, together with a "comply or explain" procedures, which will encourage supervisors to comply with the committees' recommendations as far as possible, and STRESSES the need to monitor the implementation of these new procedures; and,

– RECALLS the agreement of the 14 May 2008 Council conclusions that Member States ensure, at the latest by mid-2009, that the mandates of national supervisors allow them to take the EU dimension into account in exercising their duties. The Council INVITES the FSC to report in December on the way each Member State will fulfil its commitment.

Regarding supervision of financial groups, the Council EMPHASISES the need for a more efficient system of European supervision of cross border groups."

Volatility of oil and other raw materials prices

The Council took note of the Presidency's presentation of a report, drawn up in cooperation with the Commission, on a political response to the current volatility of oil prices (*13266/1/08 REV 1*). The report will be forwarded to the European Council.

The Presidency report assesses the situation on the oil markets and the short and medium-term measures to be taken. It builds on the work undertaken within the Economic and Financial Affairs Council and complements the work undertaken in other Council configurations. A report will also be made to the European Council in December.

The European Council on 19 and 20 June 2008 expressed concern with regard to the continued surge in oil and gas prices and their social and economic consequences. It invited the French Presidency, in cooperation with the Commission, to examine the feasibility and impact of measures to limit the effects of the surge in oil and gas prices, and report back to it at its October meeting.

It invited the Member States, the Commission and the European Investment Bank (EIB) to support measures to promote investment in energy efficiency, the use of renewable energy sources and the use of more environmentally friendly fossil fuels. It also asked the Member States and the Commission to accelerate implementation of a 2006 action plan on energy efficiency, and to consider reviewing it.

In addition, a Commission communication of June this year suggested possible ways in which Europe might adapt to higher oil prices (10824/08 + COR 1).

The Presidency report notes that, given the continuing strong demand from the emerging economies, and the constraints on supply, the price of oil is likely to remain high in the medium and long term. In order to help reduce volatility on the markets, the EU is committed to making them more transparent by improving information. In particular, a legislative proposal from the Commission is expected in November to establish the principle of weekly reporting of commercial oil stocks in the EU, as is the case in other large economic areas. Moreover, short-term targeted measures will be taken at national level to attenuate the impact of the rise in oil prices on the most vulnerable. The Presidency's report also identifies other, mainly fiscal, measures which were proposed in reaction to the rise in the oil price and notes that in all cases such measures require additional studies to be made.

In the case of energy efficiency, the report identifies ways in which the EIB's financial instruments could contribute to the European Union's overall action, suggesting that the European Council call on the EIB to take new measures.

SOLVENCY OF INSURANCE COMPANIES – "SOLVENCY II"

The Council held an exchange of views on a draft Directive setting new solvency rules for insurance companies ("Solvency II" Directive).

Following the discussion, and with a view to its meeting scheduled for 4 November, the Council instructed the Permanent Representatives Committee to examine the last questions outstanding, namely questions of supervision and in particular the balance of powers and responsibilities between national authorities in the supervision of insurance groups. Other relevant issues will also be examined.

The draft Directive responds to the need to modernise prudential regulation of insurance companies, given that existing solvency rules are out of date. Apart from the recasting of 14 insurance directives into one legal text it also aims to establish a new framework for EU regulation and supervision.

The proposal seeks to increase the integration of the EU insurance market, strengthen the protection of policyholders and beneficiaries, enhance the competitiveness of EU insurers and reinsurers and encourage improved legislation in this sector.

VALUE ADDED TAX

Fight against VAT fraud – Eurofisc system – *Council conclusions*

The Council adopted the following conclusions:

"1. In its communication of 23 November 2007 (COM(2007) 758 final), the Commission presented a whole range of practical and realistic ideas that would contribute to improving the fight against VAT fraud, and called on the Council to provide the necessary political guidance for further work by the expert group on Anti Tax Fraud Strategy.

In section 3.2 of its communication, the Commission recognised that obtaining very rapidly the information gathered in other Member States on certain fraudulent transactions or fraudulent traders was a major tool for Member States. It referred to the mechanism developed by the Belgian tax administration in which several Member States participate with satisfaction. It indicated that it was open to consideration of an informal structure, composed of officials from national tax administrations, to facilitate the exchange of information between national tax authorities.

2. At its meeting on 4 December 2007, the Council took note of the Commission's communication and invited it to continue its work to improve the management of the European Union's VAT system by the Member States.

In this spirit, the expert group on Anti Tax Fraud Strategy considered a project to establish a system called Eurofisc, which aims to improve administrative cooperation between the Member States.

3. In parallel, in its oral presentation to the Ecofin Council on 14 May 2008 the Commission stated that it intended to present a proposal in November 2008 for the recasting of Regulation (EC) No 1798/2003 of 7 October 2003 on administrative cooperation in the field of VAT, including provisions to enable Eurofisc to function properly. The Commission has made an initial legal analysis of the amendments to be made.

4. At its meeting on 22 July 2008, the Council Working Party on Tax Questions examined the Presidency working document on the Eurofisc project (11714/08 FISC 91). That document lists the possible amendments to be made to the Regulation on administrative cooperation. The following guidelines for Eurofisc were established:

   – Eurofisc would be a decentralised network for the exchange of information on VAT fraud between the Member States, with each of its tasks being coordinated;

   – Eurofisc would observe four general principles: the freedom for each Member State to participate in any of the network's tasks; active participation in the exchange of information; the confidentiality of the information exchanged; no additional burden on operators;

   – Eurofisc would not have legal personality. Its functioning would be organised by agreement of the participating Member States, with the support of the Commission. Its tasks would be carried out by liaison officials who were experts in tax fraud. Their work would be led by coordinators who they would designate amongst themselves. Eurofisc's activity would be regularly evaluated by the Member States;

   – Eurofisc's tasks would be initially to provide a multilateral early warning mechanism for combating VAT fraud, and to coordinate the exchange of information and the work of participating Member States in acting on warnings received.

5. Some delegations felt that officials in the Eurofisc network should be able to initiate, accept or coordinate targeted multilateral checks. In the longer term some delegations also wanted Eurofisc to develop a joint risk analysis capacity for those Member States which were prepared to allow access to their databases (the VIES system).

6. Therefore, the Council:

   – APPROVES Eurofisc's guidelines;

   – NOTES the Commission's intention to present a proposal in the autumn of 2008 on the recasting of Regulation (EC) No 1798/2003 of 7 October 2003, and INVITES the Commission to include in that proposal provisions to allow Eurofisc to be established in the near future in accordance with those guidelines, while respecting the instruments of administrative cooperation mentioned in the Regulation;

– NOTES the willingness of the Commission to examine the possibility of Member States entrusting additional tasks to Eurofisc."

Reduced VAT rates

The Council took note of the presentation by the Commission of three working documents on reduced rates of VAT (Value Added Tax), following on from a ministerial discussion at an informal meeting in Nice on 13 September.

It held an exchange of views, on that basis, on the economic and budgetary impact of reduced VAT rates, their advantages and disadvantages, and on whether they were an appropriate instrument for achieving sectoral policy objectives.

The Council will examine a proposal for a Directive on reduced rates, submitted by the Commission last July, at its meeting on 4 November.

The current rules require Member States to apply a general VAT rate of at least 15 %, with derogations granted to certain Member States in certain cases. These derogations include permanently reduced rates for a limited list of goods and services, temporary reduced rates for certain locally provided services, and other derogations of limited duration granted to Member States which acceded to the EU in 2004.

In 2006, the Commission was asked to commission an independent body to assess the potential impact – on job creation, economic growth and the proper functioning of the internal market – of reduced rates of VAT applied to locally provided services[1].

On the basis of that study, the Commission considered that a new framework would be needed to rationalise and simplify the use of reduced rates, while leaving Member States a degree of flexibility.

Last December, the Council agreed to conduct a policy debate on the impact and usefulness of reduced rates. In July 2008 the Commission submitted an initial proposal, which will be examined by the Council at its November meeting.

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[1] That study was carried out by *Copenhagen Economics ApS*. The findings are set out in a Commission communication (*11695/07* + *11695/07ADD 1*).

OTHER BUSINESS

The Council decided that, with regard to the items on its agenda concerning:

– combating VAT fraud: proposals for amending the VAT Directive and the Regulation on administrative cooperation to combat tax evasion connected with intra-Community transactions;

and

– stabilisation of allowance prices under the emissions trading scheme after 2012.

discussions on these matters would begin at the forthcoming meeting of the Economic and Financial Affairs Council (ECOFIN).

Concerning the question of stabilisation of allowance prices under the emissions trading scheme after 2012, it noted that no legally binding decision would be taken by another configuration of the Council until the next ECOFIN Council meeting.

MEETINGS IN THE MARGINS OF THE COUNCIL

Eurogroup

Ministers of the Member States of the euro area took part in a meeting of the Eurogroup on 6 October.

Working breakfast to discuss the economic situation

During a working breakfast, the Ministers discussed the economic situation and developments in the financial markets, as well as the salaries of business leaders and the preparations for the forthcoming annual assemblies of the International Monetary Fund and the World Bank. The Chairman of the Eurogroup also gave a report on the meeting that had taken place on 6 October.

Euromed meeting on the economy and finance

Ministers met their counterparts from the southern side of the Mediterranean for a Euromed "economy and finance" meeting devoted partly to the Facility for Euro-Mediterranean Investment and Partnership (FEMIP). The meeting led to the adoption of conclusions.

OTHER ITEMS APPROVED

ECONOMIC AND FINANCIAL AFFAIRS

Protection of settlement systems and financial collateral arrangements

The Council approved a general approach on a draft Directive amending Directive 98/26/EC on settlement finality in payment and securities settlement systems and Directive 2002/47/EC on financial collateral arrangements as regards linked systems and credit claims *(11968/2/08)*.

It approved the text pending the opinions of the European Parliament so as continue the contacts with the Parliament with a view to reaching a first-reading agreement.

The text provides in particular for the protection of Directive 98/26/EC to be extended to night-time settlement and to settlement between linked systems, given that the Directive on markets in financial instruments (2004/39/EC) and the European Code of conduct for clearing and settlement provide for the continued strengthening of the linkages and interoperability between systems.

It is also proposed to extend the scope of the protection provided by both directives to include new types of assets, such as credit claims eligible for the collateralisation of central bank credit operations, in order to facilitate their use throughout the EU. The proposed amendments seek to harmonise the legal framework in order to promote equal conditions of competition and the cross-border use of collateralisation.

EXTERNAL RELATIONS

EU-Jordan – Euro-Mediterranean Agreement – Customs duties

The Council approved a draft Decision concerning the establishment of a tariff dismantling schedule for products in the Euro-Mediterranean Association Agreement with Jordan *(12989/08)*. The decision will have to be ratified by the EU-Jordan Association Council.

The Association Agreement contains a list of products exported from the EU to Jordan. These exports were excluded from the immediate dismantling of customs duties when the Agreement came into force on 1 May 2002. However, the Agreement provides that, four years after entry into force, the joint Association Council must establish a tariff dismantling schedule for those products.

EUROPEAN ECONOMIC AREA (EEA)

EEA Joint Committee – Financial modalities

The Council approved a draft Decision of the EEA Joint Committee amending a Protocol concerning the financial modalities of the EEA (*12459/08*).

The Protocol concerns, in particular, the procedure for the determination of the financial participation of the Member States of the European Free Trade Association for each financial year together with their respective deadlines. It has not yet been amended following several amendments to the Financial Regulation applicable to the general budget of the European Communities. It therefore contains obsolete provisions which will have to be deleted.