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from: General Secretariat of the Council
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Subject: Summary record of the meeting of the European Parliament **Committee on Economic and Monetary Affairs (ECON)**, held in Brussels on 30 and 31 May 2012

The meeting was chaired by Mr Stolojan (EPP, RO), Ms Bowles (ALDE, UK), Ms McCarthy (S&D, UK), and Mr Scicluna (S&D, MT).

1. Chair's announcements

Mr Stolojan (EPP, RO) informed the committee that the vote on credit agreements relating to residential property had been postponed until 7 June. He also announced that trilogue negotiations on the European system of national and regional accounts in the European Union had begun on 16 May, and that the next meeting would take place on Friday 1 June.

2. The Implementation of the Consumer Credit Directive 2008/48/EC

ECON/7/08968 2012/2037(INI)

Rapporteur for the opinion: Mr Theodor Dumitru Stolojan (EPP)

Consideration of amendments

In his initial address, Mr Dumitru Stolojan (EPP, RO), proposed compromise amendments on the right of clients to be informed of all the associated risks when taking out consumer credit in a foreign currency and during the term of the contract (amendments 1, 2, 3, 4, and 12); on financial institutions taking all necessary measures to assess risk in foreign currency lending and the ability of consumers to withstand exchange rate fluctuation and to repay their loans (amendments 10, 11, 13, 14, 15, 29, and 31); and the right of consumers to have information on the costs of additional services and the distinction between essential auxiliary and optional services, as well as the right to opt for auxiliary services provided by different financial institutions (amendments 25 and 26). He supported Ms Swinburne's (ECR, UK) amendments calling for credit institutions to take special considerations when granting consumer loans with a term longer than 5 years, and for the granting of consumer credit by financial institutions to be provided only once consumer creditworthiness had been determined and suitable collateral ascertained in order to ensure an appropriate level of risk for both the consumer and the provider. He also supported amendments 5, 8, and 28 by Mr De Backer (ALDE, BE), amendment 27 by Mr Kariņš (EPP, LV), amendment 30 by Ms McCarthy (S&D, UK), amendments 6 and 32 by Mr Giegold (Greens/EFA, DE) and amendments 18 and 23 by Ms Swinburne.

In the subsequent exchange of views Ms Elisa Ferreira (S&D, PT), on behalf of Ms McCarthy (S&D, UK), Mr De Backer, and Mr Giegold supported the rapporteur's compromise proposals. Mr De Backer warned against deceptive advertisement and enticing marketing practices, and expressed doubts regarding amendments 18 and 23 on collateral by Ms Swinburne. Mr Giegold (Greens/EFA, DE) suggested lobbying the leading committee to take on board the changes proposed by the committee.

Mr Stolojan shared the concerns of Mr Chountis (GUE/NGL, EL) regarding consumer credit which was guaranteed by housing collateral, but could not support a total ban on such procedures.

Vote in the lead committee (IMCO): 18 September 2012. Vote in ECON: 7 June 2012. Vote in plenary: 25 October 2012.

3. Trans-European energy infrastructure, and repeal of Decision No 1364/2006/EC

ECON/7/07674 2011/0300(COD)

Rapporteur for the opinion: Mr Philippe Lamberts (Greens/EFA)

Consideration of amendments

In his introductory remarks, Mr Lamberts (Greens/EFA, BE) highlighted the existing consensus among political groups, which came to be reflected by an overwhelming majority in the vote that took place on 31 May.

He underlined the positive link between trans-European energy infrastructure projects and countries undergoing economic hardship; supported the concept of fast-tracking for project deployment in programme countries; favoured increased transparency as regards the indicators used for project selection criteria as well as the use of delegated acts to ensure scrutiny powers for the European Parliament.

He also backed consistency between the trans-European networks, the Euro2020 priorities and the structural funds, as well as the creation of a review clause for projects whose costs exceeded their original estimates by 30%, and cautioned against the use of unanimity in decision-making.

Mr Langen (EPP, DE) agreed with all of the rapporteur's proposals except for the provision to grant the Commission more powers.

Ms Ferreira (S&D, PT), on behalf of Ms Podimata (S&D, EL), welcomed the new guidelines for the trans-European energy infrastructure projects and their contribution to the energy objectives of the European Union (security of supply, competitiveness and sustainability). She noted that the development of appropriate infrastructure constituted a precondition for the attainment of European energy and climate targets and for the gradual transition towards a low-carbon economy. She welcomed the identification of 12 priority strategic trans-European energy infrastructure corridors, and the Commission endeavours to set rules to identify projects of common interest. She expressed her group's intention to support most compromise proposals, and stressed the need to avoid distortion of competition between projects contributing for the fulfilment of the same European priority corridor. Finally she warned against poor sovereign debt ratings hindering projects.

Vote in the lead committee (ITRE): 19 June 2012. Vote in ECON: 31 May 2012.

4. Attractiveness of investing in Europe

ECON/7/07572 2011/2288(INI)
Rapporteur: Ms Rodi Kratsa-Tsagaropoulou (EPP)
Consideration of amendments

In her initial address, Ms Kratsa-Tsagaropoulou (EPP, EL), announced that more than 100 amendments had been tabled, which she considered to constitute the basis for a good compromise text.

She called for the respect of environmental criteria, avoidance of ecological dumping, and stimulation of both internal and external investment.

Ms Kleva (S&D, SL) hoped the Commission would announce a specific new strategy regarding investment in Europe.

Mr Klinz (ALDE, DE) proposed ensuring comparability with the US regarding financial regulations, and simplifying market access for SMEs.

Mr Giegold (Greens/EFA, DE) thought it was necessary to green both the European economy and industry. He underlined the need to guarantee macroeconomic stability; favoured energy efficiency, replacement of oil and gas by renewables, and regulation of the financial sector.

Mr Eppink (ECR, BE), on behalf of Mr Kamall (ECR, UK), considered that low profitability frightened investors, and said that greater tax competition rather than additional public works would help cut unemployment.

Vote in ECON: 31 May 2012.

5. Annual financial statements, consolidated financial statements and related reports of certain types of undertakings

and

Amendment of Directive 2004/109/EC on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and Commission Directive 2007/14/EC

ECON/7/07701 2011/0308(COD) and ECON/7/07697 2011/0307(COD)
Rapporteur for the opinions: Mr Wolf Klinz (ALDE) and Ms Sirpa Pietikäinen (EPP)
Consideration of amendments

In his preliminary remarks, Mr Klinz (ALDE, DE), questioned the extent to which companies and undertakings were required to report on a country-by-country basis and to provide information on different projects on a binding basis.

Mr Klinz suggested thresholds to avoid every single undertaking from having to comply with the requirement to report, because it could lead to confusion and to the closure of companies. In his opinion, reporting should be conditional, depending on the size, turnover and payments of companies (turnover: EUR 500 million, projects worth EUR 25 million and payments to governments: EUR 100 000). He proposed beginning with extractive and forestry companies and with installation makers. He mentioned that all shadow rapporteurs except for the ECR wanted all activities to be included and expressed some openness to accept this, provided there were thresholds, and explained that there was no agreement yet regarding the figures.

With regard to the auditing of companies' consolidated annual reports, he expressed concern regarding additional red tape, rising costs and reinforcement of the current oligopoly of auditing companies, recommending instead a review clause, breaking down auditing by country and by project, and extending internal auditing practices. He also highlighted existing divergences on these matters. Finally he disagreed with suggestions to eliminate references to the fair value system for financial instruments; advised sticking to the Commission's proposal on SME classification; and recommended the use of electronic business reporting by stock exchange quoted companies and by companies operating under international reporting standards.

In her initial address, Ms Pietikäinen (EPP, FI) backed harmonisation and SME definition at European level. She underlined contrary opinions on abolishing the obligation to publish interim management reports, noting that some colleagues had suggested only exempting SMEs. She also referred to contradictory proposals regarding the level of harmonisation and the option for Member States to issue more stringent requirements than those laid down in the directive, suggesting adhering to the Commission proposal (except for the financial reporting requirements). She supported Mr Klinz's proposal on harmonised electronic reporting, but nevertheless recommended additional political convergence, and suggested adopting a similar solution to that of the Council on the voting rights method. As regards country-by-country reporting, she highlighted the existing political consensus, (except for the ECR), and agreed with its extension to all fields of activity to ensure a level playing field. She also accepted limiting project reporting to extractive and forestry companies; favoured the inclusion and the auditing of reporting in financial statements (legally binding) to ensure civil liability on transparency, and did not think that it could significantly increase costs and administrative burdens.

On thresholds, Ms Pietikäinen mentioned convergence on limiting reporting to SMEs and proposed further discussions on the definition of SMEs (company size).

She said she was less flexible on the issue of government payments and project reporting, favouring low thresholds.

In the subsequent exchange of views, Mr Bullmann (S&D, DE), on behalf of Mr Scicluna (S&D, MT), thought both opinions were a good basis for negotiating compromises. He defended clarity and transparency in international relations and more ambition regarding country-by-country reporting. He agreed with the existing definition of SMEs and opposed special reporting requirements.

Mr Lamberts (Greens/EFA, BE) shared Mr Klinz and Ms Pietikäinen positions, stressing the need to establish a cost/benefit analysis regarding additional burdens for European companies and proposed a gradual approach on SME thresholds, suggesting an initial figure twice the level in the SME definition.

Mr Eppink (ECR, BE), on behalf of Mr Kamall (ECR, UK), also supported both opinions and more specifically the need to cut red tape, to increase comparability and clarity of financial statements, and to ensure a level playing-field to improve the competitiveness of European companies. He recommended striking a balance on government payments between transparency and administrative costs and favoured country-by-country reporting for extractive companies, but considered that the European Parliament was pushing too hard to adjust the original proposal without any impact assessment.

Ms McCarthy (S&D, UK) defended enhanced transparency and disclosure as well as alignment with the US on annual reporting. Finally she cautioned against XPRL mandatory standards, noting that the European Securities and Markets Authority (ESMA) was looking into it in terms of cost-benefit analysis, and favoured instead a voluntary and gradual approach.

The Commission representative noted that the overall proposal was designed to improve transparency regarding activities and payments of major companies (extractive sector) in third countries. He agreed with the necessity to strike a balance in the proposal between SMEs and micro-payments. He pointed out that there were no audit-specific requirements in the Dodd-Frank Act or in the Initiative for Industries Transparency Initiative (EITI) to prevent double auditing and consequently higher costs and additional administrative burdens.

The Commission representative supported the creation of a level playing-field with the US; explained that the proposal was part of a simplification and of cost reduction process especially designed for SMEs; and expressed the Commission's openness regarding the use XPRL. Furthermore, he explained that the concept of true and fair view had been in use for the last 30 years and would be complemented by a concept of prudence. Finally, another Commission representative informed the Committee that the voting rights calculation method was based on the nominal rather than the delta method.

Mr Klinz concluded by underlining the need for a good text to serve as a good basis for negotiations with the Council.

Vote in the lead committee (JURI): 10 July 2012. Vote in ECON: 18 June 2012.

6. ESRB Annual Report 2011

ECON/7/09619

Exchange of views following the presentation of the Annual Report by Mario Draghi,
Chairman of the ESRB

In his introductory statement, Mr Draghi read the speech in the annex.

In the subsequent exchange of views, Ms Bowles (ALDE, UK) called for the enhancement of CRDIV legislation to improve insight regarding shadow banking. Mr Zalba Bidegain (EPP, ES) referred to the severe economic situation in Spain and to its unfair treatment by markets and asked if they were penalising the lack of action at European Union (EU) level and if this correlated with systemic risk. Ms Ferreira (S&D, PT) enquired on ways (firewalls) to minimise systemic risks associated with sovereign and banking debt whereas Mr Klinz (ALDE, DE) enquired on the tasks of the European Systemic Risk Board (ESRB).

Mr Draghi explained that the financial crisis had provoked a rise in risk aversion in the European Union. He explained that the crisis had started in the banking system and subsequently spread to sovereigns which required immediate action both at national and European level.

Mr Draghi reasserted some of his latest positions; in particular that the European Central Bank (ECB) could not substitute for national governments, nor the EU; that the EU should clarify its strategy for the future; and that risk aversion needed to be addressed in order to lower interest rates (sovereign debt) and promote investment and growth. Furthermore he proposed to set up an action plan based on 3 pillars: a European depositary scheme, a resolution fund and greater centralisation of supervision.

Mr Eppink (ECR, BE) questioned Mr Draghi on his position regarding a potential recapitalisation of Dexia. Mr Giegold (Greens/EFA, DE) criticised the fact that the first ESRB annual report did not depict the actual state of affairs in the EU, and enquired about ways to avoid future events like Bankia. Ms Fernandes (GUE/NGL, PT) underlined the link between banking and the sovereign debt crisis and asked if solvency was sustainable in the short run.

Mr Draghi noted that it was up to national supervisors to assess the situation in Dexia and urged governments to undertake the necessary measures. He explained that the first annual ESRB report was specific in nature and therefore did not give an overview of the current situation, promising to take that suggestion into account for future occasions. As regards Bankia, he called once more for further centralisation of the banking supervisory system, adding that the ECB had been quite active in alleviating the banking crisis, e.g. in the case of the two Long-Term Refinancing Operations (LTROs) designed to provide liquidity. He said that that more needed to be done to curtail risk aversion and to ensure liquidity.

Ms Andreassen (EFD, UK) questioned the usefulness of stress tests and suggested terminating insolvent banks. Ms McCarthy (S&D, UK) asked what could be done in the short run to prevent a rush to savings and to protect European depositors.

Mr Draghi informed the committee that the European Banking Authority (EBA) stress tests would be concluded in June and reiterated the need for greater collaboration and centralisation. He also said that tax revenues should not be used to save unsound banks, suggesting instead the use of a repository fund and underlining the importance of prudential regulation on Systemically Important Financial Institutions (SIFIs). He warned that the termination of certain banks could entail insolvencies and systemic consequences, which in his opinion justified the actions taken so far by national governments. In his opinion high volatility was the consequence of a fiscal and governance crisis.

Mr Draghi explained that all solvent banks were guaranteed and would continue to receive support from the ECB, and that a depositary scheme at European level would enhance protection for savers. He also informed the committee that the ECB had lifted the suspension of monetary policy operations of four Greek banks after being recapitalised with the help of the ECB.

Ms in't Veld (ALDE, NL), mentioned the Dutch mortgage crisis and asked if the ESRB was receiving information on pension liability and on external systemic banks that could have an impact in Europe. Mr Feio (EPP, PT) enquired on banking recapitalisation and the European Stability Mechanism (ESM) ability to assist the banking sector, asking if there were some provisions in place to address a potential rush to deposits.

Mr Draghi acknowledged that the Dutch government had expressed concerns regarding their internal situation and that the ESRB would discuss this matter. He noted that the ESM would only be useful if used (it not being worthwhile to accumulate a lot of money if it served no purpose) and stressed that the ESRB had been established for the benefit of the whole Union, not just for Euro area members.

***** Voting time *****

7. Attractiveness of investing in Europe

ECON/7/07572 2011/2288(INI)
Rapporteur: Ms Rodi Kratsa-Tsagaropoulou (EPP)
Adoption of draft report

The draft report was approved, with 34 votes in favour, 3 against and 4 abstentions.

8. European Social Entrepreneurship Funds

ECON/7/08183 2011/0418(COD)
Rapporteur: Ms Sophie Auconie (EPP)
Adoption of draft report

The draft report was approved, with 37 votes in favour, 4 against and 2 abstentions.

9. European Venture Capital Funds

ECON/7/08186 2011/0417(COD)
Rapporteur: Mr Philippe Lamberts (Greens/EFA)
Adoption of draft report

The draft report was approved, with 35 votes in favour, 2 against and 3 abstentions.

10. Credit agreements relating to residential property

ECON/7/05774 2011/0062(COD)
Rapporteur: Mr Antolín Sánchez Presedo (S&D)
Adoption of draft report

The vote was cancelled until 7 June.

11. Access to Basic Banking Services

ECON/7/08181 2012/2055(INI)
Rapporteur: Mr Jürgen Klute (GUE/NGL)
Adoption of draft report

The draft report was approved, with 37 votes in favour, 2 against and 0 abstentions.

12. 20 main concerns of European citizens and business with the functioning of the Single Market

ECON/7/08942 2012/2044(INI)
Rapporteur for the opinion: Mr Edward Scicluna (S&D)
Adoption of draft opinion

The draft opinion was approved, with 35 votes in favour, 3 against and 2 abstentions.

13. Trans-European energy infrastructure, and repeal of Decision No 1364/2006/EC

ECON/7/07674 2011/0300(COD)
Rapporteur for the opinion: Mr Philippe Lamberts (Greens/EFA)
Adoption of draft opinion

The draft opinion was approved, with 36 votes in favour, 0 against and 2 abstentions.

*** *End of vote* ***

14. Common system of taxation applicable to interest and royalty payments made between associated companies of different Member States (recast)

ECON/7/07752 2011/0314(CNS)
Rapporteur: Ms Ildikó Gáll-Pelcz (EPP)
Consideration of draft report

In her introductory statement, Ms Gáll-Pelcz (EPP, HU) supported the Commission proposal, including the recast to further enhance fiscal cooperation. She explained that the aim of the proposal was to combat tax fraud and tax evasion, and to introduce new rules on tax deductions, benefits and exemptions. She also agreed with the Commission proposal on holding requirements and transition periods, and highlighted the role of the European Parliament in the current review.

Mr Hoang Ngoc (S&D, FR) supported the Commission text, including efforts to avoid double taxation, as well as the amendments proposed by the rapporteur in order to combat tax fraud and tax evasion, and to ensure a level playing field in the field of double taxation. He also cautioned against double non-taxation.

Mr Giegold (Greens/EFA, DE) regretted the absence of co-decision powers for the European Parliament in this area. He supported the rapporteur but thought it was important to keep consistency with the Parent-Subsidiary Directive. He considered useful to add a general anti-mismatch clause on tax avoidance and on fiscal evasion as well as on the inclusion of a minimum tax rate, notably because some Member States within the Council (Ireland, the United Kingdom, Luxembourg and Belgium) persisted in the application of a patent box in order to encourage certain administrative rights in low-tax regimes, which undermined their consistency in different countries. He added that in order to have the same currency, Member States had to share the same rules. He also admitted that the unanimity requirement within the Council would be a problem and favoured instead enhanced cooperation on tax matters.

Ms Gáll-Pelcz promised to try to align the current report with the Parliament's position on the Parent-Subsidiarity Directive and the Common Consolidated Corporate Tax Base Regulation.

Deadline for amendments: 2 June 2012. Consideration of amendments: 7 June 2012.

Vote in ECON: 9 July 2012. Vote in plenary: 10 September 2012.

15. Date of next meeting

The next meeting will be held in Brussels on 7 June 2012.

Speech by Mr Draghi, Chairman of the ESRB.

Dear Madam Chair,
Dear Honourable Members,

I am very pleased to appear before this Committee today to present the first annual report on the activities of the European Systemic Risk Board (ESRB) – of which you have all received a copy and which is being published as I speak. In my remarks today, I will refrain from repeating the content of the report and will instead focus on three key areas of the ESRB's work over the past year, which will also keep us busy for the foreseeable future. These are: i) the assessment of systemic risks; ii) the establishment of a sound macro-prudential framework in the EU; and iii) medium-term structural developments in the EU financial system. I will then be at your disposal for questions.

1. Assessment of systemic risks in the EU financial system

It is less than a year since the ESRB cautioned that the risks to the EU financial system had become systemic. After a period of stabilisation on the back of actions by central banks and other institutions earlier this year, more recently there have been renewed bouts of volatility and uncertainty, although not at the same levels reached in November 2011.

Fundamental challenges persist. In my view, these include: i) limiting contagion between Member States across the EU; and ii) promoting a macroeconomic strategy that, together with fiscal consolidation, supports growth and furthers the competitiveness adjustments needed to tackle the economic imbalances within the EU.

Addressing these challenges in a decisive and sustainable manner is a prerequisite for the success of measures to ensure a more resilient financial system capable of supplying, on a sustainable basis, the financial services necessary to support economic activity. From a macro-prudential point of view, such measures include: i) implementing credible mechanisms for the recapitalisation and restructuring of banks, where needed; and ii) improving banking supervision and resolution at the European level.

In the past, the ESRB has underlined the need for all national and European authorities to act, and to do so in unison, with speed, ambition and a total commitment to safeguard financial stability.

Today, I reiterate this call, while acknowledging the efforts undertaken so far.

Within the broader economic and financial context, the financial system continues to face the challenge of adjustment in order to address imbalances accumulated in the past. For banks, progress has already been made on some fronts, but more is needed. For other financial sectors, it is important that international and EU reforms, designed to improve their resilience, are fully implemented and adhered to – an issue that I will return to later.

The ESRB is concerned with two aspects of banks' adjustment. First, it should be carried out in an orderly way to support economic growth to the full extent necessary, without exacerbating market fragility and the positions of others in the financial system. Second, the degree of adjustment planned by the EU banking sector over the coming years must be sufficient to restore confidence in the strength of banks' balance sheets.

With regard to the first point, official data and surveys from many countries across the EU indicate some overall stabilisation in financial conditions in the early part of this year.

However, the recent turbulence highlights the uncertainty surrounding the outlook for these financial conditions, given their link to the soundness of EU banks' balance sheets and, in turn, the direct or indirect connections between those balance sheets and sovereign vulnerabilities. Concerning the second point, close monitoring and a systemic assessment of the feasibility and nature of the adjustment by banks, as well as within the financial system more broadly, is crucial. In this regard, the ESRB has called upon its partners within the European System of Financial Supervision – supervisory authorities at the national and EU level – to regularly collect detailed, ex ante information from banks and other key players in the system, and report it to the ESRB. The General Board will review the latest developments – and their implications – at its meeting in June.

2. A sound macro-prudential framework for the EU

Let me now turn to the work undertaken to establish a framework capable of addressing the deficiencies of the pre-crisis framework in preventing and mitigating systemic risks in the EU. While the launch of the ESRB was a first, and necessary, step in this respect, it is vital to develop a sound and comprehensive macro-prudential framework for both the EU as a whole and the individual Member States. As indicated in the Annual Report, this has been one of the ESRB's priorities since its inception.

First, in order to create a solid foundation for pre-emptive action against systemic risks, it is essential to develop macro-prudential mandates and tools. In its recommendation published in January, the ESRB highlighted the need for well-defined macro-prudential mandates for national authorities to act either on their own initiative, or in response to the ESRB's advice. In accordance with the ESRB's duty to follow up on its recommendations, the first reports from the Member States outlining their progress thus far are expected by the end of June under the ESRB's "comply or explain" mechanism.

A key lesson from the past is that financial or systemic stability mandates must be accompanied by the means to act. Macro-prudential authorities will need to be equipped with effective policy tools to respond, in a pre-emptive way, to the complex and ever-changing variety of systemic risks. The ESRB is currently working on identifying the minimum set of tools necessary for conducting macro-prudential policies throughout the EU.

Second, it is crucial to ensure that macro-prudential issues are taken into consideration when developing EU legislation for the financial sector, given the impact that such regulations could have on incentives within the financial system. In this regard, I would like to touch on a number of important pieces of EU legislation that the ESRB has been following: i) a draft directive and regulation on capital requirements for credit institutions (the "CRD/CRR"); ii) the proposal for a regulation on OTC derivatives, central counterparties and trade repositories ("EMIR"); and iii) the part of the proposal for the Omnibus II directive that concerns the regulation of the insurance sector. With regard to the CRD/CRR, I very much welcome the recent progress made by this Committee, as well as by the EU Council, on advancing the proposals put forth by the Commission less than a year ago. Your work together with the Council provides a promising basis for the establishment of important macro-prudential instruments for addressing systemic risks in the banking sector.

To assist you, and the Council, in your work on the CRD/CRR, the ESRB wrote to you in March outlining a number of macro-prudential principles. I urge you to consider these principles in order to ensure that macro-prudential authorities, at both the EU and national level, are fully equipped with a flexible set of policy tools and sufficient scope to act early and effectively to prevent the build-up of systemic risks in the future. Obviously, discretion to pursue macro-prudential policies requires efficient coordination as a safeguard against potential negative externalities or unintended consequences.

The ESRB is ready to play a central role in this respect, and work is under way to establish a general framework for the coordination of national macro-prudential policies by the ESRB, where such policies give rise to material spillovers across borders.

The agreement on EMIR was also an important step forward in implementing lessons from the crisis, and it includes a number of useful elements to safeguard financial stability in the EU. The ESRB has started preparations for performing the tasks assigned to it under EMIR.

From a macro-prudential perspective, however, I should point out that, in the view of the ESRB, EMIR does not address the issues raised by the possible pro-cyclical effects of either easing or tightening of collateral eligibility and of requirements for transactions subject to central counterparty clearing. In accordance with its responsibilities, the ESRB continues to examine whether and how collateral requirements could be applied as a macro-prudential tool at a later stage. The new regulatory framework for insurance activities is currently being finalised. Some important aspects of this framework – such as those related to the treatment of long-term guarantees – are being discussed over the next few days as part of the “Omnibus II dialogue” discussions, in which this Committee is actively involved. The ESRB is aware that several of the issues at stake are potentially relevant from a macro-prudential point of view. In particular, the new regulatory framework (Solvency II) may amplify the procyclicality of insurers’ balance sheets and, in particular, capital levels. This has been recognised by the legislator, which is designing several policy instruments (including some of a macro-prudential nature) to mitigate procyclicality and other factors. It is crucial that such instruments are designed to deliver a clear and credible objective and that their interaction is duly considered to ensure that the use of these instruments has the intended effect.

3. Structural developments in the EU financial system

Finally, I would like to highlight some medium-term, structural developments that the ESRB is currently looking at, with a view to gaining a better understanding of their implications for systemic risk and to identifying appropriate policy responses for delivering a more resilient financial system. The ESRB is devoting particular attention to structural aspects of both the traditional banking sector and the shadow banking sector. Before commenting on developments in these sectors, I would like to briefly say a few words on the whole financial system, which is currently undergoing a regulatory reform in all its segments. An important goal of such reforms is to ensure a sustainable supply of financial services from the system to the rest of the economy. In Europe, the financial sector has traditionally been centred around banks. However, some activities may shift to other – maybe less regulated – parts of the system in the years to come, perhaps as a direct consequence of the current crisis or as a result of the overhaul of standards for regulated activities and entities. While such developments can, in principle, be of benefit to the system, they must be monitored closely in order to limit the emergence of new vulnerabilities, for example those stemming from shifts driven by regulatory arbitrage.

Turning to the banking sector, the onset of the financial crisis revealed significant shortcomings in banks’ funding structures – part of the necessary adjustment I referred to earlier involves a transition to more sustainable funding structures. However, banks’ ability to manage this adjustment is being hampered by conditions in European interbank and unsecured credit markets. As a result, there has been a rise in banks’ recourse to secured funding markets and innovative funding instruments.

The ESRB is analysing these shifts in funding behaviour carefully from a macro-prudential perspective, to ensure that unintended consequences or new systemic vulnerabilities associated with such behaviour do not go undetected.

The increased reliance on secured funding raises concerns about the extent to which banks' assets become encumbered. If taken too far, insufficient amounts of unencumbered bank assets in the future could reduce the stability of funding within the system and, in a self-fulfilling manner, reinforce the lack of access to private unsecured markets today.

Furthermore, innovative sources of private funding for banks – such as liquidity swaps between banks and other parts of the financial system – could have implications for the level of interconnectedness in the system, as well as the durability of funding during future downturns or stress periods.

Turning to the shadow banking sector, the instabilities that can arise from a highly interconnected system were exposed by the financial crisis. Shadow banking activities were a major contributor to that interconnectedness, in particular given the interlinkages between the regular banking sector and the complex, and opaque chains of financial intermediation that emerged within the system. They also, directly and indirectly, helped to facilitate the substantial rises in leverage in some economies. As indicated in the Annual Report, the ESRB has already begun work in this area. This has involved, for example, identifying and assessing potential systemic risks associated with European money market funds, on which a report is soon to be published as an ESRB Occasional Paper. The ESRB is also finalising its reply to the consultation launched by the European Commission through its Green Paper on Shadow Banking , which was published earlier this year.

Looking ahead, from a policy perspective, measures to tackle systemic risks associated with the shadow banking system will need to be tailored to the specific risks stemming from the different activities conducted under the shadow banking umbrella. It is important that horizontal focus be placed on the economic nature of financial activities, i.e. on ensuring that activities carried out within the system, and which involve maturity and liquidity mismatches, leverage and/or incomplete risk transfer, fulfil the appropriate prudential requirements, irrespective of where they are carried out or by whom.

Finally, it will be important to ensure global consistency and therefore the full and consistent transposition in the EU of policy initiatives agreed at the international level, notably those due to be announced by the Financial Stability Board. In this regard, the ESRB stands ready to work together with the relevant international and EU institutions and bodies.

Let me now conclude by stressing that all the ESRB activities that I have presented here today have been carried out with the full involvement and support of all ESRB member institutions and bodies – notably the Advisory Scientific Committee and Advisory Technical Committee – and in close cooperation with the three European Supervisory Authorities. For this we are grateful and look forward to a continued fruitful cooperation in the future.

Thank you very much for your attention. I am now at your disposal for questions.
