COUNCIL OF
THE EUROPEAN UNION

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NOTE

from:	General Secretariat of the Council
to:	Delegations
Subject:	Summary record of the meeting of the European Parliament **Committee on Economic and Monetary Affairs (ECON)** held in Brussels on 23 and 24 September 2013

The meeting was chaired by Ms BOWLES (ALDE, UK).

Item 1 on the agenda

Adoption of agenda

The agenda was adopted.

Item 2 on the agenda

Approval of minutes of meeting of 5 September 2013 **PV – PE516.952v01-00**

The minutes were approved.

Item 3 on the agenda

Chair's announcements

Ms BOWLES (ALDE, UK) announced that the Committee on Constitutional Affairs (AFCO) had agreed to include the opinion of the Committee on Economic and Monetary Affairs (ECON) in part D (banking union) of its multitier governance report without voting on it and that the AFCO recitals and amendments outside part D which were inconsistent or incompatible with the ECON opinion would be disregarded, adding that ECON was planning to vote its opinion on 17 October. She also announced that ECON coordinators had decided to apply the simplified procedure without amendments to the following files: EU-France Agreement concerning the application to the collectivity of Saint-Barthélemy of Union legislation on the taxation of savings and administrative cooperation in the field of taxation, and Amending Directives 2006/112/EC and 2008/118/EC as regards the French outermost regions and Mayotte in particular; adding that a brief exchange of views on both files was scheduled for 23 October. She mentioned as well that ECON would vote on a second quick-fix for the Omnibus II Directive on 23 October for its adoption in plenary in November. Then she outlined the tentative calendar for the joint ECON and Civil Liberties, Justice and Home Affairs (LIBE) committee report on the Anti Money Laundry Directive and the Funds Transfer Regulation, with the presentation of the draft report scheduled for 6 November, the deadline for amendments for 15 November, the presentation of amendments for 6 December and the vote in ECON in January 2014. Finally, she informed the committee that a third trilogue on the Bank Recovery and Resolution Directive (BRRD) had taken place on 18 September and dealt with revised texts on scope, resolution authorities and special management, with home host and European Banking Authority (EBA) powers and on conditions for resolution asset triggers.

Item 4 on the agenda

Monetary dialogue with Mario Draghi, President of the European Central Bank

ECON/7/00032

In his introductory remarks, President DRAGHI read out the speech contained in Annex I.

In the debate that followed, Ms BOWLES (ALDE, UK) announced that the vote on the appointment of the chair and vice-chair of the Single Supervisory Mechanism (SSM) was scheduled for the December plenary session.

Mr GAUZES (EPP, FR) queried President DRAGHI on the state of implementation of the SSM, and Ms FERREIRA on the current situation of stressed countries, on the role of the European Central Bank (ECB) in the Troika and in the SSM, and on the build up of the Single Resolution Fund (SRF), which she claimed should have a backstop. Ms GOULARD (ALDE, FR) enquired about the decision-making process in the Troika and Mr EPPINK (ECR, BE) was keen to know if the ECB was considering launching a new round of Long Term Refinancing Operations (LTROs). Mr GIEGOLD (Greens/EFA, DE) questioned whether government bonds would be stressed in the asset quality review and Mr CHOUNTIS (GUE/NGL, EL) queried Mr DRAGHI on the sustainability of the Greek sovereign debt and on the need for a third programme. Mr TEHRO (EFD, FI) asked about the ECB's stance on interest rates, while Mr ZALBA BIDEGAIN (EPP, ES) and Ms PODIMATA (S&D, EL) underlined interest rate market fragmentation and funding/lending shortages in the real economy.

In response, and as regards the banking union, President DRAGHI underlined the good cooperation between the ECB and national supervisors and the progress made in the preparatory work of the SSM in four key areas: supervisory manual, supervisory reporting, SSM framework regulation and comprehensive assessment of banks. Furthermore he stressed that the SSM was expected to be up and running one year after the approval of the legislation and that the ECB would report to the EU institutions on the progress made on a quarterly basis. He wished for the Single Resolution Mechanism (SRM) and national backstops to be in place before the ECB assumed its supervisory tasks in order to ensure the credibility of the asset quality review and of the stress tests and thought that the ECB should be a mere observer in the SRM: it would be responsible for the assessments but not for the actions to be taken. He also considered the 10 year period for the build up of the SRF to be too long and consequently that there should be some type of backstop/credit line which did not include the ECB. He restated the separation principle between the monetary and supervisory tasks of the ECB and noted that the supervisory board was appointed by the Member States. He also confirmed that the asset quality review and the balance sheet assessment would be done by the ECB, the national supervisors and by third-party supervisors including private sector consultants. He pointed out that the High-Level Group had not yet discussed the issue of government bonds but would do so before the first asset quality review communication in mid October.
On monetary policy, he reiterated the ECB's commitment to using any instrument including an LTRO to maintain short term money markets. He reaffirmed that the current forward guidance of the ECB (based on the medium term inflation assessment) stated that the interest rates would stay at the present or lower level for an extended period of time.

Nevertheless Mr DRAGHI agreed that enduring low interest rates entailed risks for financial stability, depositors, insurances and pensions. He acknowledged that despite several measures taken by the ECB since 2011, shortages in credit access persisted due to different factors such as risk aversion by the banks, highly leveraged SMEs, lack of demand and lack of credit supply.
As regards stressed countries, he considered that their situation was improving, that progress on fiscal consolidation should not be unravelled and should be growth friendly, and that structural reforms should be continued, adding that signs of unravelling caused markets to react. He also pointed out that it was premature to foresee a third programme for Greece and that Greek sovereign debt seemed to be sustainable at present. On the Troika, he viewed the ECB's advisory role lasting as long as the crisis continued and did not think the ECB would be part of the Troika in the long run. He explained as well that it was the Eurogroup that took the decisions relating to the Troika since it was the Eurogroup that financed the programmes.

Item 5 on the agenda

Public Hearing with Mario Draghi, Chairman of the European Systemic Risk Board

ECON/7/05173

In his introductory remarks, President DRAGHI read out the speech contained in Annex II.

Ms BOWLES (ALDE, UK) asked if insurances were becoming more systemic due to bail in provisions under the Bank Recovery and Resolution Directive (BRRD), and if they needed extra guarantees to undertake long-term investments. Mr LAMBERTS (Greens/EFA, BE) thought that market volatility (fire sales and bubbles) in the insurance market should be prevented and voiced his reluctance about risk weighted assets. Mr FOX (ECR, UK) questioned Mr DRAGHI on Solvency II related issues such as asset classes, infrastructure project investments and the use of credit ratings. Mr FEIO (EPP, PT) called for additional reassurances for European savers within the context of resolution, while Mr EL KHADRAOUI (S&D, BE) and Mr LANGEN (EPP, DE) enquired about the latest Commission plan on money market funds (MMFs) and on risks with Central Counterparties Clearing (CCPs). Finally, Mr SCHMIDT (ALDE, SE) wanted to know what the institutional repercussions of a fully-fledged banking union would be for the ESRB.

In response, Mr DRAGHI said he thought that insurances were systemic but in a different way from banks and noted that the 'systemic concept' for insurances consisted in the possibility of certain economic functions like risk diversification disappearing.

Mr DRAGHI stressed ongoing discussions at international level to set up a macro prudential view of insurance vulnerabilities as well as the long-term investment nature and the anticyclical role of insurances to question suggestions made by MEPs for setting up supplementary guarantees in order for insurances to undertake the same type of investments they usually do. He also noted that any measure to alleviate the impact of short term volatility did not create incentives for undercapitalisation of insurance corporations nor for concentration of risk, stressing that measures should be transparent and symmetric in nature, with buffers being created during good times. As regards the appropriate balance between detailed legislation and regulator discretion, he claimed that total regulator discretion could lead to regulatory arbitrage while rigid legislation could provoke obsolescence. Hence, he thought that it would be good to limit regulatory discretion and to have legislation that could be easily adapted, noting that there was a general trend to move towards uniformity in financial legislation. He claimed that there was no evidence on Solvency II reducing the insurance's ability to provide long-term financing to the economy, noting that their investment policy was driven by the need to match liabilities and asset duration. More generally, he viewed the return of confidence in the economy and the establishment of a firm recovery as the best way to boost depositor self-assurance. With regard to resolution, he considered it essential to have a well defined set of conditions and instruments to trigger a bail-in and to have a well clear packing order which included depositor preference and the bail-in of equity. He also believed that MMFs with a constant net asset value (CNAVs), which represented an economic alternative to deposit services offered by credit institutions, should be either submitted to the same regulatory provisions as banks or forced to convert into variable net asset value (VNAVs). In his opinion CNAVs represented a systemic risk because of possible investor runs, adding that regulators did not have the same instruments to intervene as in the case of banks. He noted as well that the recent Commission proposal offered a different solution in which CNAVs were not prohibited *per se* but requested to set up a 3% cash buffer on the asset side and that the funds that did not respect those requirements would be converted into VNAVs. He mentioned that the European Systemic Risk Board (ESRB) would issue an assessment on the Commission proposal in 2014. He was in favour of having all standard derivative contracts cleared through CCPs and having the data stored in trade repositories, and explained that for non standard derivatives there would be separate clearing with more punitive capital requirements. He mentioned the need to ensure full transparency and to focus on CCPs as a likely source of systemic risk, adding that thanks to EMIR legislation, a new set of data would be available in Europe, collected by trade repositories and made available by the European Securities and Markets Authority (ESMA), the national authorities and the ESRB, which would allow possible exposures, concentrations and contagion effects to be studied.

Mr DRAGHI confirmed that the ESRB would issue warnings and recommendations to all authorities at European and national level and would give macro prudential views on pro cyclicality and interoperability. He pointed out as well that the ESRB and the Single Supervisory Mechanism (SSM) would coexist in a contiguous but different institutional area, stressing that the ESRB was a network encompassing all central banks and supervisors with soft powers and that the SSM was a fully-fledged institution with binding powers which encompassed only the authorities of the euro area. He added that the SSM would get some of the present powers of the ESRB in the area of supervision and would share competences with macro prudential authorities in the area of banking. He also mentioned that the ESRB would continue to exercise the tasks assigned to it under CRDIV and CRR and that an important overlap in terms of membership existed between the governing council of the ECB and the ESRB general board, which in his opinion ensured the necessary flow of information on crucial macro prudential issues. As regards non resident banks with branches in the euro area, he said that the supervision would be carried out according to the current practices, with supervisor councils from home and host countries, and that nothing would change apart from national supervisors being replaced by the SSM. In his opinion, the effectiveness of the new institutional framework would depend on the capacity to act swiftly, independently and without any sort of conflict of interest. He thought that too strict leverage ratios had an impact on liquidity and on low yield activities which usually provided liquidity to a variety of markets, and that banks with leverage ratios that were too binding would shed out low yield activities. Therefore he advised some caution when assessing the impact of different ratios on markets that were essential for monetary policy and believed that the leverage ratio should be a simple concept.

Item 6 on the agenda

Follow-up on the Delegation of Legislative Powers and the Control by Member States of the Commission's Exercise of Implementing Powers

ECON/7/11951 2012/2323(INI)

Rapporteur for opinion: Ms BOWLES (ALDE, UK)

Rapporteur for the responsible committee (JURI): Mr SZAJER (EPP, HU)]

- Consideration of amendments

In her initial address Ms BOWLES (ALDE, UK) suggested further discussions on amendments 3, 7, 13 and 15. She called for more transparency and for an adequate timeline for the European Parliament (EP) to react especially if acts came out before holidays or in recess.

In the debate that followed, most speakers supported the opinion and stressed the need for a transparent timeline between the EP committees and the European Supervisory Authorities (ESAs). They also agreed with extending the circulation of delegated acts to shadow rapporteurs. Mr SANCHEZ PRESEDO (S&D, ES) believed that regulatory technical standards (RTS) were special delegated acts and that the Commission should always seek advice from ESAs before the adoption of the delegated acts. Ms BOWLES was worried that the bilateral agreements between the committee on Economic and Monetary affairs (ECON) and the Commission could be overridden by the committee on Legal Affairs (JURI). Ms SWINBURNE (ECR, UK) considered to be important to ensure continuity after the European elections in 2014 and suggested appointing a shadow for delegated acts within each political group. Additionally, she favoured formalizing the procedures between the EP committees and the European Supervisory Authorities (ESAs).

Item 7 on the agenda

Disclosure of non-financial and diversity information by certain large companies and groups

ECON/7/12515 2013/0110(COD)

Rapporteur for opinion: Ms BOWLES (ALDE, UK)

- Consideration of draft opinion

This item was postponed.

Item 8 on the agenda

The European System of Financial Supervision (ESFS) Review

ECON/7/13127 2013/2166(INI)

Rapporteur: Mr GIEGOLD (Greens/EFA, DE)

- First exchange of views

In his initial remarks Mr GIEGOLD (Greens/EFA, DE) noted that the European Parliament (EP) supported the European Supervisory Authorities (ESAs) and the European Systemic Risk Board (ESRB) and that the build-up of the banking union would impact the existing system. He referred to tensions between the European Banking Authority (EBA) and the European Central Bank (ECB) on the creation of supervisory handbooks as well as to growing national tendencies to adopt twin-peak models. Moreover he pointed out that the insurance sector was not covered by the relevant Treaty provision on direct supervision by the ECB and mentioned the recent opinion of the General Advocate on short selling which gave rise to different interpretations.

Mr GIEGOLD believed that ESAs had worked well in general, especially in the regulatory field. However he regretted the fact that the ESAs remained too intergovernmental and did not make use of all of its powers. He was convinced that this was due to a lack of resources and consequently he called for a separate budget line.

Ms SWINBURNE (ECR, UK) favoured a solid legal footing while Mr KLINZ (ALDE, DE) wanted to ensure a well-functioning single market. Ms LULLING (EPP, LU) recommended waiting for the Commission report and for the publication of the studies commissioned by the EP, whereas Ms BOLWES (ALDE, UK) explained that the vote in plenary would not take place before 2014 which would enable the committee to take into account the Commission's report. Mr SANCHEZ PRESEDO (S&D, ES) and Mr KLINZ criticized EBA's poor performance particularly on the stress tests it had carried out and on EBA's meagre record in Cyprus. Both called for more and better cooperation between the EBA and the ECB on the asset quality review to come. Mr KLINZ also insisted on preserving the EBA despite the setup of the Single Supervisory Mechanism (SMM). Both he and Ms SWINBURNE criticized the work carried by the European Securities and Markets Authority (ESMA) and by the European Insurance and Occupational Pensions Authority (EIOPA). Mr Klinz claimed that ESMA went sometimes beyond its mandate and that EIOPA had some difficulties in positioning itself as the expert authority on insurance matters. Ms BOWLES thought that EIOPA's role was being hampered by the fact that Solvency II was not yet up and running, and Ms SWINBURNE stressed ESMA's lack of technical expertise. They both called for more short-term secondments of national experts to the ESAs. Finally, Mr SANCHEZ PRESEDO supported calls for more resources and for more budgetary independence for the ESAs, while Mr KLINZ thought it necessary to improve transparency between the ESAs and the ESRB.

Consideration of draft report: 4/5 November 2013. Deadline for amendments: 26 November 2013.

Item 9 on the agenda

Mandatory automatic exchange of information in the field of taxation

ECON/7/13023 2013/0188(CNS)

Rapporteur: Mr CUTAS (S&D, RO)

- Consideration of draft report

In his opening address Mr CUTAS (S&D, RO) listed some areas which he thought deserved further improvement: data protection, bilateral agreements, resources and sanctions.

In the subsequent exchange of views, all speakers supported the Commission proposal. Mr NITRAS (EPP, EE), and MR SCHMIDT (ALDE, SE) regretted the fact that the Commission had only acted under the pressure made by the USA on the Foreign Account Tax Compliance Act (FATCA). Mr NITRAS called for enhanced cooperation between Member States and agreed with suggestions to grant the Commission a mandate to negotiate bilateral agreements. Mr TAVARES (Greens/EFA, PT) called for more harmonization, whereas Mr CHOUNTIS (GUE/NGL, EL) regretted the lack of political will to deal with tax evasion.

Deadline for amendments: 1 October 2013. Consideration of amendments: 4/5 November 2013.

Item 10 on the agenda

Exchange of views with Klaus Regling, Managing Director of the European Stability Mechanism

ECON/7/13497

In his opening remarks, Mr REGLING read out the speech contained in Annex III.

In the subsequent discussion, Mr GAUZES (EPP, FR) asked Mr REGLING if there was a contingency plan for stressed countries if they did not regain market access.

Together with Ms FERREIRA (S&D, PT) he asked under what circumstances the Single Resolution Mechanism (SRM) would operate and what kind of backstop it should have, and under what specific conditions the European Stability Mechanism (ESM) could finance a bank. MEPs also queried Mr REGLING on the balance and asset review and the Single Resolution Fund (SRF). Mr KLINZ disagreed with the comparison made by Mr REGLING during his presentation between the ESM and the International Monetary Fund (IMF), while Ms SWINBURNE questioned Mr REGLING on the conditions envisaged for countries that were wiling to participate in the SRM but were not part of the Eurogroup. Moreover, Mr GIEGOLD (Greens/EFA, DE) and Mr SANCHEZ PRESEDO (S&D, ES) expressed concerns about the European Parliament's (EP) ability to exert democratic scrutiny over the ESM and hold it to account, whereas Ms WORTMANN-KOOL (EPP, NL) voiced her apprehension at the different implementation dates for the BRRD (2016 or 2018) and the SRM (2015). Both Mr SKYLAKAKIS (ALDE, EL) and Ms PODIMATA (S&D, EL) were worried about the prohibitive costs of funding the Greek private sector, while Ms FERREIRA queried the relations between the ESM and the Troika, and Mr Giegold asked about the management of the concept of debt sustainability.

In response, Mr REGLING underlined the progress achieved so far by all programme countries and referred to the written commitment from the Eurogroup to help stressed countries if they did not manage to return to the markets. He also reiterated the fact that there was a time lag between the efforts made by stressed countries and the consequent benefits, which required a certain degree of patience from the local populations. He noted that competitiveness was improving, that prices were beginning to fall and that deregulation would result in job creation. In the case of Greece, he mentioned the impetus for reform and stressed that the ongoing payment of domestic arrears by the Greek government would help firms to regain liquidity. He also noted that once the Greek banking sector was recapitalised it would again take on its role as a financial intermediary. He told the committee that Spain had informed the ESM that it did not intend to draw any more amounts from the commitments agreed so far. He clarified as well that the ESM worked with the Troika in order to assess the financing modalities of the assistance programmes but did not decide on the adjustment path nor on programme conditionality. Furthermore, he explained that the concept of debt sustainability could be managed with lower maturities and with lower interest rates.
As regards banking union, he believed that the SRF should have a permanent backstop but noted that at present the ESM could not play that role, which would require treaty change (by unanimity). He admitted the possibility of integrating the ESM in the Treaty in the long run and having a separate EU institution for banking supervision and resolution.
He explained that the specific features of the direct recapitalisation tool had been agreed within the Eurogroup and would be finalised once negotiations on the Bank Recovery and Resolution Directive (BRRD) were settled in order to ensure compatibility. He added that direct recapitalisation required a unanimous decision but no treaty change and that it should only be used as a tool of last resort, and that when used there would be no government guarantee. He noted that the asset quality review and subsequent stress tests would identify possible shortfalls in the banking sector which should be addressed, possibly through the BRRD, and ultimately by the ESM as a last resort, and stressed that the funds drawn from the backstop would be repaid by industry and not by the taxpayer. He reiterated the similarities between the ESM and the IMF since in his view, both institutions enabled countries to improve their competitiveness. He agreed that the treatment of non-euro area countries which were part of the SSM was a difficult issue which remained unresolved. He noted that the ESM was not a European institution and was not in any EU treaty and therefore could not be instructed by the European Court of Auditors nor be officially accountable to the EP. He specified as well that any changes to the current informal dialogue would have to be agreed by the Eurogroup. He shared the concerns voiced by some MEPs on the different implementation dates for the BRRD and SRM, which he thought could lead to confusion in the markets.

Mr REGLING noted however that if the ESM did receive the go ahead to be used as a direct bank recapitalisation instrument, the situation would not be that confusing since the Commission's state aid rules already prescribed a bail-in before direct bank recapitalisation could happen. Finally, he mentioned that in the agreed guidelines for the direct recapitalisation tool there was a cap of EUR 60 billion in order to preserve the fire power of the ESM for macroeconomic adjustment loans to Member States.

Item 11 on the agenda

Protection of the euro and other currencies against counterfeiting by criminal law (replacing Council Framework Decision 2000/383/JHA)

ECON/7/11904 2013/0023(COD)

Rapporteur for opinion: Mr ZALBA BIDEGAIN (EPP, ES)

Rapporteur for the responsible committee (LIBE): Ms MCINTYRE (ECR, UK)

- Consideration of amendments

In the subsequent debate, all speakers reaffirmed the views expressed in earlier meetings[1]. The vote on the draft opinion took place soon after and was approved by a wide majority[2].

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

Item 12 on the agenda

Union programme to support specific activities in the field of financial reporting and auditing for the period of 2014-2020

ECON/7/11560 2012/0364(COD)

Rapporteur: Mr DUMITRU STOLOJAN (EPP, RO)

- Adoption of draft report

The draft report was approved, with 44 votes in favour, 0 against and 1 abstention.

The committee voted by a wide majority to enter into negotiations with the Council.

1 See 13506/13 page.

2 See item 13.

Item 13 on the agenda

Protection of the euro and other currencies against counterfeiting by criminal law (replacing Council Framework Decision 2000/383/JHA)

ECON/7/11904 2013/0023(COD)

Rapporteur for opinion: Mr ZALBA BIDEGAIN (EPP, ES)

Rapporteur for the responsible committee (LIBE): Ms MCINTYRE (ECR, UK)

- Adoption of the draft opinion

The draft opinion was approved, with 44 votes in favour, 4 against and 0 abstentions.

****** End of vote ******

Item 14 on the agenda

European Central Bank Annual report for 2012

ECON/7/12316 2013/2076(INI)

Rapporteur: Mr PITTELLA (S&D, IT)

- Consideration of amendments

Mr PITELLA (S&D, IT) announced that 247 amendments had been tabled, mostly on the positive role played by the European Central Bank (ECB) in the stability of the Euro zone, on enhanced transparency and accountability, on the publication of the minutes of the meetings of the ECB's governing council, on additional aid to the real economy and in particular to SMEs, on uncoupling the Outright Monetary Transactions (OMTs) from conditionality, and on calls to reform the ECB statutes in order to have a single mandate based on price stability. He added that divergences between the political groups remained over the last two topics.

In the subsequent debate most speakers recapped the opinions expressed in earlier meetings[3]. Differences persisted over continued low interest rates, but all agreed with calls for more transparency and accountability. Moreover, Mr TORVALDS (ALDE, FI) rejected calls for Treaty review, while Mr GIEGOLD (Greens/EFA, DE), on behalf of Ms JOLY (Greens/EFA, FR), underlined the fact that there were no references to the ECB's involvement in the Troika and called for a thorough assessment of the *modus operandi* of the Troika and the ECB involvement.

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[3] See 9135/13 pp. 8-10 and 11725/13 pp. 2-3.

Mr GIEGOLD noted as well that it was essential to strengthen the report on banking union with references to a supranational backstop, the Single Resolution Mechanism (SRM) and enhanced standards for Deposit Guarantee Schemes (DGSs).

Item 15 on the agenda

Recovery and resolution framework for non-bank institutions

ECON/7/11753 2013/2047(INI)

Rapporteur: Ms SWINBURNE (ECR, UK)

- Consideration of amendments

Ms SWINBURNE (ECR, UK) noted that more work had to be done on insurance, including work on Solvency II and Omnibus II in order to produce more legislation at European level.
She mentioned that the main point for recovery and resolution on central securities depositories (CSDs) remained operational continuity, that frictions remained on the recovery and resolution of central counterparties (CCPs) and that it was important to keep global convergence in mind. She stressed that all products cleared by a CCP should be included in a recovery plan with special consideration for those products mandated for central clearing and noted that there had been a lot of discussions around ring-fencing within the default fund and on a trigger point between recovery and resolution. In her opinion the resolution authority should be given the option to step in at the point at which the "default waterfall" was finished as defined in the European Markets Infrastructure Regulation (EMIR). Additionally she thought that if client assets were threatened then the resolution authority needed to be involved in order to ensure equal treatment of all different clients and funds held within the CCP. Finally she thought that if clearing members were no longer able or willing to stand behind the clearing house, which would force client assets to be involved, the resolution authority should be involved as the arbitrator.

Speakers agreed that some issues remained unresolved, such as the value derived by clients, ring-fencing, asset classes within the default fund of the CCP, trigger points and the voluntary participation of clearing members. Ms HUBNER (EPP, PL) agreed that continuity of services was the most important factor, while Ms BOWLES (ALDE, UK) suggested additional focus on interoperability. Mr LAMBERTS (Greens/EFA, BE) was concerned that the absence of legislation and regulation for non-banking institutions would give them a considerable advantage over banks.

Ms BOWLES reminded Mr LAMBERTS that banks were more systemic than other types of activities such as shadow banking. Ms SWINBURNE concluded by stressing the need to clearly define the bail-in hierarchy.

Vote in ECON: 17 October 2013.

Item 16 on the agenda

Payment accounts

ECON/7/12713 2013/0139(COD)

Rapporteur: Mr KLUTE (GUE/NGL, EL)

- Consideration of amendments

Mr KLUTE (GUE/NGL, EL) called for solutions that would encompass all EU countries and believed that all citizens who needed an account should have access to one. He supported a single market for payment accounts and stressed the existence of excessive fees in certain EU countries. He thought that as long as account switching was expensive and risky there would not be competition in the area of payment accounts. Finally, he underlined some remaining divergences on prescribing a procedure for easier switching across borders and stressed the need to keep access to bank accounts and provisions as simple as possible.

In the debate that followed MEPs reiterated the views expressed in earlier meetings[4]. Mr LANGEN (EPP, DE) questioned the need for action at European level while Mr DE BACKER (ALDE, BE) called for a certain amount of subsidiarity. Mr GIEGOLD (Greens/EFA, DE) and Mr LANGEN believed that every bank should offer a basic account with the latter stressing the need for consumers to demonstrate a link with the country where they wanted to open a bank account. Mr LUDVIGSSON (S&D, SE) wanted the basic account to be the cheapest account available, while Mr DE BACKER proposed full harmonisation of terminology to facilitate cross-border switching. Mr GAUZES (EPP, FR) warned against imposing unnecessary costs on banks and proposed disregarding measures such as cross-border switching. Mr GIEGOLD explained that prices should not be the sole criteria and Ms BOWLES pointed out that the measures on comparison of fees should encompass as many services as possible and not to be limited only to key services.

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[4] See 12362/13 pp 5-6.

The Internal Market and Consumer Protection (IMCO) rapporteur, Ms GEBHARDT (S&D, DE said that the policies of the single market should be carried out for the benefit of consumers and not just for companies and that the proposal should be rooted in a strong non-discrimination principle. She agreed all banks should offer basic accounts to ensure competition and avoid stigmatisation. Moreover she wanted basic accounts to be as much affordable as possible.

Vote in ECON: 14 October 2013.

Item 13 on the agenda
Any other business

No other business was discussed.

Item 14 on the agenda
Next meeting

The next meeting will be held in Brussels on 30 September 2013.

ANNEX I

Speech by Mr Draghi, President of the European Central Bank

Madam Chair,

Honourable members of the Committee on Economic and Monetary Affairs,

It is a pleasure for me to be back with your committee, shortly after the important vote of your assembly on the SSM regulation. This vote has been preceded by intense interaction on the inter-institutional agreement on accountability and transparency, and I would like to thank President Schulz, your Committee and the negotiating team for the commitment to a successful establishment of the SSM. Our two institutions share a common interest in a swift and effective implementation of banking union. The draft inter-institutional agreement ensures high standards of transparency and accountability, while safeguarding the protection of confidential information. We will continue working with a similar constructive spirit in the months ahead and hope that this will allow a swift set-up of the Supervisory Board.

Today, I will first review recent economic and monetary developments in the euro area. I will then address the two topics that you have selected for our discussion: the impact of our non-standard measures; and the new tasks of the ECB in the reformed EMU architecture.

1. Economic and monetary developments

Since our meeting in July we have received positive data for the euro area economy. Following six quarters of negative output growth, euro area real GDP rose by 0.3%, quarter on quarter, in the second quarter of 2013. Measures of confidence and surveys of production have given some support to the view that euro area economic activity should continue its slow recovery in the current quarter, despite weak production data for July. Looking forward, economic activity should benefit from a gradual improvement in domestic demand, supported by the ECB's accommodative monetary policy stance and strengthening external demand for euro area exports. However, unemployment in the euro area remains far too high, and the recovery will need to be firmly established.

Annual euro area inflation declined to 1.3% in August 2013, down from 1.6% in July. Underlying price pressures are expected to remain subdued, reflecting the broad-based weakness in aggregate demand and the modest pace of the recovery. Medium to long-term inflation expectations continue to be firmly anchored in line with price stability. The risks to the outlook for price developments are expected to be still broadly balanced over the medium term.

Monetary and, in particular, credit dynamics remain subdued. The annual rate of change of loans to the private sector and, notably, to firms weakened further in July.
Weak loan dynamics continue to reflect the current stage of the business cycle but also heightened credit risk and the ongoing adjustments in the balance sheets of borrowers and lenders. The significant improvement in the funding situation of banks since the summer of 2012 has not yet fed through into higher credit provision**.**

2. Review of recent monetary policy decisions

Against this background, the Governing Council has pledged to maintain monetary policy accommodative for as long as necessary. In order to re-affirm and clarify this conditional pledge, in a context of volatile money market interest rates, the ECB has introduced forward guidance in July, stating that it expects the key ECB interest rates to remain at present or lower levels for an extended period of time. This expectation, which has been reconfirmed in August and September, is based on a subdued outlook for inflation extending into the medium term, given the broad-based weakness in the economy and subdued monetary dynamics. We will maintain the degree of monetary accommodation warranted by the outlook for price stability and aim at promoting stable money market conditions.
To ensure an adequate transmission of monetary policy to the financing conditions in the broader economy, it is essential that effective measures be taken to further reduce fragmentation of euro area credit markets and to strengthen the resilience of banks where needed. Monetary policy contributes to these objectives, but it can only address impairments in transmission insofar as they are not related to more structural barriers.
By giving unlimited access to central bank refinancing against adequate collateral, our non-standard measures have been pivotal in relieving bank funding stress. The collateral framework has been adjusted as necessary to ensure continued adequate risk protection for the ECB's balance sheet, while at the same time promoting transparency, for example in markets for structured finance products. Ensuring that solvent banks remain liquid has contributed to avoiding an abrupt deleveraging which would have deeply damaged the economy.
The Outright Monetary Transactions (OMTs) announced a year ago have prevented risks of destructive scenarios with potentially severe challenges for price stability in the euro area.

OMTs serve as a fully effective backstop, within the ECB's mandate, and under formal conditionality so as to preserve the appropriate incentives for governments to ensure fiscal solvency and adopt those structural policies that can put the economy on a sustainable path.

Over the past twelve months, confidence in the euro area has returned. As a consequence, fragmentation in euro area funding markets has been receding.

This improvement owes not only to the ECB's non-standard measures, but also to progress by governments in improving the euro area governance and in pursuing reform agendas. Deposit outflows from stressed countries have been reversed. Market access for banks has improved. Reliance on ECB funding support has been steadily declining. These improvements are reflected primarily in the on-going advance repayments of funds by several banks which had borrowed from the ECB under the two three-year longer-term refinancing operations. While repayment of central bank credit is certainly a sign of normalisation, the resulting reduction in excess liquidity can reinforce upward pressures on term money market rates. We will remain particularly attentive to the implications that these developments may have for the stance of monetary policy.

3. The tasks of the ECB in the reformed EMU architecture

Let me finally address the tasks of the ECB in the reformed EMU architecture. The Maastricht set-up has been substantially strengthened since the start of the crisis. Europe has reinforced fiscal and macroeconomic surveillance, created a permanent crisis management mechanism, the ESM, and has improved its institutional framework. It is moving swiftly towards the Single Supervisory Mechanism (SSM) for banks in the euro area. A key priority of the agenda for the last quarter of 2013 is to complement it by a Single Resolution Authority and Single Resolution Fund as proposed by the European Commission. The ECB strongly supports the envisaged timeline for the establishment of the SRM by 1 January 2015, which adequately reflects the urgency.

Let me make a few remarks on the specific role of the ECB in the progress towards a fully-fledged banking union. Already in 2010, with the decisive contribution of your institution, the ESRB was created to oversee macro-prudential risks in the financial system as a whole. The ECB ensures the Secretariat and thereby provides support to the ESRB. This year, a further-reaching step is being made with the imminent launch of the Single Supervisory Mechanism. The ECB is fully committed to assume its new responsibilities and to discharge accountability accordingly. Preparatory work has started in order to ensure that the new tasks are performed at the highest level of effectiveness and professionalism.

While synergies between the new supervisory and existing monetary policy functions exist, the ECB will strictly respect the principle of separation between monetary policy and banking supervision, as foreseen in the SSM Regulation.
Such separation will ensure that the ECB will continue to fulfil its primary mandate of price stability in complete independence, in line with the Treaty.
The effective separation of monetary policy and bank supervision decisions will be implemented both at the decision making level and at the technical staff level.
A separate Supervisory Board will be created to draft and enforce decisions. Furthermore, deliberations of the Governing Council on supervisory matters will be strictly separated from monetary policy decisions. This separation between the two tasks will be underpinned by separated agendas and meetings.

Finally, let me say a few words on the involvement of the ECB in the troika. Back in 2010, we were asked by the Council to provide our technical expertise to the design and monitoring of EU/IMF financial assistance programmes. In the meantime, the ECB has been allocated a number of specific tasks by the ESM Treaty and EU secondary legislation. We act in liaison with the Commission to provide technical advice, based on our expertise. As we have done in the past, we remain ready to share our views on the situation in programme countries with the European Parliament and to explain the advice provided as part of the troika. However, it is important to recall that the Eurogroup is the body which actually decides whether to grant financial assistance and under which terms.

Thank you for your attention. I am now looking forward to your questions.

ANNEX II

Speech by Mr Draghi, Chairman of the European Systemic Risk Board

Madam Chair,

Honourable Members,

It is a pleasure for me to appear before this Committee today in order to inform you about the activities of the European Systemic Risk Board (ESRB). Since we last met, there have been signs of a gradual turnaround in Europe's economic outlook. While these developments are encouraging, risks to financial stability remain. In my remarks today, I will report on the work the ESRB is undertaking to address some of these risks in the fields of insurance, banking and market infrastructures. I will also report on two other areas of ongoing work: the assessment of the implementation of the ESRB's first Recommendation and its guidance on the use of macro-prudential instruments to assist national authorities.

Towards a more resilient financial system – a macro-prudential perspective on insurance

The insurance sector plays an important role both in the financial system and in the economy at large. Apart from assuming risks that households or firms do not want to bear themselves, it also acts as an investor. At the same time, there is a need to deal with possible risks and vulnerabilities that stem from insurance, some of which have the potential to affect the stability of the financial system.

Life insurance companies, especially those that promise guaranteed returns, are suffering on account of the current environment of low interest rates. Looking at this from a micro-prudential point of view, EIOPA has correctly advised firms to modify their business models. This is crucial for addressing the issue at its economic source.

If business models are not modified, insurance companies could search for higher yields by investing in riskier assets, but this would expose them to potential losses through increases in risk premia. Firms have limited incentives to address these vulnerabilities if regulatory regimes do not bring them to light. A failure to do so would weaken the sector's ability to fulfil the important role it has to play in the economy. Spillovers to the wider financial system, through direct linkages and common exposures, cannot be ruled out.

Awareness that the insurance sector may be of systemic relevance has grown.

At the international level, the Financial Stability Board has recently announced a list of systemically important global insurers. Five out of nine are European. The International Association of Insurance Supervisors has developed a framework for policy responses, including effective resolution and a higher loss-absorption capacity.

In the United States, systemically important financial institutions – including insurance companies – will become subject to consolidated supervision by the Board of Governors of the Federal Reserve System and to enhanced prudential standards.

In Europe, work to finalise the new system of prudential regulation, Solvency II, is continuing – in this respect, the European Parliament is playing an essential role in its capacity as co-legislator. Solvency II reflects the risk profile of insurers better than Solvency I, and it enhances their risk management capacity. At the same time, the new system should deal with possible unintended consequences of excessive short-term market volatility, including pro-cyclical effects, as the currently debated Long-Term Guarantee Package aims to do. As requested by the European Parliament, the ESRB has participated in the economic assessment of that package undertaken by EIOPA, and supports the main conclusions reached. Given the issues I have just emphasised, it is crucial that this package ensures both adequate capital levels at all times and full transparency of their application. All risks should be addressed appropriately.

Towards a more resilient financial system – a healthier banking system to support the economy

The banking system plays a crucial role in the financing of the economy. At the same time, its role in the unfolding of the financial crisis has highlighted a number of vulnerabilities. Important steps are being taken to address these vulnerabilities, and to deliver the healthier banking system that European citizens deserve – this, too, is an area in which this Parliament has played a major role, approving the regulation on the Single Supervisory Mechanism (SSM).

The forthcoming comprehensive bank assessment conducted by the ECB - conducted in a way consistent with the EBA recommendations announced in March this year – has the potential to strengthen the confidence on the soundness of the banks within the Single Supervisory Mechanism. That, in turn, would reduce banks’ funding costs and lower the cost of credit for firms and households. This requires clear communication, as well as credible and effective ex-ante mechanisms, including fiscal backstops wherever needed, for absorbing any capital shortfalls that such a review might reveal.

At the ESRB, we are looking at two structural features of the European banking system that the financial crisis has highlighted. First, the large size of the banking system relative to the real economy and, second, the concentration of losses in certain lending segments.

In many countries, the rapid growth of bank assets with the support of increased leverage proved to be unsustainable. Once credit losses materialised, some sovereigns that had to support their banking system came under pressure, and deleveraging constrained the extension of credit to the real economy. This amplified the crisis during the downturn and continues to weigh on the recovery. Against this background, the ESRB’s General Board is continuing to reflect on how the size of the banking sector relative to the economy affects the supply of socially beneficially financial services. The Advisory Scientific Committee has likewise started to work on this issue.

During the crisis, banks’ losses were often concentrated in certain lending segments. In a number of countries, losses on property loans have required large-scale public sector intervention in the banking system. But even niche segments such as shipping finance have required intervention in individual banks in some countries. Cyclical sectors to which banks have high exposures in the European Union include construction and property, consumer durables (mainly the automobile industry) and materials and fabrication (mainly the steel and chemical industries). The ESRB is conducting further work in this field.

Towards a more resilient financial system – the role of central counterparties

I will now turn to the role of central counterparties (CCPs), which form a crucial part of the EU’s financial system. As you know, the G20 countries have agreed that all standardised over-the-counter (OTC) derivatives should be cleared through such counterparties. While CCPs offer a number of economic and risk-reducing benefits, they are also becoming systemically relevant nodes in the financial system. This entails a number of macro-prudential risks.

The pro-cyclicality of CCPs’ margin rules and practices is a key concern. Increasing margin requirements in times of stress, and decreasing them in good times, may make sense from the perspective of an individual CCP, but also carries the risk of increasing the cyclical sensitivity of the financial system. These vulnerabilities may grow with the importance of CCPs. While ESMA has already incorporated some helpful provisions into its technical standards, their effectiveness from a macro-prudential perspective might be enhanced through additional mitigating measures of a countercyclical nature.

CCPs also need robust recovery plans and resolution regimes in order to avoid a disorderly insolvency.

Finally, there is also the risk of contagion, particularly across CCPs that clear the same products (under so-called interoperability arrangements). Evolving CCP markets need to be designed in such a manner that limits the spillovers of potential distress at one CCP to another. To this end, specific guidelines have been already issued by ESMA.

Nevertheless, given the systemic importance of CCPs, it is important that there is a broad set of tools available to increase their resilience to contagion.

EU legislation has provided the ESRB with a clear role in these areas. For example, under the provisions of the European Market Infrastructure Regulation (EMIR), the ESRB has been asked to examine the potentially exacerbating impact that the pro-cyclicality of margin practices at CCPs may have and to monitor the design of interoperability arrangements. The ESRB considered these issues at its latest General Board meeting, and has commissioned further work.

Ongoing work at the ESRB

Let me also update you on two items of ongoing work: first, the assessment of the implementation of the ESRB's first Recommendation.

As you know, ESRB recommendations are soft tools, accompanied by an "act or explain" mechanism. Thus, from an accountability perspective, it is important to assess the actions of Member States (including possible explanations for their inaction) after an ESRB recommendation has been issued.

For its first Recommendation – on lending in foreign currency – the ESRB has just completed the first full cycle from the issuance of a recommendation to the assessment of its implementation. As you may remember, the Recommendation sets out a series of measures to tackle possible systemic risks of lending in foreign currency to the non-financial private sector. The ESRB's General Board is in the process of finalising its assessment, which will be published in the next few weeks, and looks forward to applying a similar procedure to the next assessments of ESRB recommendations.

The second item relates to the guidance on the use of the macro-prudential instruments provided for in the recently approved European capital rules (CRD IV/CRR).

As you know, the new European capital rules will start entering into force in 2014. They provide for a range of macro-prudential instruments that national authorities will be able to deploy. As I mentioned to you at my previous hearing on 8 July, the ESRB is working with Member States on guidance on how national authorities can use these instruments in a coordinated manner.

I will provide you with more details on this matter at the next hearing.

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

Speech by Mr Regling, Managing Director of the ESM

(Please check against delivery)

Introduction

I would like to thank Chairwoman Bowles and the Economic and Monetary Affairs Committee for inviting me to this informal exchange of views.

The ECON Committee is a central platform of debate on euro area economic policy matters. This is illustrated by the regular appearances of Eurogroup President Dijsselbloem, who is also the Chairman of the ESM Board of Governors, of ECB President Draghi and of Commission Vice President Rehn.

The ESM was founded almost year ago. I am grateful for the opportunity to discuss with you the ESM – and the EFSF - and how they fight the crisis together with the euro member states, the European Commission and the ECB.

The ESM's institutional design

In order to frame our debate I would like to underline the ESM's institutional set-up which is different from EU institutions.

When the temporary EFSF and the permanent ESM were founded, the 17 euro Member States chose an intergovernmental setup outside the EU treaty framework. That was the only way to become operational quickly.

The money for the ESM capital comes from the Member States' national budgets. The ESM's decisions for an assistance programme and individual loan disbursements are under tight political control as Member States decide unanimously. There is also strong democratic legitimacy as several governments have to seek a mandate for these decisions from their national parliaments.

This set-up implies that the relationship between the ESM and the European Parliament needs to be ad hoc and informal.

Our relationship could change in the longer term, should the euro Member States decide to integrate the ESM into the EU treaty framework.

How crisis resolution works in the euro area

The 17 ESM members contribute a total subscribed capital of €700bn with €80bn in paid-in capital, the highest of any International Financial Institution.

The ESM has a maximum effective lending capacity of €500bn. Together with the EFSF – which continues to manage the programmes for Ireland, Portugal and Greece - the lending capacity is €700bn.

Since early 2011, the EFSF has provided €168.5 bn in loans to Ireland, Portugal and Greece. €19.8 bn remains to be disbursed. Since July the EFSF can no longer enter into new programmes.

The ESM is now the sole mechanism for responding to new requests for financial assistance.
Currently the ESM has a financial sector assistance programme for Spain, for which €41.3bn has been disbursed; no further disbursements are expected.
The ESM also has a macroeconomic adjustment programme for Cyprus. By the end of the week €4.5bn out of a programme volume of €9bn will have been disbursed.
This means that about €450bn remains unused. This corresponds to 90% of the ESM's lending capacity.
Together EFSF and ESM have disbursed €212bn since operations started in early 2011.

ESM's strategy has been successfully used by the IMF for decades
The basic idea is one that the IMF has successfully used for decades in many countries: providing temporary loans for countries in a crisis when markets refuse to lend. IMF loans provide two critical advantages at times of stress: time to undertake reforms and reasonable costs of financing. These loans are granted in exchange for conditionality.
The ESM operates according to this model. We provide temporary financial assistance in the form of loans, bond purchases or credit lines at very favourable conditions. The interest rate we charge is the interest rate we pay when we raise funds in the markets. We only add a very small fee to cover operating costs.
The ESM financial assistance buys time. During this time the conditions attached should enable the countries to reform their economies and regain investors' confidence.

The ESM is part of coherent euro area strategy
The ESM is part of a coherent economic policy strategy that involves the 17 euro area Member States, the Commission, the ECB and, where appropriate, the IMF.
Under conditionality there have been significant fiscal consolidation and structural reforms in beneficiary countries.
Unit labour costs in Ireland, Portugal, Greece and Spain have fallen. As a consequence these countries have improved their competitiveness and current account deficits are disappearing. These results show that conditionality works.
In parallel, budget deficits have decreased in beneficiary countries. Greece is even showing a primary surplus.
Markets are rewarding these efforts. Ireland and Portugal were able to return to the market with 10-year bonds this spring at acceptable rates. Spain has been able to keep market access.
I am convinced: without our assistance some of the beneficiary countries would have been forced to leave monetary union.

The efforts are beginning to affect the real economy.

However, people in borrowing countries do not see this progress yet. Many are enduring hardship. Salaries and pensions have been cut, many have lost their jobs. At the ESM we are aware of the pain the adjustment has caused.

A key question is when will these efforts be rewarded, when will growth and jobs return.

IMF experience shows that structural reforms and improvements in competiveness do lead to growth and employment – but with a time lag.

In the second quarter we saw the encouraging signs in the real economy. Unemployment has finally stabilized in beneficiary countries, albeit at an unacceptably high level, and the macroeconomic disequilibria are improving.

In Portugal, the economy grew for the first time in two and a half years by 1.1 %, which is the highest increase in all EU countries. Exports in Spain are growing at a healthy rate. In Greece, the situation is stabilizing.

The euro area as a whole is improving its economic governance

The strategy of addressing the acute economic and fiscal problems in the beneficiary countries is reinforced by improvements in the euro area economic governance.

The enhanced economic policy coordination with the "Six-pack", the "Two-pack", the "European Semester" and other new rules are essential in this context. It is now indispensable that these new rules be scrupulously applied.

The European Parliament's responsibility as the co-legislator is crucial and I would like to pay tribute to role of the ECON committee in crafting these new rules.

As the ESM Managing Director I meet global investors and economic policy makers all the time. They are scrutinizing how the euro area reforms its economies and its governance. For our credibility it is crucial that the decisions for the improved euro governance are lived up to and the plans on Banking Union are implemented without delay.

The necessity of completing Banking Union

Very recently the Trilogue on the Single Supervisory Mechanism (SSM) was successfully concluded. This is without any doubt a major step that will define the European banking landscape in years to come and a cornerstone for the so-called Banking Union.

As you know the euro finance ministers also reached a political agreement in June on the main features of the direct bank recapitalization instrument of the ESM. In principle this instrument could be used once the SSM is established and working. The ECB expects this to be the case in fall of 2014.

A condition for this instrument to be enforced is that the 17 euro Member States unanimously agree on its creation, and they would only do that once the Bank Recovery and Resolution Directive (BRRD) and the Deposit Guarantee Scheme Directive (DGSD) have been finalized.

Furthermore, discussions on the set-up of a Single Resolution Mechanism have just begun.

Taking all this into account, it is quite evident that the work of this committee in the months to come will be absolutely critical for the definition and establishment of the Banking Union.

Thank you very much for your attention!