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OUTCOME OF THE COUNCIL MEETING

3549th Council meeting

Economic and Financial Affairs

Luxembourg, 16 June 2017

President	**Edward Scicluna** Minister for Finance of Malta

P R E S S

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ITEMS DEBATED

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

OTHER ITEMS APPROVED

ECONOMIC AND FINANCIAL AFFAIRS

HOME AFFAIRS

TRANSPARENCY

ITEMS DEBATED

VAT RATES FOR ELECTRONIC PUBLICATIONS

The Council discussed a proposal that would enable reduced VAT rates to be applied to electronic publications.

The proposal is aimed at allowing member states to apply reduced rates to electronic publications if they so wish, amending the EU's directive on VAT. It would thereby contribute to the EU's 'digital single market' plan.

Despite progress made on the proposal, the Council was unable to reach an agreement at this stage.

The Council needs unanimity to adopt the directive, after consulting the European Parliament. (Legal basis: article 113 of the Treaty on the Functioning of the European Union.) The European Parliament issued its opinion on 1 June 2017.

VAT FRAUD - 'REVERSE CHARGE' MECHANISM

The Council discussed a proposal that would allow derogations from normal VAT rules with the aim of better preventing VAT fraud.

The proposed directive would allow member states, if they so wish, to apply temporarily a generalised reversal of VAT liability.

Despite progress made on the proposal, the Council was unable to reach an agreement at this stage.

The so-called reverse charge mechanism involves shifting liability for VAT payments from the supplier to the customer. The Commission issued the proposal in December 2016 at the request of member states particularly affected by VAT fraud.

Under the directive, member states that wish to apply the reverse charge mechanism would be able do so under certain conditions. The mechanism would apply to all domestic supplies of goods and services above an invoice threshold of €10 000.

The Council needs unanimity to adopt the directive, after consulting the European Parliament. (Legal basis: article 113 of the Treaty on the Functioning of the European Union.)

STRENGTHENING OF THE BANKING UNION - RISK REDUCTION MEASURES

The Council agreed its stance on part of a package of proposals aimed at reducing risk in the banking sector, namely:

- a draft directive on the ranking of unsecured debt instruments in insolvency proceedings (bank creditor hierarchy);
- a draft regulation on transitional arrangements to phase in the regulatory capital impact of the IFRS 9 international accounting standard.

The draft regulation also contains a phase-out of provisions on the large exposures treatment of public sector debt denominated in non-domestic EU currencies.

Ministers asked the presidency to start talks with the European Parliament as soon as the Parliament has approved its own negotiating stance.

Press release on Council agreement on bank creditor hierarchy, IFRS 9 and large exposures

The Council also took note of progress on the following proposals:

- proposal for a regulation amending regulation 575/2013 on bank capital requirements as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures and reporting and disclosure requirements;
- proposal for a directive amending directive 2013/36/EU on bank capital requirements as regards exempted entitites, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures;
- proposal for a directive amending directive 2014/59/EU on bank recovery and resolution as regards the loss-absorbing and recapitalisation capacity of banks;
- proposal for a regulation amending regulation 806/14 on the EU's single resolution mechanism as regards the loss-absorbing and recapitalisation capacity of banks;
- proposal for a regulation establishing a European deposit insurance scheme (EDIS).

The first four proposals are aimed at reducing risk in the financial system by making banks more resilient to external shocks. They were issued by the Commission in November 2016.

They incorporate into EU law standards agreed at the global level by the Basel Committee on Banking Supervision and the Financial Stability Board. The aim is also to make the regulatory framework more growth-friendly and proportionate to the complexity of banks and their size and business profile. These proposals include measures to support SMEs and investment in infrastructure.

The fifth proposal, issued in November 2015, sets out to establish an EU-level insurance scheme (EDIS) to strengthen the protection of bank deposits. Whilst deposit guarantee schemes provide protection at national level in the event of bank failure, they remain vulnerable to local shocks.

The EDIS would constitute a third ‘pillar’ of the EU’s banking union, alongside the single supervisory mechanism (SSM) and the single resolution mechanism (SRM). It would be established in three stages.

In June 2016, the Council agreed that negotiations on EDIS at political level would start as soon as sufficient progress has been made on measures to reduce risks in the financial sector. Work has meanwhile continued at technical level.

All the proposed regulations and directives require a qualified majority for adoption by the Council, in agreement with the European Parliament. (Legal basis: articles 53(1) and 114 of the Treaty on the Functioning of the European Union.)

June 2017 progress report on strengthening of the banking union/risk reduction measures

Press release on the Commission's November 2016 banking proposals

Proposal for a regulation on a European deposit insurance scheme

June 2016 Council conclusions on a roadmap to complete the banking union

Basel Committee on Banking Supervision

Financial Stability Board

NON-PERFORMING LOANS

The presidency updated the Council regarding work on non-performing loans (NPLs) in the banking sector.

It took note of a report on the subject prepared by a sub-group of the Council's financial services committee (FSC).

The Council is expected to discuss the report and adopt conclusions at its meeting on 11 July 2017.

Non-performing loans are a legacy of the financial crisis that still affects the banking industry. They remain at historically high levels in the EU. High NPL levels can drag heavily on investment, and hence on the economy.

According to the report, NPLs amounted to nearly €1 trillion at the end of 2016, roughly 6.7% of GDP and 5.1% of total bank loans.

The FSC sub-group was established to look into the problem, and recommends a mix of policy actions at national and possibly European level. Actions are envisaged in the following areas:

- bank supervision;
- structural issues, including insolvency;
- NPL secondary markets;
- structural reforms to enable the banking industry better manage the timely resolution of NPLs.

2017 report of the FSC subgroup on non-performing loans

TERRORIST FINANCING

The Council briefly took stock of implementation of the Commission's action plan on the prevention of terrorist financing.

The action plan was launched in February 2016 in response to a spate of terrorist attacks in Europe, and proposed 20 actions in various areas.

Almost all of the actions have either been completed or are well underway, whereas work on remaining actions will start shortly. The presidency intends to enable an agreement to be reached soon on one key proposal, a revision of the EU's directive on the prevention of money laundering.

The Council will monitor progress made on the remaining actions.

Factsheet on the February 2016 action plan on the prevention of terrorist financing

February 2016 Commission action plan for strengthening the fight against terrorist financing

February 2016 Council conclusions on the fight against the financing of terrorism

CAPITAL MARKETS UNION

The Commission presented its mid-term review of the EU’s capital markets union action plan.

The plan, launched in September 2015, is aimed at securing a fully functioning EU capital markets union by the end of 2019.

It includes measures to strengthen capital markets so as to attract more investment, including foreign investment, for European companies and infrastructure projects. It sets out in particular to improve access to finance for European SMEs and start-ups, especially in innovative industries.

Good progress has been made on the plan so far. The mid-term review confirms that around two thirds of actions have been delivered.

Drawing on the results of a public consultation, the Commission has announced 9 new priority actions for the coming months:

- strengthening the powers of the European Securities and Markets Authority in promoting consistent supervision across the EU and beyond;
- delivering a more proportionate regulatory environment for SME listing on public markets;
- reviewing the prudential treatment of investment firms;
- assessing the case for an EU licensing and 'passporting' framework for ‘fintech’ activities (technology used to support or enable banking and financial services);
- measures to support secondary markets for non-performing loans (see separate item above), and initiatives to strengthen the ability of secured creditors to recover value from secured loans;
- follow-up to the recommendations of a Commission high-level expert group on sustainable finance;

- facilitating the cross-border distribution and supervision of mutual funds ('UCITS') and alternative investment funds;

- providing guidance on EU rules for the treatment of cross-border investments, and a framework for the amicable resolution of investment disputes;

- exploring measures to support capital market development at local and regional level.

The Commission intends moreover to pursue outstanding actions from 2015 and will present legislative proposals:

- for a pan-European personal pension product to help people finance their retirement;

- for an EU framework for covered bonds to help banks finance their lending activity;

- to increase legal certainty on the ownership of securities in a cross-border context.

Mid-term review of the capital markets union action plan

Commission action plan on capital markets union

ECONOMIC AND FISCAL POLICIES - COUNTRY-SPECIFIC RECOMMENDATIONS

The Council approved, under the 2017 'European Semester', draft recommendations to 27 member states[1] on their economic and fiscal policies.

The draft recommendations assess the economic policies set out in the member states' ‘national reform programmes’. They include draft opinions on the fiscal policies set out in their ‘stability’ and ‘convergence’ programmes.

The texts will be forwarded to the General Affairs Council on 20 June, and to the European Council for endorsement at its meeting on 22 and 23 June 2017.

Similar preparations were made by the Employment, Social Policy, Health and Consumer Affairs Council on 15 June as concerns the member states' employment policies.

The whole package is due to be adopted in July 2017.

Press release on the draft 2017 country-specific recommendations

[1] All except Greece, which is subject to a macroeconomic adjustment programme.

STABILITY AND GROWTH PACT – CROATIA, PORTUGAL AND ROMANIA

The Council took a number of decisions under the Stability and Growth Pact, the EU's fiscal rulebook.

It closed excessive deficit procedures for Croatia and Portugal, confirming they have reduced their deficits below 3% of GDP, the EU's reference value for government deficits.

As a consequence, only four of the EU's 28 member states remain subject to excessive deficit procedures, continuing the positive trend since 2011.

Press release on 2017 closure of the excessive deficit procedure for Croatia and Portugal

The Council also issued a recommendation to Romania for correcting a significant deviation from the adjustment path towards its medium-term budgetary objective.

Romania

In July 2016, the Council recommended that Romania limit a deviation from its medium-term budgetary objective observed in 2016 by means of a 0.5% of GDP fiscal adjustment in 2017.

According to the Commission's 2017 spring economic forecast, Romania's structural balance deteriorated in 2016 from a position above its –1% of GDP medium-term objective to –2.6% of GDP. This points to a 1.6% of GDP deviation, whilst a 2.0% of GDP deviation is observed in relation to the expenditure benchmark.

Both indicators confirm a significant deviation in 2016 from the requirements of the preventive arm of the Stability and Growth Pact. Moreover the spring forecast projects a general government deficit of 3.5% of GDP in 2017, above the 3% of GDP reference value.

The Council recommended measures to ensure a nominal growth of net primary government expenditure not exceeding 3.3% in 2017, corresponding to an annual structural adjustment of 0.5% of GDP. This will put the country on an appropriate adjustment path towards its medium-term budgetary objective. Any windfall gains should be used for deficit reduction.

The Council set a deadline of 15 October 2017 for Romania to report on action taken.

2017 draft recommendation to Romania on a significant deviation from the adjustment path

OTHER BUSINESS

– ***Financial services***

The Council took note of ongoing work on legislative proposals on financial services.

June 2017 progress report on financial services dossiers.

MEETINGS IN THE MARGINS OF THE COUNCIL

– *ESM board of governors*

The board of governors of the European Stability Mechanism held its annual meeting on 15 June 2017.

– *Eurogroup*

The Eurogroup met on 15 June 2017. It concluded its discussions on the second review of Greece's macroeconomic adjustment programme, discussed the IMF's annual recommendations to the euro area, and held a thematic discussion on the quality of public finances. It also reviewed recent developments in the implementation of the EU's resolution framework for banks.

June 2017 Eurogroup statement on Greece

Eurogroup main results

– *Ministerial breakfast*

Ministers held a breakfast meeting to discuss the economic situation. They also discussed Portugal’s intention to proceed with early repayment to the IMF of financial assistance loans.

OTHER ITEMS APPROVED

ECONOMIC AND FINANCIAL AFFAIRS

Stability and Growth Pact - Code of conduct

The Council endorsed a revised code of conduct on implementation of the Stability and Growth Pact, the EU's fiscal rulebook.

2017 revised code of conduct on implementation of the Stability and Growth Pact

VAT on electronic commerce

The Council took note of progress regarding work on a package of proposals regarding VAT on electronic commerce.

The proposals are aimed at improving the VAT environment for e-commerce businesses, enabling consumers and businesses to buy and sell goods and services more easily online.

June 2017 progress report regarding VAT on electronic commerce

June 2017 compromise proposal on VAT on electronic commerce

Report on tax issues

The Council approved a six-monthly report to the European Council on tax issues.

June 2017 report to the European Council on tax issues

Code of conduct on business taxation

The Council adopted the following conclusions:

"With regard to the Code of Conduct (Business Taxation), the Council:

– welcomes the progress achieved by the Code of Conduct Group during the Maltese Presidency as set out in its report (doc. 10047/17 FISC 133 ECOFIN 507);

– asks the Group to continue monitoring standstill and the implementation of the rollback and invites the Group to continue its work under the Work Package 2015;

– takes note of the progress made on the alignment of the patent box regimes with the agreed nexus approach and invites the Group to continue to monitor and report on this process;

– asks Member States whose patent box regimes do not comply with the modified nexus approach to align these regimes as soon as possible;

– invites the Code of Conduct Group to continue to work on the application of the principles of the modified nexus approach to non-IP regimes, taking into account relevant international developments on this matter;

– takes note of the progress achieved by the Code of Conduct Group in its ongoing work in the context of Council conclusions of 8 November 2016 on the criteria and process leading to the establishment of the EU list of non-cooperative jurisdictions for tax purposes, and asks the Code of Conduct Group to continue this work;

– reiterates that the Code of Conduct Group should continue exploring defensive measures that could be taken, and notes that if certain legislative files under negotiation (without prejudice to the outcome thereof) contain a link to the future list of non-cooperative jurisdictions, such provisions could also constitute a set of effective and dissuasive defensive measures at EU level in non-tax area; subject both to the agreement on the list and the objective and aim of the relevant legislative files;

– endorses the 'Guidance Note on tax privileges related to special economic zones' annexed to the report by the Code of Conduct Group;

– asks the Code of Conduct Group to continue its work on a draft guidance note on the interpretation of the fourth criterion;

– invites the Commission to continue the dialogue with Liechtenstein on the application of the principles of the Code of Conduct, as set out in the report;

– invites the Group to report back to the Council on its work during the Estonian Presidency."

HOME AFFAIRS

Internal security fund - Norway

The Council approved the conclusion of an agreement with Norway on supplementary rules in relation to financial support for external borders and visas, as part of the internal security fund for the period 2014 to 2020. (13710/16)

TRANSPARENCY

Public access to documents

On 16 June 2017, the Council approved:

- the reply to confirmatory application No 06/c/01/17 (7609/1/17 REV 1)